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Reform of Domestic Trade Taxes in India — Issues and Options

Gender and Human Resources Development

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EDITORIAL HIGHLIGHTS

Introduction

THIS August editorial covers the main activities at the level of the state, the country and the world. At the state level, there is a review of the power situation including the difficulties being faced by the private sector which has invested heavily in the state. Mettur reservoir supplies from June 12, the Krishna water which will become available by the end of next year and the World Bank aid to Tamil Nadu Hydel project were passed in review. In housing the Tamil Nadu Housing Board plans are noted and the start of the Koyambedu market is referred to. In agriculture the paddy procurement and the problem of rise in price in the state, the status of the kuruvai crop and the agricultural university's bio-fertiliser project are reviewed. In industry, June was a very active month for the state with developments in Salem steel, Hindustan Photo Films, Cauvery spinning, the shrimp project, Enfield, Ucal systems, SIS, SPIC, MEPZ, molybdenum mineral, Madras Cements, Starlite, Seshasayee, TAC, Binny and Ashok Leyland. At the national level, a very informative review of the finances of the states as seen in the 1994-95 budget, the Union Planning Commission's paper on the indicative planning of France, the disturbing state of inflation fed by large capital inflows and fiscal deficits, the importance of renewable sources of power generation in the power area and SEBIs norms and rules are passed in review. With regard to the economy, the effect of the reforms on the states and on output, the varying estimates of GDP growth rate by the Economic Times, RBI, World Bank are referred to. Also the draw back rates cut, the comments in relation to India in the UNDP Human Development report 1994 and the World Bank's World Development Report 1994 are passed in review. The large inflow of FDI, the dispersal in the per capita income of the states, the decision of VSNL, and MTNL to tap Euro markets, ONGC's gas discovery and the sugar scandal are briefly reviewed. In agriculture the kuruvai price rise and their likely effect on inflation, the development of under-utilised crops and the agri business now over two years old which still has not made a start are referred to. The fall in sugar production and the declining private investment in the farm sector are passed in review. The 42 research reports in June and their break up by specialities and the state of the plantation crops tea, coffee, rubber and cashew are reviewed. In regard to industry, the growth rate as reported by official agencies and the corporate sector performance are discussed along with the survey by CII and NCAER on the performance of the companies. NCAER's study of SSI and the financing of SSI, EPZs private and joint sector opening, FIIs net investment and development in the automobile sector, sugar, ONGC, BHEL, fertilisers and clearing over Rs.300 crores investment are discussed. In the realm of foreign trade the contradictory reports about the rate of export growth is discussed along with the improved draw back rate for 160 items, soft ware exports, spices exports, the imports spurt in April, and horticulture are referred to. In the field of aid and loans the transformation of the aid India Consortium into the India Development Forum and its decision for 1994-95 and the World Bank's loans for population control, power, Tamil Nadu and ADB loans for the final sector and TANSEM along with IFC aid to power are referred to. The World Bank cautions against government's project guarantees and proposes reorienting development strategy of the country. In the field of human resources development, the advise of UNDP's human development report 1994 to India, the innovation of introducing vocational education in the arts an science colleges and the problems of childhood education are passed in reviewed. In the science field the NRDC going global as an important development is referred to. In the international field, the UNDP report on Human Development Index and the need for an agriculture emphasis on third world development are referred to. In the area of poverty eradication, the World Bank's review and advise are important. In regard to the world economy, the GDP growth for different groups of countries, the decline in inflation in the developed countries, the World Bank on women, the Bank for International Settlement on GATT are passed in review. The World Bank's World Development Report 1994 is summarised along with the Unicef report on PDS and nutrition. The International convention on dry land degradation, the ILO on bonded labour and the effects of declining world expenditure on arms and military equipment are discussed. In regard to other items in which the Institute is involved, there are brief references to the meeting of the general body of the Tamil Nadu State Council for Science and Technology, the seminar on SSI, the governing body meeting of ICTT, the meetings of TNSCHE, IIC panel, the BBC round up and ISSs Lakdawalla Memorial lecture.

Power

The month's report on power begins with the slow return to normalcy of the Southern Power Grid from the crisis into which the plants were involved affecting Andhra Pradesh and Karnataka. The delinking facility enable Tamil Nadu to insulate itself from the crisis during which time the grid was returned to normal. During April also the Mettur Thermal Power plant reports generating a record of 831.6MW as against its capacity of 840 MW but in May the power generation declined to 781.2 MW due to the reduced arrival of coal, these fluctuations are bad for industry.

The private Power projects in the state referred to in earlier issues, face a number of problems which are still to be solved before they can be finalised. Their problems include high capital costs, demand for a higher rate of return over the stipulated 16 per cent and the terms of payments in power purchase agreement.

Water

In the area of water, the ground water table level in Madras and its surroundings seems to be better than that of last year as reported in the Bulletin then. The average level on June 1994 is 5.07 metres below the ground level, whereas last year it was 5.02 meters according to the Metro Water records. The improvement in the water table is due to the copious rains during October and December and not due to regulated water drawal. The over exploitation of ground water is forcing government to think in terms of legislation to regulate its use. On the Krishna water project, it is reported that the drinking water for the city would be available by the end of next year as the work on the project was going ahead of the schedule so that the city would get 12,000 million cubic feet of drinking water

when it functions. In the water area the World Bank will be assisting the state to implement the "national hydrology project" at a cost of Rs.65.75 crores from April 1995. Its main objective is to upgrade the system of data collection and management aspects related to both surface and ground water. These plans should place the water situation on a sound basis.

Housing

The Tamil Nadu Housing Board reports that during the financial year seven commercial offices/shopping cum residential complex in key localities are being built at a cost of Rs.32.52 crores. This will be a sizable increase to housing facilities in the city and its surroundings - 480 apartments and 57 shops. Further, the whole sale market complex being constructed by MMDA at Koyambedu in the complex which combines architecture, aesthetic and environment cleanliness. It covers 296 acres with wide roads and a lot of greenery and will accommodate 1422 vegetables, 430 flower and 432 fruit shops at a cost of Rs.24.16 crores, Rs.5.84 crores and Rs.7.53 crores respectively. This will be an important development and landmark in the city and will relieve the George Town area of its current and past over crowding.

Agriculture

In the area of agriculture, the target for kuruvai is 10 tonnes per hectare paddy, which will be helped by the scheduled release of water from the Mettur reservoir on June 12 for the second successful year. The normal area for kuruvai in the Cauvery delta of Tiruchy, Thanjavur, Nagapattinam, Quaide Milleth and parts of Pudukottai and South Arcot - Vellalar district is little over two lakh hectares. Any short fall from this would be due to insufficient water which in turn would be the result of Karnataka's release for the Mettur inflow. This is one reason why the per hectare target has been fixed at a high level to attain this. The main emphasis this year is around the integrated pest management, which includes rearing of fingerlings in the paddy fields particularly in the 30 designated centres. The farmers in the area are all set to start work on kuruvai for which an adequate quantity of seed material and other inputs are being made available so that there will be timely availability. On the other hand, paddy procurement operations for the 1993-94 agricultural season have ended with the state civil supply corporation purchasing 8.7 lakh tonnes both kuruvai and the samba paddy. This is much less than the 18 lakh tonnes procured the previous year, which means that the parallel procurement system in the state have allowed earlier purchase by the private trade, which also obtained the major portion of the kuruvai and samba production.

Tamil Nadu Agricultural University is taking up a project, "machine made project" on technology development and administration of bio fertilisers - low green algae, blue green algae and azolla with the help of Rs.1.86 crores from the union department of bio technology. The project is to carry out research on the quality inoculum development and appropriate technology for integrated use of azolla bio fertiliser and nitrogen fertiliser to raise nitrogen efficiency for higher production of drugs.

An interesting development is that the Kedar tank in the Villupuram district is becoming the first irrigation tank in the state which is entrusted to farmers through their Association for operational maintenance. Irrigation tanks are generally maintained by the PWD or Panchayat units, now the MOU has been signed for transferring the job from PWD to the Kedar Farmers Association. Rehabilitation works on two other minor irrigation tanks is in different strategies of progress - the work on Kutumpundal tank in Chingleput MGR district has been entrusted by the government to the Farmers Association along with the loan of Rs.50,000.

The repair and improvement work on Kannanugudi in Pudukottai district is the other one likely to start in October 1994. Estimates have been prepared for 9 more tanks whose improvement work is to be entrusted to the farmers. This is a sound development.

