CHAPTER - 2
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An attempt has been made to review pertinent literature keeping in view the problem of Financial Management. The present chapter provides a detailed account of the work reported by research workers on the subject in the past.

AGRAWAL K PAWAN, SHRIVASTAVA P.K. - According to authors the linear distance formula occupies a prominent position as and allocative criterion for revenue-sharing among state in India as well as internationally. In India, the Tenth Finance commission has preferred this criterion to other competing criteria and has given it a pronominal weight. In this paper implications of alternative versions of the linear distance criterion for the states share in revenue dispensation are explored. Analytical properties of the alternative versions have been compared. It is found that some of the alternative versions violate vertical equity in a certain range of income. The standard version of the distance criterion is progressive and satisfies horizontal as well as vertical equity in the entire range of income. The special version used by the IFCs and the truncated version used by the planning commission compromise on these qualities.

A generalized version of the distance criterion has been suggested and its properties have been analyzed. It is shown that the alternative versions adapted by the IFC/Planning Commission are special cases of the general version.

It is found that, with the distance criterion, there is a built-in disincentive for growth for all states and more so for the rich states with per capita income above the average income.
The paper implicitly argues in favour of adopting the modified version of the distance criterion as compared to the other versions in which adhoc adjustments are made on the ground that (i) it is consistent with the requirement of vertical equity through out the relevant income range. (ii) it has clearly identified parameter governing the progressively of the criterion, and (iii) it therefore, offers a clear basis on which a decision regarding the appropriate degree of progressivity can be taken by the concerned authority (i.e. Finance or the planning commission) keeping in view the multiple objectives of any revenue-sharing mechanism.

**BAGCHI AMARESH** - This study first argued why independent taxation of corporate profits and dividend incomes has ill-effects on equity and efficiency and then considers the merits and draw backs of tax alternatives. In the light of studies conducted in the US after the enactment of the 2003 legislation on dividends, it put forward suggestions to address the problems with the Indian approach to dividend taxation.

- He has published his Report on "Symposium on Twelfth Finance Commission : Introduction and Overview". He observed that the Twelfth Finance Commission has broken new ground in several key areas and made recommendations which, if fully implemented, will have a far reaching impact on the finances and functioning of government in the country at all levels. In order that the issues raised by the Twelfth Finance Commission report area very important. The EPW organized a symposium on TF Report. The issues are presented in the papers are -

Firstly. The tax-devolution and grants under TFC -

(i) Enhancing the share of the States in the net proceeds of the shareable central taxes to 30.5 percent from 29.5 percent of Eleventh Finance Commission.
(ii) Changing the formula for tax devolution with reallocation of weight in favour of population and efficiency factors and dropping one of the factors (index of infrastructure) used by EFC.

(iii) Applying the equalization principle to provide grants for education and health to states which are relatively deficient in their revenue capacity, provided that they maintain their normal expenditure on these heads at the current level.

(iv) Providing grants for maintenance of roads and bridges, heritage conservation, State specific needs local bodies and calamity relief on a larger scale.

(v) Enlarging the grants to local bodies substantially and modifying the formula for their allocation among states to take account of 'deprivation' in the provision of drinking water and sanitation. The index of decentralization which was used by EFC as one of the criteria has been dropped.

The compulsory sharing of Central taxes under tax devolution mandated by the constitution be intended to meet the vertical fiscal gap of the States arising from insufficiency of their tax powers relative to their expenditure responsibilities - a point made emphatically by Chelliah in his paper for the symposium. The Grants-in-aid were meant to supplement the share of Central taxes for purposes of horizontal equalization logically, this approach could have required the volume of tax-devolution to meet only the revenue gap of the States with relatively strong revenue base that is, the States in the high income category, relying on Article 275 grants for equalization.

Secondly, A new Borrowing Regime for States. The Twelfth Finance Commission has recommended a new regime for borrowing by the States. The proposals in this regard are four folds:
(i) cessation of lending by the centre and requiring the states to go the market for borrowing.

(ii) on lending of external loans on a back to back basis.

(iii) rescheduling of all outstanding central loan of the States for a period of 20 years. Carrying only 7.5 percent rate of interest as against an average of 10.5 percent at present and

(iv) a debt write-off scheme for remission of States' debts payable to the centre during 2005-10 linked to implementation of fiscal reforms. The benefit of debt consolidation is conditional on a State's enacting a fiscal responsibility law with some basic features.

For the debt write-off, the States must start reducing then revenue deficit (RD) moving to its total elimination by 2008-09 and contain their fiscal deficit (FD) to no more than 3 percent of GDP.

The measures recommended in the report, the TFC expects, will help to eliminate RD at all levels of government and bring FD to a level of 3 percent or less at both levels.