Industry

In the industrial field, June was a busy month recording many important events for the state. To start with, the Salem steel plant broke its production record for the second month with 5950 tonnes of saleable steel produce in May. Productivity of the plant at this level works out to 87.2 tonnes per man year against the plant's 85.5 tonnes of saleable stainless steel, the plant also excels in its export target. A further important development is that the much delayed Rs.483 crores Hindustan Photo Film project for the production of polyester based x-ray films and graphs and art films is due for completion next month in July. There was an increase in the cost because of the rupee devaluation which was inescapable but also because of the time over runs which led to additional expenditure on interest, construction material etc. There is however no escalation of the fiscal scope of the project which has a total installed capacity of 12mt^2 of film per annum. A third development is that the Cauvery spinning mill near Pudukottai which was taken over by the Tiruchy based Thaila Mudalia and renamed Thaila Spinners as from early June. The plant looks forwards to close cooperation between management and labour so that there can be uninterrupted production through the year. One problem is that the three spinning mills in the district are all sick so that cauvery spinning will have to cater to their growing demand. Another important project is the $5billion CP feed mill company of Thailand which is now entering Madras with a shrimp feed manufacturing unit. The CP group has been involved in marketing of shrimp feed since 1992. The Madras $10 billion plant will have an initial capacity of 5000 tonnes. In view of the many questions concerning the ecological effects of shrimp feed, the development of this plant needs to be monitored carefully. A further development is that the two wheeler producer Enfield India Ltd. is reviving its famous product, Bullet both in the domestic and export market with a turnover of around Rs.90 crores, the company will wipe off its prior loss of Rs.9.17 crores and expand its turnover by 11 per to 12 per cent. Again the city based S and S Industries and Enterprises Ltd. reports a very good production year in 1993-94 and on that basis is diversifying its programme from vending machines for drinking water to vast food joints and palm oil cultivation. For financing this Rs.36 crores expansion, the company is coming out with a rupee issue which will raise this amount. It plans to increase the size of its aqua culture farm from 47 hectares to 83 hectares and to develop satellite farming in 400 hectares. Totally export oriented, the aqua culture division earned last year over Rs.9 crores and in the agro tech division a seed processing cum solvent extraction complex with a capacity of 200 tonnes per day is being developed. Also the company is planning three minor water plants, a project to cultivate and extract palm oil and other down stream products and to further expand its merchant exports. The plant is an important development for the state. A parallel development is reported by Ucal Fuel systems which reports the highest production and sales for the year at Rs.34.14 crores. Despite a marginal decrease in its selling price, it was able to improve its profitability through higher indigenisation of the components. The plant is going in for an additional capacity for its various products in the coming years. Like the S&S industry just referred to, Ucal is funding its expanding through raising additional equity through private placement with FIIs and the corporate bodies which will increase

both its production and sales through the current year. Another development is the union government's approval obtained by SPIC for a second Euro issue of $80 million, the issue will be privately placed with 5 or 6 swiss banks and financial institutions. This will result in the first green field project from India tapping the European market for funds. Further, units in the Madras Export Processing Zone report working out a detailed export plan in order to ensure a regular and smooth flow of credit. Banks have assured regular and smooth flow of credit if a properly planned project providing for a higher export turn over for the whole year is submitted. In order to reduce the processing delay and work for the banks, a uniform format is being developed. SPIC also is using its higher profits of Rs.75.74 crores for several new joint venture such as effecting a 51 per cent equity in $100 million urea plant to be located in UAE. This plant is a gas based Indo Sri Lanka Fertiliser Plant with a capacity of 720 tonnes of ammonia and 500 tonnes of urea per day. SPIC also has received a large pharmaceutical order from the Kuwait petroleum company, it has started distributing domestic fuel LPG through the bulk import at Tuticorin. These are sound developments. In a rather unusual development, the geological survey of India reports the start of a detailed survey of the availability of molybdenum, a rare mineral in the Oothangari belt of Dharmapuri district. A tentative survey has shown the mineral which is found in a very few countries is available over a stretch of 10 kms in depth ranging from 40-100 feet, the detailed survey now being initiated will last six months. The mineral will be used only for the defence plants in the country. The technology for its extraction is available in the country. TAMIN will be indicating the mining at a cost which has risen from Rs.200 to Rs.2000 per tonne. In another development Madras Cement reports on its plan to invest over Rs.300 crores within the next three years for the cement plant with a capacity of about 6 lakh tonnes per annum at a cost of Rs.200 crores, using the balance for two of its existing plants in the RAMCO group. Again SIPCOT has moved swiftly to lure a starlite industry from Maharastra and for this purpose has allotted 300 acres in its industrial complex in Tuticorin. Here the company's Rs.700 crores copper smelter plant is to be set up. The area indicated is developed land which will suit the starlite industry. The company which is moving out of Ratnagiri in Maharashtra because of stiff opposition to its pollution results should be very carefully monitored. Also Seshayee Paper and Boards reports a very successful production year 1993-94 crossing Rs.100 crores in sales. Its export performance, however, was below target due to a down trend in international prices level, its exports last year were only about 50 per cent of that of the previous year. This should be corrected in the current year. Similarly the Madras based EMPEE group which is functioning in hotels, distilleries, breweries and sugar is planning fresh investment of Rs.l00 crores in order to further diversify its activities to include aqua culture and financial services. Here again there is need for caution and monitoring as it enters the aqua culture area. Another expanding project is the Tuticorin Chemicals and Fertilisers which is investing Rs.50 crores for expansion, modernisation and broad basing its product range. The other important development in the state's industrial area is the clearance given by BIFR for Binny's Rs.159.12 crores rehabilitation project. This scheme brings together several financial restructuring of the company, real estate development and down sizing of operations.

Ashok Leyland announces that it is going in for production of passenger cars and for this purpose is conducting a study to select the right time and place so that it will not come into clash with other multinational producers.

TVS World Pool Ltd. reports that the World Pool Corporation of the US is picking up 51 per cent of the stock of the company and that it would continue to concentrate for the movement on the laundry project. Another company Chemical and Plastics India Ltd., (Chemplast) is restructuring its process manufacturing, its PVC production and sales have touched the all time high to some extent due to cheaper imports following opening up of the economy, along with a sharp increase in doemstic production. The New Era Group as part of its diversification drive is entering new areas such as acqua culture, money management, and power generation from garbage. Similarly Elnet Technologies Ltd., a joint venture with Electronics Corporation of Tamil Nadu (ELCOT) is providing comprehensive state of the art infrastructure facilities for its soft ware development. Negotiations are under way with the sugar based group to relocate their companies in the proposed park.

National

State Finances 1993-94

RBIs February 1994 Bulletin reports on state finances for 1993-94 comprising: a) Increase of 10 per cent in revenue receipts compared to the 1992-93, increase of 13.5 per cent, the deceleration being due to their lower growth in the share of central tax and grants. The lower tax share was due to the loss of taxes, in the case of grants, there was a marginal rise of 2.9 per cent compared to the increase of 20.6 per cent in 1992-93, the deceleration in 1993-94 being due to the decline in non plan grants by over 17 per cent. b) Non developmental revenue expenditure continue to increase by 19.6 per cent on top of the previous year's 17.9 per cent. c) Total capital receipts of Rs.28,052.1 crores showed an increase of 7.3 per cent in contrast to a decline of 6.5 per cent in 1992-93, the improvement being mainly to central loans. d) Net transfer of resources from the centre budgetted at Rs.41,156.5 crores shows a substantial deceleration to 2.4 per cent compared to the previous year's rise of 15.1 per cent. This means that the net transfer of resources financed only 35.25 per cent of the net aggregate disbursement as against 37.7 per cent in 1992-93. The conclusion is that there was an accentuation of budgetary imbalance of the state governments during 1993-94 (reflected in the different budget deficit indicators) due to the deceleration in revenue receipts expansion in non developmental revenue expenditure, higher provision for capital outlay and loans and advances, decline in the share of net transfer of resources from the centre in aggregate disbursements.

Plan

In the area of planning, French planning as an alternative to current planning methodology is under serious consideration as part of the liberalisation and the market economy move. The discussion paper of the planning commission comments the french planning methodology because: (a) it is an indicative planning system com-patible with the market economy, b) it has a light flexible structure for evolutive planning, c) its three permanent function of throwing light on the future, facilitating economic and social debate and appreciating consistency, d) its process of information collection and its subsequent disbursal, e) the continuous exchange and dialogue between government and the public, f) the establishing of a medium term frame work of coherence of objectives, and g) a long term plan. Plan formulation begins with the government drafting the frame work text followed by consultations and dialogue with the country's major economic and social bodies. The paper rightly recommends that this system can and should be adopted to Indian planning.

Union loan and budget

The Union Government is now negotiating with scheduled commercial banks for loans to meet its excess of expenditure over its revenue. This would enable it to keep within the limits agreed upon with the RBI for RBI loans to the government. The government has raised Rs.900 crores in the auction through a seven year loan of 143 bids for a total of over 2000 crores submitted by institutional investors, 55 bids were accepted in full and partial allotment for five. The RBI did not take up any part of the loan.

Inflation

It is of interest to note that RBI states that aided by a tight monetary policy it is planning to bring down inflation by atleast 4 per centage points by the end of the current year. How far this prognosis will be met remains to be seen. The rate of inflation as at May 28 was 10.62 per cent based on the provisional over the final estimates of the whole sale price index. The provisional estimated annual inflation rate has ruled between 11 per cent and 12 per cent. A careful examination of the data shows some under estimation of the inflation rate by the government since the beginning of the current financial year. Although 1994-95 begin with a double digit inflation, estimates on the basis of provisional figures set it at 10.5 per cent for the week ending April 9. The final figure however shows that the annual rate of inflation was actually a high 11.7 per cent in the first week of the new fiscal year and not 10.5 per cent as reported. This revision was on the basis of the final figure for the week ending April 9. Thus juxtaposition of provisional and final figures in reporting on the inflation rate needs careful study. In June the government raised coal prices by 5.25 per cent which brings CIL an additional revenue of Rs.440 crores and will be reflected in future inflation rate reports. The World Bank in a report to the Aid India Consortium for this year warns the government against the danger to India's economy from the inflation that will be induced by large inflows of foreign capital and fiscal deficit. It says "unless the monetisation of the inflows is sterilized there is a loss of control over the money based inflation and appreciation of the real exchange rate". What is needed is the protection of the competiveness of real exchange rate and the translation of higher unexpected inflows into larger capital investment.

Power

The Union Ministry of non conventional energy call for efforts to tap alternative sources such as wind energy, solar energy, bio energy, can provide alternative sources which are pollution free and ecologically sound. The targets for the 8th Plan for non conventional energy power generation of 2000 MW are being given a market orientation to make them commercially viable. A comprehensive wind resource assessment programme is being undertaken by the ministry in 23 states to identify further location to the 189 wind mapping, 59 wind monitoring stations at present functioning. The modest capacity of 114 MW has been installed in 7 states which include 80 MW of private sector projects. Thus India is poised to become the second largest wind energy producer with a potential of about 20,000 MW. The present global wind power installed capacity is about 28,000 MW including one 1800MW in the US and 500 MW in Denmark. Fossil fuels being exhaustible, this alternative renewable source becomes vital. In this connection also the cogeneration possibility of sugar plants needs to be taken into account. The international energy institution estimates that there are six sugar plants in the country which can qualify for generating electricity out of crushed cane which means that each such sugar factory in the country will need high pressure boiler of 60 bar machine to produce 126H.

by population at the $ value at the current foreign exchange rate. Now the World Bank has also followed IMF in using this method. There are problems in using this method such as the per capita figure for South East Asia ranges from #310 for Bangladesh and $540 for Sri Lanka.

The World Bank calling for the acceleration of the pace of restructuring and privatisation of the Indian economy suggests elimination of the remaining barriers to imports of consumer goods and further reducing tariff as the means of making the reform programme complete. In its report to the government, it states that the full implementation of the reform programme needs to be complemented by: (1) an increase in savings to reduce public sector deficit, 2) review of all current investment projects to ensure that they are immediately viable, 3) establishment of sector level institutions and policy frame works which will promote private investment and 4) measures to allow the impact of capital inflows on the competitiveness of real exchange rate referred to earlier.

Government reduced their draw back rates of 12 items, improved it for 160 items and retained the old rates for 49 items. The new items include car fitted with air conditioned items, hand knitted cotton blouses, special emphasis on items of export following the thrust sector; ready made garments currently enjoying 7.5 per cent duty draw back will get 10 per cent, bicycle parts which were enjoying draw back in the range of 14,12,9 and 4 per cent will get 18,16,13 and 9 per cent respectively; motor vehicle parts will have improved draw back from Rs.100 to Rs.1385; embroidered cotton fabrics will have its draw back raised from 8 to 9 per cent. It is hoped that this will further expand the export programme of the country.

In the UNDP report 1994 India ranks 135 among 173 countries in the Human Development Index (HDI). However, India's HDI rsnk is 12 places higher than the corresponding GNP per capita position. The World Bank ranking life expectancy at birth in India is 59.7, adult literacy 49.7, and adjusted GNP rates is Rs.1150 as referred to earlier. The Human Development report like the Unicef report focuses on the human face of development and declares that the surge for human security is development and not arms. But without the human face, development is pointless, sustainable human development is pro people, pro employment and pro nation, it also means that the focus of development should be broadened to include flows, not just aid and emphasise the need for a new era of development cooperation where economic partnership would be based on mutual interest not charity, cooperation not confrontation, amicable sharing of market opportunities not protection, power shared international institutes not stubborn national institute. But in the hard world of unequal negotiations and deeds, there has to be an element of charity. It is to be noted that the human face of development is not even at the periphery of the structural adjustment prescription of IMF. The developing countries should devote a minimum of 20 per cent of their annual budget to human priority concerns against an average of 13 per cent at present according to the UNDP. If as the UNDP says the aid givers raise the aid allocation for human priority goals to 20 per cent atleast, it will put the countries on the ideal course of human development. UNDP report states that if India which is the third largest world buyer of conventional arms and which accounts for its unmet social agenda could have used these resources to arm itself against social economic problems such as providing basic education to over 13 million girls out of school, which in turn suggests a 6 point agenda for the 1985 world summit comprising a world social charter involving a new social contract among all nations, reduction of 3 per cent a year of global military spending, a 20:30 compact for human development, a global human security

fund, a new frame work of development cooperation, and an Economic Security Council in the UN, as the highest decision making forum, to consider basic issues of human security.

The World Bank's World Development report has several important points of interest relating to India. The Indian economy is behind only US, China, Japan and Germany according to PPP method. India's paved roads increased from 254, 446 km in 1960, to 759,764 km in 1993, electric generation from 358000 KW in 1960 to 7599500 KW, telephone main line from 14650 KW in 1975 to 50734 KW in 1990, railway tracks from 56962 km in 1960 to 75333 KM in 1992, access to drinking water from 17 per cent of the population to 71 per cent in 1990. On the other hand, there is a distinct set back in the human level from a low 18 per cent to 14 per cent, life expectancy was 63 years against Sri Lanka's 72 years and China 69, adult literacy among females was 66 per cent, India's total external debt was 76.983 billion in 1992 against $20,582 million in 1970 and China's $321 billion.

The World Bank's country report states that India's foreign investment regime now compares with those of other Asian countries such as China, Indonesia, Malaysia, Taiwan and Thailand. It criticises the legacy of India's past development policies, and the orientation of public investment. About the progress of short coming by public enterprises, it says that about 1000 non financial public enterprises in India of which 300 are owned by the central government are heavily dependent on government budgets. As a first step in the implementation of the Rangarajan Committee report it is investing up to 5 per cent of equity in public enterprises in areas still reserved for public investment of over 74 per cent and other areas should be implemented immediately. It advises a pragmatic approach for a rapid economic growth. It also refers to the warning in the World Development Report on private capital flows where it is against the indiscriminate use of guarantees to the private foreign investment. These can take various forms from ensuring contractual compliance to extending the term maturing for guaranteeing the rate of return. Guarantees could end nearly perpetuating the existing inefficiency in infrastructure and so it cautions against government giving such guarantee. It also points out that the rapidly growing urbanisation coupled with economic growth would be increasing pressure on the country's air, water and land resources. It points out that the energy subsidies encourage waste of resources. The World Bank expects a cumulative inflow of direct and portfolio investment of $12 billion between 1991, 1992 and 1993/94. This projection has been exceeded with FDI showing an increase of $600 million, because unlike multinational it is a long term debt. It is important that there should be simple procedures and single window clearance to promote further the foreign investor's desire to invest in India.

A 12 years study of inter state per capita income ending 1992-93 based on their SDP computation shows that inter state disparities which stood at 2.88 during the VI Plan rose to 2.97 during the VII Plan before widening to 3.29 in the early 1990s. Punjab tops the states with its average per capita income followed by Goa. Other high per capita income states were Haryana, Maharashtra, Gujarat and Karnataka. Further the government informed the Rajya Sabha in June that total amount of external debt including NRI deposits and dividends debt amounted to over $90,000 million as on September 1993 which gives a per capita debt of $102. With regard to raising funds through euro issues the government states that the most cost effective route to financing the expansion plans of public sector units like VSNL and MTNL is through the raising of Euro issues. Even if VSNL had sold its equity at the best over Rs.1100 in May last, the funds so mobilised would have cost the company less within half percent per annum, in contrast to foreign lease finances which costs over 10 per cent and domestic lease finances which costs more than 17 per cent per annum. This route has helped because share prices in India have risen since by over 15 per cent the VSNL deferred its offering. Most of the Indian GDRs are now trading at higher prices so that this is the right time to raise funds through the euro issues. Other events to note are the discovery of 1.05 lakh cubic feet of gas by ONGC at Kaachar which is to be used for two gas turbine projects. The other rather tragic event is the sugar scandal were the free market has not been functioning because it is full of imperfection and state intervention even at the highest level has been required even for selling sugar. This debacle follows a six year international cycle forecasting that there would be a sugar shortage in India this year which was recorded in government document but has been unheeded. The alarm bell was sounded in December leading to the decision to import sugar to augment sugar stocks. At this point the finance ministry felt that the state could not afford to bear the additional burden of the sugar subsidy and thought that the hidden hand of the market would bring about greater imports by the private sector. Despite the fair amount of sugar being imported and sold at prices which resulted in windfall profit to the importers, the great quantities of sugar imports contracted from the international market at high prices went along with the hope that they can be sold at even higher prices. Suddenly and mysteriously the imports ceased and the sugar shortage was further accentuated. What has happened to market friendliness? why is it that the placing of sugar on OGL proved to be ineffective? why did the private trade not import adequate quantities despite prospects of substantial margins? why did such imports cease suddenly? how is it that the public sector which was to set up to protect the people, particularly the poor, reduced to in activity? This background is being investigated by the public accounts committee of parliament which seems to be increasing the controversy over the sugar imports.

In an important step forward the Over the Counter Exchange of India (OTECI) is launching an index to track the movement of listed stocks, it will also relax some of the market making stipulations for its sponsor members. Despite the controversy over the exchange decisions to trade in 40 actively traded scrips, it will actually increase the number of its permitted securities very shortly to cater to the growing demand from members. As promised in the budget, the government is starting its programme of the restructuring of Regional Rural Banks (RRBs). It has selected 49 RRBs which the Reserve Bank Committee has helped to identify for the proposed restructuring, including cleansing their balance sheet and infusion of fresh capital.