(v) The debt-GDP ratio which stood than at 81 percent will come down to 75 percent (eventually to 56 percent) and the ratio of interest payment to revenue receipts will go down to levels that would make financing the government variable. With the assumed revenue growth, center's interest payment to revenue receipts will come down to 28 percent from 45 percent at present and of the States to 15 percent form 25 percent. All this will require some modest effort in revenues raising and current expenditure compression making room for larger capital spending.

BAGCHI AMIYA KUMAR & DENERJEE DEBDAS & CHAKRABORTY ACHIN - have commented on Fiscal Responsibility & Budgetary management Act through which we can not limit the budget
deficit. Though the States have passed the Fiscal Responsibility Legislation Act in their State, but this Act is not based on basic principles of public Finance but on pure pro-rich authorization ideology. How are States like Chhattisgarh, Jharkhand going to respect this so called Fiscal responsibility while giving adequate funds to Panchayats & Municipalities for carrying out programmes for literacy, universalisation of secondary education or public health care?

BASU SUPARNA AND DATTA DEBABRATA - This study enquired into to the statistical relation between fiscal deficit and interest rate. It followed the methodology of unit root and co-integration tests using quarterly data up to recent period (2003).

The study found that the fiscal deficit and interest rate do not appear to be connected in the context of India economy during the period of study. Moreover, the non-existence of the relation cannot be attributed to expansion in either money supply or savings, considered separately. However, macro variables like interest rate, GDP, money supply are found to be linked in an integrated framework combining real and monetary sectors of the economy. Another important finding of the study is non-stationarity of fiscal deficit. This result brought to the fore the issue of sustainability of country's fiscal deficit in the long-run.

- The study presented that economic theory provides two alternative hypotheses re regarding the relation between the budget deficit and the trade deficit of a country the twin deficit hypothesis claims that a budget deficit causes a trade deficit. At the other extreme, the Ricardian Equivalence Hypothesis (REH) rejects any possible relation between these two deficits.
This paper undertook an econometric exercise to study the impact of the fiscal deficit on India's external accounts since the mid-1980s. The study used quarterly data from 1985 q 4 to 2003 q 4.

The study found an absence of co-integration between the savings rate and the fiscal deficit- GDP ratio also negates the REH in Indian circumstances.

These findings suggested that the ratios of trade deficit, fiscal deficit and net savings randomly maintain the national come identity and that a high fiscal deficit has been sustained by a simultaneous and independent increase in the savings ratio. Given that the saving - income ratio is already at a high level, a further increase can not be taken for granted. However, out wit standing the absence of a twin deficit so far, the situation offers no scope for profligacy in fiscal behaviour, both for the centre and the states.

Bharadwaj J.L. - He has published his research paper entitled "Fiscal Management of Chhattisgarh Government : A critical Analysis". In his paper, he explained that the Chhattisgarh Government has enacted "The Fiscal Responsibility Legislation Act" in the year 2005 and become entitled for Debt-swap. It has not only eliminated the Revenue-deficit at zero level but also become "Generating Revenue-Surplus State" in the year 2004-05. Hence, the basic question arises how the revenue-surplus is achieved in the State. Is it achieved through generating additional revenue through own taxes or reducing the expenditure specially the non-development expenditure. The issue is very relevant and important for the State. Hence he has analyzed the fiscal position of the State during 2001-02 to 2006-07 period.

The paper has been divided into five sections. In the first section, the financial position of the State is analyzed. The State has revenue-deficit of 2.28 percent of its NSDP in the year 2001-02 which has declined to 1.97
percent in the year 2003-04 and the State became revenue surplus State since 2004-05. The fiscal deficit was 4.59 percent of its NSDP in the year 2001-02 which had also declined to 3.59 percent in the year 2004-05 and expected to achieve the target reducing it 3 percent of NSDP in the year 2008-09 respectively.

In section II, the Revenue & Expenditure Management of the State is analyzed. The own tax revenue of the State is analyzed. The own tax revenue of the State has increased significantly. The growth rate of own tax receipts are 9.25 percent (2002-03) 8.41 percent (2004-05) and 24.4 percent (2005-06) respectively. It witnesses that the Chhattisgarh Government is successfully generating additional revenue through own taxes. On the other side, the State has reduced the Non-Plan and Plan expenditure increased marginally. It can not be regarded as rational because plan expenditure is always found productive in nature. Thus, the State has achieved the revenue deficit at zero level by both the ways i.e. generating additional revenue through own taxes & reducing the expenditure.

In Section III, the Expenditure Pattern of the Chhattisgarh Government is analyzed. It is found that the percentage of General Services, and Economic Services to NSDP have increased during the study period but it is reduced for social sector which is not justified. The expenditure on Education & health Services, are 3.54 and 1.42 percent of NSDP which are very low as compared to the norms of 6 and 5 percent of NSDP respectively.