Agriculture

In June the major developments in the agricultural sector was the raising of the minimum support prices for paddy by Rs.30 per quintal, an increase of Rs.20 per quintal for coarse grains (jowar, bajra and ragi), an increase of Rs.60 per quintal for kharif pulses, Rs.70 per quintal for soya beans and Rs.100 per quintal for cotton. The Cabinet Committee on Economic Affairs which decided on these rises also decided on a 20 per cent rise in urea prices with the continuation of the subsidy of Rs.1000 per tonne on phosphatic and potassic fertilisers. This has called for a two fold reaction. The first is that it will counter the efforts of the Reserve Bank and finance ministry to bring down the inflation rate now hovering around 11 per cent. On the other hand the centre's document on integrated crop development programme states that the current agricultural prices including the farm prices have led to stagnation and yields specially in cereals. The green revolution is over but in its wake fertile soils have turned saline or alkaline and croppers

have become yield resistant, of all which add upto stagnant yield. In the context of the substantial hike in procurement and minimum support prices for the kharif season, administered pricing should be free of populist influences and not keep raising cereal prices season after season. The X Finance Commission which will be recommending devolution of resources for the Five Year period will not be able to counter the steadily rising inflation rate unless the pricing decisions are not made dependent on such factors as the coming election etc. The agriculture ministry is cautiously optimistic over the prospects of the kharif crops because of the timely rains and the sowings been on schedule. However much will depend on how well distributed the rains are this year and there is no break in it as in the past year.

In another area, the centre reports allocation of Rs.25 lakhs for all India coordinated research projects on under utilised crops for the current financial year. This should make up to some extent the foreign resources available for the research project and give it a boost. Further, the union government states that it has decided to set up the Small Farmers Consortia in different states to help them add value to their produce and market them. This project which is now over two years old when operated will provide the small farmers with viable project formulation, surveys and studies and infrastructural support. Tamil Nadu, Orissa and Maharashtra have all financed certain projects in this area and are awaiting their approval by the small farmers agri business consortia (SFABC) which will be aided by RBI, NABARD and IDBI. For the current year ending in April 1994 sugar production at 6.35 lakh tonnes is lower by 57.4 per cent compared to the year ending April 1993, cumulative sugar production during the first two months of the current sugar season at 93.90 lakhs was lower by 8.8 per cent over the corresponding months of last year. Despatches during the period October 1993 to April 1994 at 68.31 lakh tonnes were 3.9 per cent lower than those of the corresponding period of the previous year. This data means that the sugar prices rise will be a long term one.

A disturbing element in the agricultural field is the World Bank's report on the declining growth of private investment in it over the years from 2.8 per cent per year in the 1970s to 1.9 per cent in the 90s. The bank has identified four constraints to account for this serious development 1) The decline in public investment in agriculture. 2) Implicit taxation of agriculture which lowers its profitability. 3) The current policy regime which discourages domestic agricultural trade and private investment. 4) A number of acts and orders on agriculture such as: a) universal licensing requirements for whole sale trade storage and processing, (b) movement restrictions requiring official permits to move for instance paddy out of Tamil Nadu and Andhra Pradesh, (e) cold storage restrictions, (d) ban on futures and forward trading on agricultural commodities, (e) public procurement through levies of rise and sugar. On top private investment in agro processing continues to depend on government licenses which needs review. Again reference is to be made to the Marine Products Exports Development Authority (MPEDA) which has commis-sioned a national agency, NEERI, to study the environmental aspects of aqua culture farms, the agency will also study the effects of salt water intrusion into surrounding areas, feed wastage and the need to set up buffer zone between acqua culture farms and agricultural areas. This decision is important because the number of acqua culture farms are rapidly increasing and is inviting foreign interests and calling for investment of many crores of rupees. All this is leading to some popular disquiet over the ecological affects of acqua culture development and its effects on the coastal poor.

In the area of agricultural research June reported 42 reports from various agri-cultural research stations and universities. These cover five reports on cereals, 7 on ground nuts and coconuts, II on vegetables, 7 on fruits, 4 on spices, 3 on forestry and five on animal husbandry. The wide spread of this effort might be noted, making its follow up by the farmers including animal husbandry farmers more important.

On plantation crops, the tea output for January to April shows a 11.74 per cent increase compared to the first four months of last year at 134 million kgs. This small rise is somewhat encouraging after the poor production recorded by the North Indian Gardens last year. The Planters Association of Tamil Nadu reports that a fall in exports and excess production have led to a crash in tea prices with the potential of a number of units closing down. This is particularly true of South Indian garden and small tea factories in the South. Following the declining tea prices and the absence of traditional buyers like Russia, the small tea growers were severely affected. In the area of coffee, the sudden and sharp rise in the price of coffee seed and coffee powder in June is the combined affect of international and domestic changes in the coffee trade policies. This is leading to a serious decline in the demand for coffee in the South which is its major consumer. But it is also pointed out that this rise is a reminder that the reforms in this industry will involve pain. The price increase is regarded as a long over due recovery in international prices, even though the domestic consumer has never been exposed to such a sharp price rise. The collapse of the International Coffee Organisation quota system and the Indian Coffee Boards using its monopoly to create an effective gross subsidy along with the introduction of FSQ means that the consumer who do not get the full benefit by international price collapse will now have to bear the full impact of price recovery. Given the Boards inability to ensure required pooling, any lowering of price might drive growers further from the Board. The question of a buffer stock being used to stabilise coffee prices is now raised and should be investigated. In the area of rubber, the Rubber Board reports that production in December 1993 rose by 10.7 per cent (57,000 tonnes) with the cumulative production of rubber during April/ December 1993 being 3.7 lakh tonnes which was a marginal increase over that of the previous year. The December rise equals the December demand but the cumulative consumption April/December shows a gap of 0.4 lakhs which may be further widened in view of two types of rubber products being now exempted from excise duty. In the area of cashew, the Tamil Nadu Agricultural University is undertaking an integrated cashew development programme with central aid of Rs.8 lakhs. This scheme would attemp to intensify increase of cashew varieties by soft wood grafting and to replace uneconomical plantations.

Industry

There are signs that industry is breaking out of its recession as the Quick Estimates of industrial production forecast a growth rate of 5.2 per cent during the close of the last financial year 1993-94 as reported in the government's Economic Survey. A quick estimate prepared by the industry ministry covered 24 selected industries accounting for 50 per cent of the group which CSO uses for its detailed index of industrial production. Among the industrial groups the automotive sector has recorded the highest output at around 23 per cent. The unorganised textile industry has also shown an important improvement with a growth of 22 per cent, while the mill output has fallen by about 6.5 per cent. The manufacturing sector which has the highest weightage in IIP remains subdued for most of 1993-94