In Section IV, the debt servicing ratio and debt liability of Chhattisgarh Government are analyzed. The debt servicing ratio (Interest Payments) has increased during the study period but it is expected to decline in future because the State has enacted the Fiscal Responsibility Legislation Act 2005 which will reduce the interest rate & interest payments.
In Section V, Fiscal Performance of the Chhattisgarh Government is given as follow:

(i) The State has achieved the targeted growth rate 6.1 percent fixed by Planning Commission for the State; however, it is less than 8 percent average growth rate at National Level.

(ii) The State's own tax ration has increased from 8.36 percent (2002) to 9.82 percent in the year 2004-05; however, it is also less than the National average of 10.5 percent.

(iii) He has given priority to social sector development but the actual expenditure on education & health are not sufficient to improve the quality of human resources of the State.

BHAT, K. SHAM - The main objectives of the study were (i) to examine the main factors governing the government expenditure and tax revenue of India during 1960-61 to 1990-91, and (ii) to test whether the changes from congress regime to non-congress regime will have influence on public expenditure but not on tax revenue.

To examine the main factors governing the size of expenditure and tax revenue of the central Government of India during 1960-61 to 1990-91, log linear multiple regression equation have been estimated. Further to verify the change in political party in power will influence only on the size of the government expenditure, dummy variable (i.e. '0' for congress regime and '1' for non-congress regimes) has been introduced in the estimated equation. The necessary data are collected from centre of Monitoring Indian Economy, Reserve Bank of India Bulletin' Economic survey of India and census of India.

The analysis revealed that the sized of public expenditure of the Central government of India is positively influenced by degree of openness and unemployment rate of the lagged one year and negatively determined
by the density of population primary sectoral contribution and urbanization. Variable such as per capita public expenditure of the t-1 years, per capital debt of the t-1 year, degree of openness of the economy, percentage of scheduled caste and scheduled tribe in total population are having a positive influence and per capita income and dependency ratio are having a negative influence on the size of tax revenue. Further changes in political party in power exhibit significant tax revenue. This may be due to the fact that politicians are using public expenditure as an instrument by introducing populist measures to capture the vote bank. In the meanwhile, they may not be able to use tax revenue as weapon to capture the vote bank because tax concessions will be difficult due to mounting pressure of public expenditure over a period of time and substantial raising tax revenue creates displeasure among the citizens which will result to losing vote bank. However, the results of present study are limited to the extent of sampling limitations.

BRAHME DR. RAVINDRA, RANI S. RADHA, CHANDANGAR ANSHUMALA - The study presented that the new government of Chhattisgarh decided to adopt FRBM act in 2005 to restore viability to fiscal balances. At the same time it undertook a far reaching programme in tax reform by adopting value added tax, and presentation of performance budget, new industrial policy and soon, all aiming at moving the state to a higher trajectory path.

DHOLAKIA ARCHANA - has published her research paper entitled "Measuring Fiscal Performance of States : An alternative Approach". In her paper she attempts to develop a multidimensional index for measuring the fiscal discipline of States. A composite index called the FPI Fiscal Performance Index was constructed by using eight different fiscal indicators. It is argued that although the Eleventh and Twelfth Finance Commissions fully recognized the importance of different fiscal parameters, like the composition of government expenditure, sources &
pattern of government finances, the magnitude of debt subsidies and interest burden the measure of fiscal discipline adopted by them is based on only one indicators.

The fiscal self-Reliance and improvement index constructed by the TFC that considers the changes in a single indicator is narrowly based unstable and biased against the better fiscal performers. The suggested FPI on the other hand, is multi-dimensional more stable just towards better performers and also useful for State level policy making.

The components indices of the FPI are formed as follows:

(a) **Deficit Index (DI)** - It consists of 3 indicators

   (i) Gross Fiscal Deficit as a proportion of total expenditure 
      \( \text{GFD/TEX} \)

   (ii) Revenue-Deficit as a proportion of fiscal deficit \( \text{RD/FD} \) and 

   (iii) Capital outlay as a proportion of fiscal deficit \( \text{CO/FD} \)

(b) **Own Revenue Effort Index (OREI)**

   It is constructed by using two indicators -

   (i) Own Tax Collection as a proportion of revenue expenditure 
      \( \text{OT/R. Exp.} \) and 

   (ii) Own Non-Tax Collection as a proportion of revenue expenditure \( \text{ONT/R. Exp.} \)

(c) **Expenditure and Debt Servicing Index (EDSI)**

   It is made up of the following three indicators-

   (i) Non-Development Revenue Expenditure as a proportion of Revenue-Receipts \( \text{NDRE/RR} \)

   (ii) Interest Payment as a proportion of Revenue expenditure \( \text{IP/R. Exp.} \)
(iii) Debt Repayment as a proportion of Central fiscal transfers received by a State (DR/CFT)

She has calculated FPI and DRR for different post reform years for the 14 major Indian States.

GUHAN S. - The author argued that Tenth Finance commission's alternative scheme of devolution could be used as the starting point for putting through a process of rationalizing centre-state transfers. The process can be sequenced in an orderly manner between 1997-98 and 2001-2002.

The author concluded that on account of various factors, the current regimen of centre-state fiscal transfers has evolved in a piecemeal fashion. Inevitably, the result is one that lacks any rational design or direction. By the same token, the transition to a simple, transparent, and rational system can not take place in one move, while it will have to be comprehensively visualized, the implementation will have to be in a phased manner.

GUPTA SMITA - The study argued that the greatest damage of the influence of neo-liberal advice from the Asian Development Bank is its emphasis on self-sufficient state governments exercising 'fiscal discipline'. Obviously wasteful expenditure is a bad thing. State governments must reduce the stack in resource mobilization and expenditure. This however is not the fundamental problem for Madhya Pradesh today. The problem is that MP has too little public investment and a low growth of state income, etc. There was little merit in the argument in favour of a smaller or zero fiscal deficit, if the spending is aimed towards increasing state income and employment.

The study concluded that for Madhya Pradesh, rising revenue expenditure and falling resources were due to factors beyond the state's direct control. Due to the sharp rise in the pay and pensions of government
employees, interest payments and debt servicing, the state use resources allocated for the development plan to finance current expenditure. The higher interest repayment was, in part, on account of lower than potential and necessary central mobilization and devolution, and, in part, the very high interest rates changed by the central government from the state government, relative both to the rate of growth of the net state domestic product as well as the market rates.

As they argued a very important explanation is the weakening of the state's through deliberate central manipulation, but this structural factor cannot become an excuse for complacency and connivance. States have to provide most of the development activities and infrastructure for social and economic development. Reduced public expenditure results in declining state incomes, poor development performance, falling family incomes for vast sections of the population, declining rural employment, widespread hunger and poverty. One would expect democratically elected governments to resist their rapidly eroding right of economic decision-making. Though the central government clearly used several instruments to place the state government in a position whereby the only loans it could get was from the multilateral funders, it is not at all clear why the state government, with a difference of 7 percentage points (now 5) between what the ADB charges and what the central government charges for the same loan. Instead of fighting for their constitutional rights and fiscal federalism, the states seem almost eager to fall the central government for resources that are rightfully the state's constitutional due.

JENA R. PRATAP - This study brought out the problems caused by inaccurate forecasting of both central and states revenues for the fiscal management of the states. The analysis showed that poor forecasting methodologies employed to forecast central and state tax revenues have already had an adverse impact on the fiscal management of states.
In recent years, the central government's forecast of tax revenues are in the nature of target setting rather than forecasting and this has had a negative impact on the states finances. In 2002-03, for example, there was a short fall of 17 percent in central revenues from the budget estimates and this caused central transfers (both tax devolution and grants) to decline by 12.54 percent of the budget estimates of the states. Each of the states had to cut down expenditures as a result. The problem is compounded by the poor forecasting techniques used by states to forecast their own revenues.

The important point was that the states are made to suffer from poor fiscal management when the central government fails to accurately forecast its revenues. Of course, the fact that the states themselves have been equally bad in their fiscal marks man ship shows there own lack of concern for fiscal management. The study showed that it is important that both the central and state governments should prioritize their expenditure plans by adopting a medium-term framework and adopt more scientific techniques of forecasting in making budgetary projections.

**KANTAWAL BHAVANAS.** - The present paper attempted to examine the direction of causality between budget deficit and current account deficit and exchange rate for different countries of the world following different methodologies to a given problem.

The direction of causality and the relationship between the two was examined through the ratios of Budget Deficit/ GDP and Current Account Deficit/ GDP both at current price as well as at content price for the period 1950-51 to 1995-96, 1960-61 to 1995-96 and 1970-71 to 1995-96.

There are two competing theories put forward to explain the relation between exchange rate and trade balance. The first one is based on J curve hypothesis according to which the trade balance first deteriorates before it improves after devaluation. The second theory is so called "modern theory"
of trade balance determination. The empirical consequences of modern theory are two fold. First be caused exogenous factors affect both the real exchange rate and the trade balance, change in one variable can partially explain changes in other variable. Second the relationship between the two variables may be bidirectional.

The study made it obvious that the causality runs from CAD/ GDP (constant price) to BD/ GDP (constant price) for the period 1960-61 to 1995-96 as appose to other studies on different countries of the world. Moreover, the causality runs from CAD/ GDP (current price) to Income Terms of Trade. The causality also runs from interest rate (i.e. yield on ordinary share and Bank rate) to BD/ GDP (Constant price). These results imply that to control the ratio of BD/ GDP, it is absolutely essential on par of India Government to control and regulate the ratio of CAD/ GDP and interest rate. Not only that but to have some positive impact on income terms of trade, the government should control the ratio of CAD/ GDP.