but started picking up from December 1993. During much of February 1994 for which quick estimates are available, the sector grew by 7.4 per cent so that the growth during April/February was 2.9 per cent as compared to the previous year's 2.4 per cent. As per the use based classification of IIP, the February growth was all round except for consumer non durables. The consumer durables recorded a high 23.7 per cent as compared to the previous February followed by intermediate goods, 18.6 per cent, capital goods 5.1 per cent, basic goods 5.6 per cent, and consumer goods 2.5 per cent. The consumer non durables recorded a negative growth of -1.4 per cent. For the period April/February the growth was moderate at 0.7 per cent. This supports the CII study of 60 per cent of industry been optimistic that industrial growth will be more than 5 per cent in the near future. Of the 317 respondents, 26 per cent represented the manufacturers of machinery and machine tools and 21 per cent producers of electrical machinery, 66 per cent of respondents envisage increased expenditure on plant and machinery, while only 8 per cent apprehended the negative growth in the industrial output. An overwhelming majority of 72 per cent foresee a definite improvement in the export prospects within the next six months. The turn around in the results of 1100 companies that closed their account in March 1994 whose 30 per cent increase in aggregate sales supports this conclusion. Similarly the business exploitation survey of the NCAER shows that the corporate sector is in a up beat mood. The survey conducted during April/May from among 1500 companies with sales turn over of Rs.50-Rs.500 crores showed that the high growth of 21.1 per cent is expected in the capital goods sector followed by 20.1 per cent in basic goods sector, 20.6 per cent in consumer durables and 19 per cent in services. The council emphasises that the positive expectation of sales and production by the capital goods sector is an important indicator of industrial recovery. On the other hand, the Indian Express Survey reports that around 45 per cent of the companies which had declared their results showed signs of inefficiency as their expenditure increased faster than their sales. Of the remaining 55 per cent, almost 80 per cent appeared healthy only by increasing their operating profit margins on sales, while 57 per cent of the companies show a higher return on net worth, one third manage this by under providing for depreciation and reducing their interest liabilities. Only 50 per cent of the companies reduce their dependence on other income and 62 per cent registered a growth in earnings per share which were not genuine. On financing of the small scale sector, the sector's concern with the effects of the 1994-95 budget on reducing its excise duty exemption status is less important than the problem of credit availability and problems of finances it faces. It is on this that there should be concentrated action and attention. The small and medium companies are not demanding subsidies or other concessions, unlike large industry which have access to public equity, institutional finances, euro issues, banks and rights. In contrast the SSI sector have no recourse to any of the above. Small entrepreneurs spend literally half his time in running round the banks to meet their day to day requirements of funds, which suggests that rather than SIDBI an appropriate NGO and Chamber of Commerce might be allowed to be set up and administered to venture capital funds for SSIs. At the state level an ongoing system of coordination between banks and state level finances institutions is necessary. Above all the small sector is held up by poor and undeveloped infrastructure. In this connection an important development in the field is the government's decision to allow the setting up of export processing zone in private or joint sectors which will augment infrastructural facilities for exporters and to some extent modify the handicap of poor infrastructure that they suffer. The government reports that in contrast to its earlier indications net investment by Foreign Institutional Investors (FIIs) in the primary and secondary markets have shown a recovery in May 1994. Net aggregate investment by them crossed the $2 billion mark in June this year. This should be taken along with the clearance by the Cabinet Committee on foreign investments at the end of June for 5 proposals involving Rs.3157.25 crores. These projects include setting up a refinery at Pondicherry, a joint venture by modiform enterprise with Italian collaboration, along with Ashok Leyland to augment its foreign equity, joint venture between DCM Toyota and the Korean Daewo. However it is important that the contribution of MNCs and direct foreign investment should not be exaggerated, as being the means of pulling India out of recession. Infact, the credit for pulling the country out of the mess it in 1991 goes to the NRIs who count in millions, the Indian exporters who have explored new markets across the globe and the Indian companies who have topped over $2.5 billion from the euro market. Further over a third of the foreign capital inflow is being held in short term securities which is a characteristic of hot money. As noted earlier after two years of recession, the automobile industry of the country has registered a growth of 19 per cent in 1993-94 with a sale of 23 lakh vehicles. Over two lakh rural artisans in 162 districts of the country have so far been covered under the programme of "Supply of improved tool kits to rural artisans". During 1992-93, 99,774 artisans were covered in 61 districts and 73,860 tool kits to them. During 1993-94 it has proposed to supply kits to 1,29,000 artisans in 101 districts. About 1,08,724 artisans have been covered during the year and a sum of Rs.23.40 crores released. 5,00,000 artisans are proposed to be covered during the 8th Plan. The sugar industry represented by ISMA and the National Federation of Cooperative Sugar Factories has told the government in early June that it will supply sugar at the rate of Rs.140 per quintal and reiterated its earlier promise to supply 500 retail outlets. This action is rather heavily concentrated in Delhi and needs to be spread out in order to benefit also the states. The ministry of petroleum reports the over runs by 5 ONGC projects to the extent of Rs.5000 crores, vis a vis the original cost estimate. This is a set back. The Federation of BHEL executives Associations states that India's public sector engineering plant BHEL which has been securing many global tenders including those of the World Bank for setting up thermal power projects, is being prevented from offering bids for projects in India at a much lower rate than the selected multi national companies. This has been set forth in a memorandum to the prime minister and should be thoroughly and objectively examined and corrected.

The RBI Governor feels that there are clear signs of an industrial recovery and forecasts that the industrial growth rate in 1994-95 would be 6 to 7 per cent. He feels that the January growth rate of 7.3 per cent and February rate of 6.6 per cent is an index that key sectors of the economy are recovering. This might mean that India's GDP for the year would rise by atleast 5 per cent.

The World Bank calls on all South Asian countries to develop poverty eradication programmes since poverty in South Asia is very high and unless credible and sizable country based programmes for reducing it within a reasonable short time are adopted, stability of the socio, political, economic system will be exposed to a great deal of risk. It however states that the ideal of abolishing all poverty in South Asia is a "pipe dream" but suggests that the spread of education and cooperation with NGOs will lower poverty, the thrust of any poverty reduction programme being to enable the poor to climb out of poverty and stay out of it. Public assistance should be necessary only for the transitory poor and the chronic poor it concludes.

The Electronics Research and Development Centre (ERDC) reports that it has successfully designed and developed vector controlled high performance AC drives for industrial motor control applications. This will gradually substitute the current DC motor drives, and make for higher energy savings and efficiency.

India and China report that they have decided on joint exploration to identify specific areas both on shore and off shore for a joint venture in both countries in the oil field. This is an important step for both countries.

Four Tamil Nadu leather projects have been included by the programme management committee of the National Leather Development programme. This will help the leather industries, small and tiny sectors, with a total aid budget of Rs.1.40 crores.

Foreign Trade

The data on export growth is not very clear, on the one hand official statistics report that export growth during April 1994 has been 12.61 per cent, well below the annual growth target of 25 per cent and poor comparison with April 1993 when exports were 20 per cent. Similarly the Indian Express states that the commerce ministry's claim of having achieved the growth rate of 20.37 per cent in exports during 1993-94 ignores the fact that this is been possible only because of the lower base of 3.8 per cent in 1992-93. Does this mean that the government's claim of state export growth is baseless. On the other hand the ministry claims that the country has achieved the export target of 20.4 per cent increase in 1993-94 and is expected to achieve the target of 25 per cent for 1993-94. The World Bank projects India's exports at around 12 per cent in 1993-94 and projects its increase by 11-12 per cent in the next three years. These conflicting statements and figures are not only confusing but as they relate to important sector of the economy need to be corrected. The Federation of Indian Export Organisation (FIEO) suggests for South India focus on seven major export items - developing new thrust areas based on the region's strength, building the infrastructure for international trade forces, declaring free major southern sea ports. Against the country's exports amounting to Rs.140,817 crores during 1993-94, southern regions share was 21.31 per cent, about Rs.69.500 crores. The exports of the region grew by 37 per cent in rupee terms and can be further accelerated by opening up new areas such as flori culture, food processing, soft ware and tourism. The ministry reports that soft ware exports have risen by 28.22 per cent to Rs.2481 crores in 1993-94. This good performance of the soft ware industry needs to be further developed in the future years. In the area of spices exports 1993-94 reached an all time high of 38 per cent in terms of quantity and 32 per cent in terms of value compared to the previous year. Ministry reports that imports for the month of April 1994 have shown a growth rate of 13.52 per cent while exports registered a growth of 12.61 per cent. This gives hope that increase of imports will further help develop industrial growth. The trade balance for April 1994 is positive at $29.52 million which is however lower than the previous year's April balance of $40.47 million. The ministry reports horticulture products worth Rs.1629.55 crores were exported from April 1993 to January 1994 comprising spices (already referred to), cashew, fruits and vegetables.

India's competitive status in cotton garment exports is facing a serious problem due to a sharp rise in yarn prices as well as the unplanned export of cotton yarn. The result is that cotton garment exports are beginning to show a declining trend. The price to our customers in Japan, France, Italy and other European countries are higher than what other South East Asian countries offer.

RBI announces that India's foreign exchange reserves (including Gold and SDRs) have crossed the 16 billion mark by mid June. This has led the finance ministry to consult with the RBI on how the reserves management policy that recognises the need for maximising the advantages of carrying a foreign exchange reserve of this magnitude can be evolved.

Loans and Aid

In the area of aid and loans in June, it was announced that the Aid India Consortium which is been in existence since 1958 to extend loans and grants to India is being transformed from July this year and will be called India Development Forum (IDE). This is important and should be welcomed because the Aid Consortia is basically a development instrumentality and it also means the scenario caused by the dramatic transformation on the Balance of Payment front. The India Development Forum which met for two days at the end of June agreed to commit $4 billion in the forum of International Development Assitance (IDA) to be channelled into areas like primary education, family planning, nutrition, endemic disease control and rural works programme. The forum also expressed support for India's enviroment action programme including issues such as the National Clearing House for clean technologies. In view of the remarkable improvement in India's external accounts there will be no need for fast disbursement assistance and lending will be examined rather carefully and in a limited way. This was also the Indian delegation position which informed the Forum that given the fiscal conditions India should, it would like to limit its project borrowing to the level of actual disbursements to avoid undisbursed balances growing again. On procurement the government informed the forum that it has opened a high level task force to eliminate the delays in awarding contracts and developing optimum procurement compatible with the international standards. One of the important developments in this meeting of the forum was the encouraging response from the private sector. The forum which has been restructured to enable an interaction not only with the World Bank and the governments (bilaterally), but also with merchant bankers, financial institutions and the investor community from the US.UK, Japan, Germany, Canada, Switzerland, Sweden and France and the Presidents of leading Chambers. On the Indian side the private sector will be fully represented by RP Goenkar, Ratan Tata, Aditya Birla, J Godrej and M Ambani. Indian financial institutions were represented by the Chairman of ICICI, IDBI, SBI, Unit Trust, SEBI. This operation is conducted in two parts, Part I which operates on June 30 brought together the representatives of the bi-lateral and multi lateral government aid agencies for discussions of the Indian government's plans, programmes and assistance priorities. Part II was scheduled for July 1, focussed on opportunities and challenges for sustained partnership of the private sector in India's development. On individual loans World Bank is extending a credit of $143 million for controlling industrial pollution control, and it will be matched by $187 million from the centre and the states. The World Bank also announced that with the settlement of its differences with the National Thermal Power Corporation it is resuming lending to the Corporation. The first tranche of $400 million out of a $1.2 billion has been made available to it. The World Bank also has agreed to sanction Rs.86 crores for 31 new urban development projects in Tamil Nadu. This is on top of the Rs.160 crores that it has sanctioned for new urban development in Madras, Madurai, Coimbatore, Tiruchy, Tirunelveli, Tiruppur, Salem, Erode and Vellore. ADB has made a loan of $60 million to the Indian Private Sector financial services industry for funding lease finances to imported plant and machinery. ADB also announces that it is examining the request of Tamil Nadu Cement Corporation for a loan of Rs.125 crores. The International Finance Corporation has made a loan of $118 million

to GBK industries to specialise own, and operate a 235 MW plant in Andhra Pradesh. Germany reports opening a "Single Window for credit to India during the 1994 financial year. This new financing mechanism will combine the normal financing cooperation funds from the German government budget with capital market funds on conditions which are more favourable than commercial links. The official of the World Bank and ADB advises that India might have some lessons to learn from China involving the provision of clear signals, implementation of reforms announced of the Ex-Imp policy in July 1991 and the open economic zones. Following China's experience India might evaluate the possibilities of creating special economic zones in Bombay, Cochin, Bangalore and Madras to begin with. The World Bank in the World Development Report reiterates its advise to India and all developing countries against offering government guarantees to foreign investors which might increase the government's exposure to contigent liabilities. It makes the point that such government guarantee are not necessary for financing projects as seen in FDI and portfolio investment. The World Bank in a report released at the end of July states that Asian countries are losing billions of dollars in infrastructure due to its wastage and inefficiency. This is attributed to politics and lack of experience in dealing with international lending agencies. The Bank also blame poor pricing policies for services and inefficiency that costs heavily in subsidies and lost incomes.