KURIAN N.J. - has published a research paper entitled "Debt Relief for State". In his paper, he explained that the Twelfth Finance Commission has made significant recommendations on debt relief for States. The quantum of relief is substantial and the conditionalities- passage of a fiscal responsibility legislation and reduction of revenue deficits are not unreasonable. However, single minded pursuit of fiscal correction to get the benefit of debt relief can have disastrous implications for States where social and economic infrastructure investments have been in sufficient. Some of them will have to impose heavy cuts on development expenditure to adhere to the tight scheduled to bring down the revenue deficit to zero by 2008-09. A more rational approach may have been to allow them to follow more realistic adjustment paths over a longer period.

LALVANI MALA - This paper has been an attempt to assess the budget for 2006-07 in the backdrop of the fiscal performance of the NDA and the
two and a half year old UPA Government. The assessment here is partial and limited only to macro-fiscal parameters.

The study concluded that on the tax front, the UPA government deserves credit for and improved performance over the two years, although it was helped by higher growth rates on the expenditure side they have severe misgivings about the lower proportions being allocated as capital expenditure, especially in key social and economic services. The lack of movement on curbing subsidies and the higher proportions being spent on administration are some obvious flaws. Disinvestments seem to have gone off the Central Government agenda for the moment. A mere mention of an effort towards "Consensus" was as far as the FM could go. Continuity on the policy front is reassuring, but one cannot help feel disappointed since UPA had raised expectations and a change for the better is what one had hoped for. by and large the fiscal performance of the UPA in general, and budget 2006-07, in particular, could be summed up as having taken a few steps forward and a few steps back. However, these are well below expectations - or are we expecting too much?

M GOVIND RAO - This article examined the fiscal adjustment that the Union Budget 2007-08 aims at. It also looks at how the growth momentum of the economy can be maintained by, among other things easing infrastructure bottlenecks and reviving a sagging agriculture sector.

After examining the tax revenue trends in the economy; the article commented on the tax measures proposed in budget.

MISHRA R.K. - This paper attempted to review the state of finances of Andhra Pradesh (AP) and suggested ways and means by which the state Government may bring about a restructuring of the public finances so as to restore budgetary balance and maintain macro economic stability. The paper discussed among other things, various strategies to effect such a
revamp, paying the way for a sound fiscal management in Andhra Pradesh. The study used data from 1980-81 to 1996-97.

The study revealed that they are in great disarray. The continuing revenue and fiscal deficits have resulted in halting the economic march of the state. The performance on the revenue-raising front has been very tardy, both due to lack of effective tax administration and absence of innovativeness in living new taxes. The buoyancy coefficients of the states own revenue has turned out to be lower as compared to the other major states of the country. The public expenditure management is not in a healthy shape. The incidence of budgetary subsidies has been rising year after year. The losses incurred by the SLPEs (State level public enterprises) have been on the increase. The expenses on salaries and pensions have recorded an exorbitant growth.

**PATNAIK PRABHAT** - The study examined that the union budget 2007-08 utterly fails to appropriately respond to the social needs of a situation of profit inflation. The situation demand an increase in Government expenditure relative to Gross Domestic Product aimed at putting transfers in the hands of workers and a financing of this through taxes on private profits. It also required taking appropriate steps to remove the basic cause of profit inflation through a revival of agriculture.

The study concluded that the tax - GDP ratio and the ratio of transfer's to the workers to GDP should both have increase in the context of inflation, together with "Supply Management" measures. The budget for 2007-08 raises neither the tax - GDP ratio, nor the ratio of GDP being transferred to the "booty" (it first squeezes the consumption of the workers, then transfers these amounts arising from the reduced consumption of he workers as saving to the capitalists, whose wealth increases as a result of this "booty" (to us Keynes' words) to remain in the hands to the rich.
RAJARAMAN INDIRA, GOYAL RAJAN, KHUNDRAKAAM JEEVEN KUMAR - In this study the author discussed that with the introduction of a destination-based VAT in all but eight states starting April 2005, there is need for a good baseline indicator of tax buoyancies in states in the period immediately preceding. This paper attempted to provide such a base, with buoyancies estimated over a 23 years span starting in 1980-81. If estimated over a sufficiently one period of time, the buoyancy coefficient essentially estimates the underlying revenue-generating properties of the system with endogenised tax policy. A log linear trend fit over the entire period showed serial correlation, which is eliminated for all but one state, Assam, with the introduction of structural breaks. A third specification, including the log of the percent share of industry in the domestic product, eliminates serial correlation for Assam, and improves the goodness-of-fit for some other states. In all but six states, the sign of the change in the buoyancy coefficient at the break is positive. Where the buoyancy-enhancing break occurs in the late 1990s, the spurt in tax effort might have been an endogenous response to the expenditure shock from implementation of the higher salary scales recommended by the Fifth pay commission.

RAJARAMAN INDIRA, MAJUMDAR DEBDATTA - have published the paper entitled "Equity and consistency Properties of TFC Recommendations". In this paper they have examined three aspects of the Twelfth Finance Commission Recommendations. First, it looks at the most urgent issue for States, the FRBM Legislation which they must enact if they are to qualify for the interest rate reduction on debt owed to the Centre. The rate deduction on offer, by 3 percentage points, from the present average of 10.5 percent to 7.5 percent is clearly an attractive inducement. The required revenue deficit target of zero by 2008-09 is unambiguously clear cut the fiscal deficit requirement is not. It includes a target fiscal deficit of 3
percent of GSDP. The parameter values underlying the fiscal deficit correction path could be valued by States very differently from those assigned in the TFC report.

The second issue addressed in the paper is the complex and ambiguous set of conditionalities relating the debt write-offs in year t to the reduction in the revenue deficit in year (t-1) relative to (t-2). These conditionalities also carry a fiscal deficit cap which could be sharply inconsistent with a fiscal deficit correction path fully in conformity with that prescribed by the TFC.

Finally, the paper examines the equity attributes of the tax devolution and non-tax grants prescribed by the TFC. The formula adopted for determining tax shares of States assign a greater weightage to distribution-neutral factors and so reverse the trend. The non-tax grants do not show an inverse relationship with per capita GSDP. Together, these suggest that TFC has chosen to move away from equity as a guiding principle for its statutory flows, but the report does not make plain why it has chosen to do so.

RAJU SWATI - This paper attempted to examine the relationship between fiscal deficits and the macroeconomic variables employing the co-integration and the causality technique for 1952-53 to 1996-97. Co-integration is first employed to test whether a long run equilibrium relation exists between deficit and the variables. Bivariate causality test using Hsiao's method and in the granger. Modified Sims framework were conduct for the co-integrated variables.

The paper thus, has sought to examine whether fiscal deficits and the macroeconomic variables share a co-integrating and casual relationship using annual data for the 46 year period 1952-53 to 1996-97. Their results show that the two deficit measures, the official government of India
measure (FDGI) and fiscal deficit, the alternative measure computed by Rangarajan, Jadhav and Basu (1989), (FISDEF) and following macroeconomic variables gross domestic capital formation at current prices (GDCFC), Government Final Consumption Expenditure at Current Prices (GFCEC) High Powered Money (HM), Money Supply (M3) and Rate of Interest on Government Bonds (GBRT) enjoy a co-integration relationship while no co-integration is found for the deficit measures and Private Final Consumption Expenditure at Current Price (TFCFC) and GBRT.

Their result could be viewed as a pointer to the nature of the relationship that could exist between fiscal deficits and major macroeconomic variables and could indicate the direction of the relationship in further rigorous modeling exercise in this relationship between fiscal deficits and macroeconomic variables. As is true of any economic system, all the macroeconomic variables considered here are interrelated and a change in any one of them docs have an impact on the other variables as well on the deficit measures.

**RAKSHIT MIHIR** - The study presented the major provisions and objective of the Fiscal Responsibility and Budget Management bill. How fare are these provisions likely to help or hinder in promoting the primary objectives, viz, intergenerational equity, macroeconomic stabilization and growth.

The study concluded that Fiscal Responsibility and Budget Management Bill attests the seriousness with which the government seeks to tackle the problems of revenue and fiscal deficits and the high ratio of public debt to gross domestic product. The primary objectives of the bill are promotion of inter-generational equity, macroeconomic stabilization and growth. With these goals in view FRA lays down a time-bound programme of cutting back revenue deficit and generation of revenue surpluses, elimination of fiscal deficit, and a te-percentage point reduction in the debt-
GDP ratio. For ensuring that the government adheres to this programme, the bill provides for corrective measures that are automatically to be undertaken once the actual deficit show signs of exceeding their targeted values in any year. One can be reasonably certain regarding effectiveness of FRA. When implemented, to bring down the three crucial ratios from their current magnitudes. At the same time the bill should go a long way in making the gadgetry process transparent and promoting an informed debate, remembering that the government is required to lay on the table all its cards relating to its own perception of the emerging economic trends and the macroeconomic framework behind formulation of short-and-medium-term policies.

There are however serious doubts on how FRA will be of help in attaining the primary objectives, and distinguished from the intermediate ones of reducing deficits and dept. Though generation of revenue surpluses is certainly a move in the right direction, conceptual confusion and weak analytical framework seem to have made some of the bill’s provisions inappropriate and resulted in omissions of measures boldly needed for furthering basis goals.