Human Resources Development

Education

UNDP's Human Development Report 1994 while stressing that human capital is a basic instrument of development, regretfully points out that as the low ranking of the country shows India has not developed its capital. The report warns against seeing human beings as merely as a means of production and material prosperity which is the perversion of the needs and means. The Report rejecting the economists view of human capital as a means to provide it with wrath tend to emphasise that it is quality of life alone that matters, that is to say the greater nation the greater the human choices that go far beyond economic well being. For millions in India and the developing world, the question of choice is several decades away except for the fortunate few who can make choices. The emigration of skilled human personnel from India and the Third World is a loss of human capital. It has suggested that a simple way out of this handicap would be for the nation exporting talent to impose a stiff fee on the importing nation to recoup the cost of public expenditure involved in educating skilled personnel. This is similar to the US and France attempt at Marrakesh to impose social obligation claims in the new GATT treaty. In the area of early child hood education its importance to the total development of children is stressed in a Unicef aided appraisal, the result of which is the increase of training and support to personnel engaged in such education, besides undertaking all the research and development of the curriculum. The UGC's recent efforts to introduce vocational courses in selected colleges from this academic year gives a new turn to vocational courses; job linked programmes for the student completing higher secondary in the vocational stream have been identified and UGC is offering assistance to such courses modestly in 70 colleges to start with. What invests it with real back up strength is the built in component relating to on the job training during the vacations period with the support of local employing establishment on the basis of a MOU signed with the college. The UGC has identified 13 courses for vocationalising at the first degree leve for arts, humanities and social sciences. These cover a broad spectrum of archaeology, museumology, office management and secretaryship, tourism and travel management, computer applications, bio technology, seri culture, still photographs and environmental and water management. This should be paralleled by development at the higher secondary level of both its quantitative expansion and qualitative improvement. There are two other developments in the educational scene particularly in Tamil Nadu to be noted. One is because of the struggle for ensuring that the reservation of the 69 per cent is maintained for the BCs, OBCs, SCs, and STs as against the Supreme Court's ruling that it cannot exceed 50. There are continued discussions and negotiations between the centre and the state authorities which is causing considerable confusion over the admission of students for the coming academic year. The closing date for admissions has been postponed from July 4 to July 15 in the hope that the reservation issue can be settled by then which is very doubtful. The other development is that the Chancellor has rejected the recommendation made to him for the Vice Chancellorship of Mother Teresa Women's University, Kodaikanal and has ordered the constitution of a new search committee. The present Vice Chancellor has been asked to continue till a new Vice Chancellor takes over. The Chancellor has issued a set of guidelines to the universities to meet this kind of situation, in which Madras University is also caught. In the future, the names of the nominee of the senate and syndicate to serve on the search panel and the nominee of the Chancellor should be intimated three months prior to the term of expiry of the office of the Vice Chancellor. The availability of the persons recommended has also to be checked prior to their recommendation. The search committee should make its recommendations at least within a month of its constitution and should obtain consent letters from the persons recommended for the post of Vice Chancellor. The Vice Chancellor designate should visit two or three universities before asuming office to "have a feel of the university". (This seem somewhat superfluous as all the persons are products of a university.) This expen-diture would be met by the university to which he is being appointed. The Chancellor has also issued guidelines on the holding of the economy vocation, and the award of honorary degrees and the inviting of dignitaries to deliver the convocation address. The universities must obtain the necessary recommendation from the competent authorities for the award of honorary degrees three months prior to the holding of the convocation, and submit the list to the Chancellor who would select from amongst them or other eminent persons, the person to receive a honorary degree. The Vice Chancellor should submit to the Chancellor three months before the annual convocation, the panel of three eminent persons names for the Chancellor to chose as the chief guest. The order of functioning the convocation should follow the recommendations of the VC Kulandaiswamy committee report which will avoid convocations being held without adherence to these procedures. It is to be regretted that the Chancellor had to intervene and issue these guidelines and regulation which makes the functioning of the university non autonomous complex.

In the area of science a really interesting development is that the National Research Development Corporation is taking up licensing and commercial exploitation by industries both in India and abroad of technologies, processing, and know how development in India and other countries with the help of the Canadian IDRC. This is important because technology will now be really taking off as a support to the country's industrial growth.

Employment

An ILO Committee monitoring compliance with the labour laws states that despite repeated promises by the Indian government to eliminate bonded labour, there are about 55 million child labourers in India, many of

whom work about 12 hours a day in the construction industry, brick kilns, carpet weaving and agriculture. Under the bonded system, children can be sold or trapped into life long employment and forced to perform heavy work for practically no wages. An Act of Parliament abolishing bonded labour was adopted in 1976, but there have been a very few prosecution against the offenders since then. India has been singled out because of the very deep concern that ILO and Indian government express in this lack of progress in tackling bonded labour.

International

Poverty

UNDP in its annual Human Development Report 1994 referred to earlier has accused the five permanent members of the Security Council of "reprehensible behaviour" for making money out of the third world misery. It says that arms business is one of the most reprehensible sectors of the international trade, as arms traders have no computation about making profits out of poverty. But there is also a responsibility on the third world countries which are willing to be exploited. It also points out that the developing countries are receiving $60 billion in foreign aid each year but they are paying back $100 billion in different services to the lending countries. The developing countries lose another $120 billion in potential export earnings. This Fifth Human Development Report of UNDP (1994) sets forth where states stand in human development, for this it uses a Human Development Index (HDI) which is refined every year. HDI represents a radical departure from the traditional estimates of GDP/GNP measurements. It accepts that higher incomes do not necessarily mean better health or education and that to an extent better health and education can be achieved with low individual incomes. UNDPs HDI is the first approximation of measuring human development in the countries by fsincomes, health standards and educational status. Applying this yardstick to India it states that there are ten states with low human development and seven with medium human development. In regard to inter country comparisons which as noted earlier places India in a very low rank below Bangladesh, the problem of one aspect of health that is called attention to, needs to be taken seriously. Birth rates across the country are falling but the death rates are no longer falling, infact the death rate in both rural and urban areas appears to be on the rise in 1990s. The report states that this could well be an indication of a worsening health and nutritional situation in the country.

World Economy

The World Bank predicts that Asian Developing countries will achieve a GDP growth rate of 6.5 per cent by the end of the century. This conclusion emanate from the latest issue of its journal (co-sponsored with IMF) Finance and Development, wher it states that the East Asian Miracl might be spreading to South Asia. It refers to Bangladesh, India, Pakistan an Sri Lanka and their reforms that are dismantling restrictions on domestic and foreign private investment, removing quantitative trade restrictions, and reducing the level of dispersion of textiles. Pointing to the encouraging response to these reforms, it refers to the doubling of FDI to Pakistan and Sri Lanka and a 20 per cent increase to India in the 90s. East Asia will have to address itself to its infrastructure bottlenecks, giving priority to public sector enterprises reform and foster private sector development and competition. The agenda for South Asia is driven by the need to achieve sustainable growth and reduce poverty. Talks of reform in several of the South Asian countries is still in the earlier phase and needs to be pursued. Contigent on the successful completion of the current reform, export growth is expected to improve and boost growth in the later 90s to 5 to 6 per cent from the present 3 to 4 per cent.

Looking at the first quarter of the year January/March the Fund sees an increase in the annual rate of 2.4 per cent in 16 industrial countries compared to 2.8 per cent in 1993. The merger of East and West Germany has brought down Germany's GDP increase from 8.7 per cent last year to 3.3 per cent. Japan's growth rate in February was only 1.1 per cent. Britain's rate speeded up from 1.6 per cent to 2.4 per cent and Spain from 4.6 per cent to 5 per cent. For all the industrial countries put together, the rate of price increase has been falling steadily through the 90s from the 5.2 per cent at the start. The picture in poorer countries is bleaker with their higher rates of inflation moving from 43 per cent in 1991 to 72 per cent 1994. Brazil's annual rate of inflation in March rose to 393.1 per cent which was a 40 per cent increase in a year. Africa which is world's poorest continent showed a lower rate of increase from 46 per cent in 1992 to 35 per cent in 1993 with South Africa leading the way. Asia's price increase was an annual 8 per cent last December. This means that inflation was down in developed countries but rising in the developing countries.