RAKSHIT MIHIR - has published a research paper entitled "Some Analytics and Empirics of Fiscal Restructuring in India". He observed that the TFC’s focus on growth as a key element of its fiscal reform strategy is well taken. Also eminently sensible are its recommendations for performance budgeting doing away with the distinction between Plan and Non-Plan expenditure; and transparency including elimination of all hidden subsidies. However, the major weakness of the strategy consists of not dovetailing demand management policies in a development programme; ignoring the saving-generating impact of investment in an economy where rural and informal sectors are characterized by considerable underutilization of resource. even while the formal sector may not have much
slack; treating education, health and other social sector expenditures as current and absence of optimality considerations in respect of allocation of expenditure and of alternative modes of their financing, taking into account their short and larger term effects on growth, equity & government finances.

RANGARajan C, SrIVASTAv D.K. - This paper examined the working of Australia's fiscal transfer system in the context of its long-term evolution, paying particular attention to salient changes that have occurred since the introduction of a comprehensive Goods and Services Tax (GST). The GST has served to increase the vertical imbalance in the system, which was high even prior to this change, by placing more revenue resources with the common wealth Government is Australia. In spite of a high degree of expenditure centralization, considerable emphasis is placed in Australia on achieving horizontal fiscal equalization through an elaborate mechanism of equalization transfers, which looks into both revenue and expenditure 'disabilities' that account for departures from a pure equal per capital distribution of the shareable amounts.

This paper looked at the quite and efficiency implication is of the Australian equalization transfers and considers its relevance for the Indian system, which has many comparable features. Apart from the need for making equalizing features of the Indian transfer system more transparent, there is need for emphasizing some cost disabilities, particularly those that are structural and exogenous in nature.

RANGRAJAN C. - Chairman of TFC in his paper entitled "Approach and Recommendations" explained the Vertical and Horizontal Imbalances in the transfer of resources from the Centre to the States. Hence, the Twelfth Finance Commission has recommended a scheme of fiscal transfers that conserve the objectives of equity and efficiency within a frame work of fiscal consolidation.
Vertical Transfers - The TFC has recommended an increase in the share of States in the divisible pool of taxes to 30.5 percent from previous level of 29.5 percent. This increase was necessary to provide some cushion to states whose share in the total tax devolution might go down as a result of any modifications in the formula of horizontal distribution. The commission has raised the indicative limit of over all transfers cut of the gross revenue receipts of the Centre from 37.5 percent to 38 percent.

Horizontal Transfer - In the context of horizontal imbalance the TFC felt that the equalization approach to transfers was appropriate as it was consistent with both equity and efficiency. The TFC has retained by and large, the indicator used by the Eleventh Finance Commission for determining the horizontal transfers it has altered the weights to some extent the distance criterion combined with the criterion of population, representing together the needs & deficiency in fiscal capacity, have a combined weight of 75 percent. The cost disabilities get a weight of 10 percent through area and fiscal performance 15 percent.

Role of Grants - The TFC has increased the proportion of grants to tax devolution in the scheme of transfers. Grants constitute around 19 percent of total transfer compared to around 13 percent in the EFC. TFC has made an effort in this direction by focusing on education & health which are two critical merit services. Special grants have been given to Eight States for education and to Seven States for health Grants also given for maintenance of roads bridges & buildings.

The commission has laid emphasis on strengthening the local bodies in keeping with the constitutional mandate for effective and autonomous local self-governance. The recommended transfers for the local self bodies constitute about 1.24 percent of the shareable taxes and 0.9 percent of Center’s gross revenue receipts.
Debt-Restructuring - The commission recommended a scheme of debt relief in two parts -

(i) Consolidation of past debt with interest rate reduction.

(ii) Debt write-off in linked to the reduction in the revenue deficit. The states have to pass "The Fiscal Responsibility Legislation". The total amount would be written-off if all States were to achieve revenue balance by 2008-09 is approximately Rs. 32,200 crores. It is a great worth amount.

RESERVE BANK OF INDIA BULLETIN - This study undertook a review and assessment of the finances of the central Government during April - September 2006. The Union Budget 2006-07 resumed the process of fiscal consolidation under FRBM Rules, 2004 led by a strategy of revenue-led correction on one hand and reprioritization of expenditures on the other. Central Government finances during the first half of 2006-07 showed all the key deficit indicators of the central Government to be substantially higher than the corresponding period of the previous year mainly on account of sharp increase in non-plan revenue expenditure which more than offset the buoyancy in tax revenue. Consequently, the targets for fiscal and revenue deficit at the end of second quarter, stipulated under FRBM Rules, 2004, were missed by the Government.

- The study presented a quick overview of the finances of the state Government during 2001-02, mainly based on their budgets and other supplementary information received from them.

The analysis is based on the budgets of 28 states and the National Capital Territory of Delhi and uses supplementary information on additional resource mobilization measures received from states up to end-August 2001. The budget estimates for 2001-02 include the three new states, viz., Chhattisgarh, Jharkhand and Uttranchal formed in November
As the new states were carved out of the existing states of Madhya Pradesh, Bihar and Uttar Pradesh, The data for 1999-2000 and 2000-01 (BE) are inclusive of the three new states. The revised estimates for 2000-01 include the data of Chhattisgarh and do not include those of Jharkhand and Uttaranchal for the period November 2000 to March 2001.