The Bank for International Settlement (BIS) states that while the Uruguay round agreement under GATT could reverse the trends towards managed trade, almost one fifth of the total merchandise imports of industrial countries are covered by non tariff measures. It refers to US reviving super 301 in early March 1994, through which it can slap sanctions on countries which place barriers on its imports. Regarding GATT, it says that though there were undoubted achievements, much was left undone, such as the rules on the subsidies in high tech industries, anti dumping producers etc. Also in many service sectors the agreement mostly cover only the basic principles, with the actual liberalisation commitments being left to future negotiations. However the multilateral reduction of trade barriers envisaged in the Uruguay round will help to counter trade diversification effects of the regional trade pacts which direct demand away from more efficient suppliers, outside the pact's region.

The World Bank's World Development Report 1994 which was referred to earlier concentrates on infrastructure for development. It states that infrastructure can bring major benefits in economic growth, poverty alleviation, and environmental sustainability but only when it provides services that respond to effective demand efficiently. Service is the goal and measure of developmental infrastructure, major investments have been made in infrastructure's stocks but in too many developing countries these assets are not generating the quantity or the quality of services demanded. The high cost of this waste is foregone economic growth and lost opportunities for poverty reduction. The causes of past poor performance and the source of future improved performance lie in the incentives offered to the private sectors. To ensure efficient response of delivery of infrastructure services, incentives need to be changed through the application of three instruments - commerce management, computation and state's fuller involvement. Technological innovation and experiments with alternative ways of providing infrastructure involve the following principles for reform: a) manage infrastructure like the business not as bureaucracy, b) introduce computation directly if feasible and indirectly if not, c) give users and other stake holders a strong voice and real responsibility, d) public private partnerships in financing have promises, e) governments will have a continuing active role in infrastructure. It points out that investment in infrastructure which is $200 billion annually in the developing countries

can produce major benefits in economic growth if providers are given the right incentives. More efficient, more accessible and less costly infrastructure services are essential for more poverty reduction. Expanding all infrastructure coverage in low, middle and high income economies in recent decades are as follows :

Sectors	Low income economies: Coverage 1975	Coverage 1990	Annual percentage increase	Middle income economies: Coverage 1975	Coverage 1990	Annual percentage increase	High Income economies coverage 1990
Power generating capacity (thousand kilowatts per million persons)	41	53	1.6	175	373	4.7	2,100
Telecommunications (main lines per thousand per persons)	3	6	3.2	33	81	5.6	442
Sanitation (percentageof population with access)	23	42	3.8	44	68	2.7	95+
Paved roads (kilometres per million persons)	308	396	1.6	1,150	1,335	0.9	10,106
Water (percentage of population with acess)	40	62	2.7	54	74	2.0	95+

Note : Percentage increases are compound growth rates.

Source : Appendix A.1 and A.2

The World Bank in its statement to the UN Economic and Social Council points out that the developing countries growth will accelerate from 3.5 per cent in the last 15 years to 5 per cent in the next decade. Similarly the IMF chief in his statement to the UN Economic and Social Council theorised on issues related to international economic cooperation and development in the 21st century. Focussing on the cash crunch faced by many developing countries, he proposed reactivation of the instrument of SDRs to enable these countries to meet their developmental needs. This would reverse the halting of SDRS allocation since 1979.

Thus while much has been achieved in recent decades in expanding infrastructure many individuals in developing countries lack access to basic utilities, such as 2 billion who are without electric power, 2 billion lack adequate sanitation and have no access to clean water. To cope with these challenges, there needs to be more investment and a sharp reduction in its inefficiency and wastes. Misallocation of investment in infrastructure in many countries has created inappropriate services while the demand of users are unmet even when they are willing and able to pay. Overstaffing is a common problem which needs to be dealt with. Reforms of legal and financial institutions along with development of capital markets must accompany the changes suggested. The report reviews current financing patterns and analyse new approaches which characterise the growing private investment in infrastructure. It admits that implementing the reforms will not be easy but the potential gains are significant in reducing subsidies, making possible technical gains to users. Costs currently not recovered from users in just three sectors - power, water and railways - are estimated at $123 billion annually which is nearly 10 per cent of the total government revenue in developing countries. Raising the efficiency from the current levels to attainable best practice levels, would save the providers an estimated $35 billion a year. It states that the radical economical reform programme launched by India three years ago has not gone far enough to lure private investment in key infrastructural sectors and urges a further expansion and some speed in the reforms.

A 1994 Unicef report has questions about the World Economy. The efficacy of the public distribution system and the government's nutrition programme are questioned in view of the fact that two thirds of the children in India under the age of five for instance, are still mal nourished. The report which is second in the Progress of Nations series shows that India is the second only to Bangladesh in this regard where 66 per cent of children are mal nourished. All other countries are facing a much lower (40 per cent) problem. The report also points out that India has the largest number of pregnant women suffering from anemia or lack of hemoglobin (83 per cent). The public distribution system, it says, needs to be better organised as almost half of these under nourished were so because of extreme poverty, more needs to be made available to the needy, the same being the case with the Integrated Child Development Programme where all school going children are given nutritional supplement. The secret of Tamil Nadu's success in this regard is because it caters only to children upto the age of 30 months who are the really needy group. Hence a larger population is covered within this limit.

The most important intervention suggested is to increase awareness of breast milk supplement after the age of 4 to 5 months.

Convention on Biological Diversity

40 environment ministers and 11 NGOs at the inter governmental committee of the convention on biological diversity held in Nairobi at the end of June accused the World Bank of trying to raise control of germplasma samples in various international agricultural research centres and so scuttle the ongoing talks to establish inter governmental control over these collections. The NGOs claim that the Bank was trying to take control of the consultative group on "international agricultural research" and its germplasma collections. This has become a major issue starting with the bio diversity convention in Nairobi and should be seriously examined by the Bank and its associates.

International Convention on dry land

An international legal agreement to curb the degradation of dry land world wide was concluded in Paris on June 20 after two weeks of negotiations. 100 countries including India reached the last minute compromise of the issue of final arrangements which had dominated discussions without actual commitment. There is an appeal to the developed countries to mobilise substantial financial resources for funding anti dissertification programme. This convention called for by the 1992 World Summit at Rio will be open for signature at a special high level meeting of government ministers in Paris in September 1994. It will be enforced after ratification by 50 countries and will safeguard the livelihood over 900 million people in some 10 countries including India who are threatened by the degradation of fragile lands. This is the problem of dissertification.

World military expenditure

A recently published IMF working paper states that world military expenditure as a ratio of GDP is over 20 per cent or a little less than 1 per cent of world GDP between 1985 and 1990. The paper says that this negative trend is likely to have a considerable and long term impact on the world economy, it has ambiguous short run effects on developing countries which can realise substantial long term economic gains by cutting military expenditures. Global spending on military equipment accounted for more than 55 per cent of the total, which was 3.7 per cent of their combined GDP in 1987-88. The developing countries spent $135 billion annually on military goods during 1987-89 (4.5 per cent) on their combined GDP and about 2 per cent of world trade. The welfare in developing countries rose by 46 per cent in 1992 GDP, compared to a decline in the present value of military spending. The size of welfare gains that developing countries derive from cutting military spending will depend on the amount cut of their uses. Overall IMF states that there are substantial long term economic gains to developing countries from cutting military expenditure which would give an immediate boost to civilian activity commensurate with the cut.

Other Items

Tamil Nadu State Council for Science and Technology

The general body meeting of the Tamil Nadu State Council for Science and Technology was held in mid June in MIDS, The Chairman, the minister of education, was sent by the Chief Minister urgently to Delhi to attend a meeting there. The general body reviewed the ongoing programme and suggested certain changes in its review and operations. It also approved the new programme for the current year.

Seminar on SSI

The Chemical Industry Society seminar on small scale industries which was held also during mid June concentrated on some of the serious disadvantages under which the small scale units are functioning. The most important is the poor state of infrastructure. Further, the timely availability of credit for their working capital funds was also stressed. In order to improve their productivity they need science and technology inputs which they cannot afford as large units can. However, the number of government R&D units - under CSIR, ICAR, ICMR, AEC, DRDO etc. need to be scouted to real S&T inputs for the small scale sector.

ICTT

There was a meeting of the Governing Council of the Information Centre for Technology Transfer - a group functioning under the Tamil Nadu State Council for Science and Technology. The meeting was attended by scientists from the universities of Madras, Tiruchy, Coimbatore, Madurai, Annamalai Nagar and Karaikudi and a number of industrialists. It reviewed the current large industry service programme under way in the universities and suggested that from the next meeting a similar itinerary of what the industries are doing in R&D should be reported. The ICTT newsletter was reviewed and noted with satisfaction by industrialists and university representatives. It decided that a meeting of the science and arts universities and colleges like Madras University, Mother Teresa University, Presidency College, PSG Arts and Science college etc should be called during the year to decide on the content of the work of these institutions in their relationship to industry.