The concluding observations of the study were the overall resource gap (GED)- Gross Domestic Product (GDP) is estimated to be lower at 4.4 percent in 2000-01 as against 4.7 percent in the previous year.

The continued emphasis on fiscal reforms at sub-national level has gained significance and become an important component of overall economic restructuring.

Further improvement in the fiscal position requires measures at widening the tax base, rationalizing user charges, better targeting of subsidies, comprehensive restructuring of state level public sector enterprises and rationalization and prioritization of expenditure.

SARAN DEEPA AND GOYAL SANJAY - This paper undertook an analysis of four nations i.e., South Korea, USA, India and China for the time period 1985-2002, to empirically find out whether the apprehensions of antiglobalisers about the melting away of the welfare state due to globalization and the resultant tax competition is warranted or not. It also sought to find out the correlation, if any, between aggregate tax levels and the welfare expenditure.

From the analysis, three noteworthy results were observed: (1) Pressure of tax competition due to globalization on FDI flows has not been observed for both developed and the economies that opened early like USA and South Korea because tax : GDP ratio has increased in both the countries during the period under study, whereas, tax competition pressure is clearly manifested in the case of both the developing and recently the
open economies of China and India because both experienced a fall in their tax : GDP ratio; (2) A positive correlation between aggregate tax levels and welfare spending has been observed for both the developed countries while no such correlation has been noticed for both the developing ones, which means in these economies the welfare expenditure is largely pre-committed and mandatory for development irrespective of the aggregate tax levels; (3) India and China differed in only one aspect in this study. While China’s case has shown a shift in tax structure from mobile to relatively immobile tax bases, India’s case has not.

Based on this analysis we can predict that with international economic integration in the offing, the newly open developing economies will likely to face the pressure of tax - competition, which, would manifest in the reduction in their aggregate tax levels. It is unlikely that they will reduce their welfare spending as either the non-tax revenues of these nations would increase or increased welfare expenditure would be met by increases in fiscal deficits.

SERLETIS APOSTOLOS AND SCHORN RECHARD G. - The authors have considered the empirical evidence for the tax- and revenue-smoothing hypothesis, using quarterly data for four countries- Canada, France, the UK, and the US. The assessment has been conducted using integration and co-integration tests, the single equation approach (with the time series properties of the data imposed in estimated and hypothesis testing), as well as the multi-equation VAR framework, which represents one of the most promising tools for evaluating the dynamic effects of unanticipated shocks. There is strong evidence from the unit-root tests, the single-equation approach, and the multi-equation VAR approach for tax-and inflation smoothing. However, there is no evidence from the co-integration tests to support the revenue-smoothing hypothesis.
The results presented in this paper are consistent with the co-integration and/or VAR results reported by Trehan and Walsh (1990) for the US (using annual data from 1914-86), Frogen and Woud (1995) for the US (using quarterly data for the 1955-92 period), Ghosh (1995) for Canada and the US (using annual data from the early 1960s to 1988), and Poterba and Rotemberg (1990) have found evidence supporting revenue-smoothing in the US using contemporaneous OLS regression, the evidence presented in this paper, as well as in those cited above, does not support the tax rate-inflation relationship.

SINGH, NIRVIKAR, VASISHTHA GARIMA - The study analyzed that India's federal system is distinguished by tax and expenditure assignments that result in large vertical fiscal imbalances, and consequent transfers from the central government to the state governments. Several channels are used for these transfers: the Finance commission, the Planning commission, and central government ministries.

This study used panel data which covers the 10 years period 1983-1992 on centre-state transfers to examine how the economic and political importance of states influences the level and composition of per capita transfers, as well as differences in temporal patterns of planning commission and Finance Commission transfers. They also introduced dummies for the various Finance Commission and planning coming to study the temporal patterns in their transfers. All regression were run alternatively using the four categories of transfers (in per capital terms), at 1981 prices.

Overall the results suggested that states with greater bargaining power, as provided by their political variables, tend to receive larger per capita transfers. They also found evidence for temporal variation in planning commission transfers, which bear further investigation.
Prof. Virmani has analyzed the Fiscal Responsibility Act of the Government. According to him, fiscal sustainability has three aspects. One is the trend in the debt GDP ratio, secondly, the quality of Government expenditure and third the efficiency of the tax system. He observed that one of the most important implication of the fiscal reforms in India is that the Government has no money to spend on essentials. His study focuses on the quality of government expenditure. The basic problem is therefore the identifying and eliminating wasteful and unproductive expenditures so that the fiscal deficit can be eliminated and more money spent on essential Government functions.