Tamil Nadu State Council for Higher Education

There was the quarterly meeting of the State Council for Higher Education which set up a committee to examine the facilities needed particularly for teachers in Kodaikanal for the Mother Teresa University. It also approved the recommendations of the advisory board of Vice Chancellors on semesterisation and continuous assessment, calling on the Vice Chancellor of Madurai Kamaraj University to reconsider his negative statement on semesterisation. To promote mobility between unviersities, the Council set up a committee headed by Dr.Rajammal Devadoss. This really would be leading to introducing a system of credits which alone will enable students to move from one university to another. The question of starting a technical unviersity was referred to the advisory board of vice chancellors on which two vice chancellors - Anna University and Alagappa University deal with technical disciplines.

India International Centre Panel

The June panel dealt with the questions of industrialisation and industrial policy. There was a good introduction of the problems facing the economy in this field by the Vice Chancellor of Jawaharlal Nehru University. What was lacking in this discussion was the presentation of the group of economists who are critical of the economic reforms programme including industrial reforms.

Parliamentary Committee on Industrialisation

The Chairman of MIDS was requested to appear before the Parliamentary Committee on industrialisation to give evidence on two issues that it was concerned with. One was the question of regional imbalances on which it was agreed that there should be a detaild local survey of the physical and human resources preferably by the local authority like Panchayati Raj. But the other issue examined was a comparison of the public and private sector where it was pointed out that if the loss making private sector enterprises which are not really within the competence of the founding legislation on PSE was set aside then in the matter of production, sales, costs and profits, there was not a great deal of difference between the two groups. There was also somewhat brief discussion on subsidies and the effects of industrial growth on employment.

BBC

The BBC is undertaking a world round up of the views of the governments and economists on the occasion of the 50th anniversary of the Brettonwoods institutions - World Bank and IMF. In an one hour interview with both the Chairman of MIDS and Lamont Professor from Harvard Aartiya Sen, there was a review of the role of the World Bank and IMF over the last four decades since India's independence. The pluses and minues were clearly set forth in this round up, particularly the role of the two agencies today in the period of economic reforms in India was discussed at some length.

First Lakdawalla Memorial Lecture

The first Lakdawalla Memorial Lecture arranged by the Institute of Social Sciences, New Delhi was held at the end of June in FICCI auditorium in New Delhi. The minister of Human Resources Development, Mr Arjun Singh, was the Chief Guest who spoke of the problems faced by him and the country in moving forward a little more rapidly in unviersalising primary education and liquidating adult illiteracy. The

Lakdawalla Memorail lecture was delivered by Prof. Amartiya Sen from Harvard who concentrated very heavily on human resources development years and showed that though India had achieved much during the 40 eyars of its indpendence, it still lagged in education and public health care very much behind compared other Asia countries like China, Indonesia, South Korea and in the case of women's literacy, the country's of tropical Africa. The theme of the lecture was markets, on which it was agreed that there should not be any more waste of time on the pro-anti debate, social opportunities on which the lecture was heavily concentrated (education and health) and economic development where the foundation was the social opportunities efforts.

First Article

The paper for the July Seminar on the 'Discussion introduced on the Summary of the NIPFP's Report on Value Added Taxes' appears as the first article.

Second Article

A statement of the Twenty-fourth Interdisciplinary Research Methodology workshop held at ICSSR, SRC, Hyderabad appears as the second article.

Book Review

The Review of the book "New Trends in Indian Industry" appears in the book review section.

MIDS News

Mr.S. Guhan gave a talk on Cauvery Irrigation to Karaikal at Karaikal Agriculturists Association, Karaikal on July 31, 1994.

Dr.S. Neelakantan participated as a discussant on the paper presented by Dr.Muthu Chidambaram, University of Regina, Canada on "The Ethical, Moral and Legal Issues connected with genetic testing for job screening" at the Department of Econometrics, University of Madras on Monday, August 1, 1994. He also participated and was a discussant on the topic "the perspective of weaker sections in the seminar on "4/5ths of Indian Peoples Economy" sponsored by CReNIEO, Madras held on August 6-7, 1994.

Dr. Nirmal Sengupta attended the Annual Conference of Association of Geography Teachers of India and gave a lecture on Water Management at Madras on July 30, 1994.

Dr. Paul P Appasamy attended a workshop on National Resource Accounting and served as a member for Panel Discussion held at Tata Energy Research Institute, New Delhi from July 25-26, 1994.

Mr.S.Subramanian visited the Centre for Development Economics at the Delhi School of Economics from July 20-30, 1994 and presented a paper jointly with D.Jayaraj and Prasanta Patnaik on "Measuring Discrimination" at Delhi School of Economics on July 28, 1994.

Dr. I.G. Patel, Former Governor of Reserve Bank of India, visited the Institute on August 12, 1994.

July Seminar

Reform of Domestic Trade Taxes in India : Issues and Options

Summary

1 Introduction

DOMESTIC trade taxes in India are in urgent need of reform. The system that is operating at present is archaic, irrational and complex - according to knowledgeable experts, the most complex in the world. It interferes with the free play of market forces and competition, causes economic distortions, and entails high costs of compliance and administration. The rapid economic growth that is occurring in many Asian countries will bypass India, if, among others, its antiquated system of domestic trade taxes is not reformed.

2 Costs of the Present System

The manner in which the taxes on domestic production and trade are currently levied and administered causes:

* Loss of output growth and welfare;
* Inefficiency and high cost in industry and trade;
* Impediments to the free flow of trade within the country and growth of the common market that the Indian Union offers;
* Inter-jurisdictional conflicts;
* Handicap for exports; and
* High costs of compliance and enforcement.

2.1 Basic problems

The costs enumerated above stem essentially from the following features of the present system.

* Levy of taxes at the manufacturer level/ first sale point;
* Exclusion of services from the tax base;
* Taxation of inputs and capital goods;
* High level and multiplicity of rates;
* Taxation of inter-State sale and lack of harmony in States sales tax systems;
* Complex laws and archaic administration.

2.1.1 Taxation at manufacturer level/ first sale point

Under the Constitution, the bases of excise duties and sales taxes, the two principal components of the domestic trade taxes, are distinctly defined - production of goods in the case of excise, and sale or purchase for the sales taxes. In practice, the two bases have come to overlap. Because of problems in administering taxes at the retail level, most States have moved the point of levy of their sales taxes to the first point of sale, that is, on manufacturers and importers of goods in their respective jurisdictions.

Taxation at the manufacturer level or at the first point of sale encounters intractable problems as the term "manufacturing" is not easy to define. Goods may undergo a change of form due to a variety of processing activities performed after their initial production or manufacturing (e.g., griding, packaging, blending). There are many processes which constiute only"marginal manufacturing". Attempts to bring them all under manufacturing" for excise taxation have given rise to disputes and uncertainty. Clarifications have been provided in the law in the form of section chapter notes to contain the areas of dispute but the uncertainty persists.

Determination of manufacturing value also is equally troublesome. Manufacturers often sell their products through their own distributors or through wholesalers and sometimes directly to the consumers. In determining the assessable value at the manufacturer level adjustments have to be made for legitimate trade margins at different trade levels. Sales between related entities also need careful examination. These problems are aggravated by the exclusion of services from the base.

Taxation of sales at the first point, besides encountering all these problems, increases the risk to revenue in that the entire tax burden is concentrated at one state. The rates of tax also have to be higher to raise a given amount of revenue than if the base was wider. Higher rates induce evasion and thus call for stringent anti-evasion measures which are not very easy to enforce.

2.1.2 Exclusion of services

The definition of the powers of excise taxation as well as sales tax refers only to "goods" without any mention of services. As a result, neither Central excise nor sales tax can be applied to services. The distinction implicitly drawn in the Constitution between goods and services is not in accord with the realities of modern economies. Services are often an integral part of manufacturing and trade, and the line between goods and services is getting increasingly blurred (e.g., in the manufacture of computer software, desk-top publishing, developing and printing of photographs, photocopying, etc.) Manufacturers may provide a wide variety of services for the goods manufactured by them such as training, installation and maintenance. Taking advantage of the definitional ambiguities and the exclusion of services, manufacturers have tried to minimise the assessable value of their products by making sales at artificially low values to a related distributor/wholesaler and by claiming discounts for the so-called "post-manufacturing services" (e.g. transportation, installation and warranty services).

Similar problems are encountered in first-point levy of sales taxes too. Apart from technical problems, taxation of goods only at manufacturer/first-point level, that is, on a base that does not include distribution margins and associated services, tends to distort producer and consumer choices. Items which carry large trade margins (as is usually the case with luxury products) are favoured over essential consumer goods. It also provides an incentive for producers to push as many trading functions forward as possible to keep down the assessable value of their products. Exclusion of services from the base also creates a bias against goods and in favour of services (which are usually consumed more by the rich).

2.1.3 Taxation of inputs and capital goods

Left with a base constrained by exclusion of trade margins and services and faced with mounting pressures for revenue, both the Centre and the States have gone on to extend the coverage of their excises and sales taxes to include inputs and capital goods. This leads to cascading and constitutes another major source of economic distortion. Cascading inhibits specialisation and thus efficiency in industrial production. While attempts have been made to alleviate the ill-effects of input taxation through MODVAT in Central excise and concessional treatment or exemption in sales taxation, the distortions persist as the reliefs are inadequate or ineffective.

Moreover, no relief is available for taxes paid on plant and equipment. In many States there is now a turnover tax which falls on all commodities including inputs at more than one point of sale but does not get relieved. This causes cascading and induces vertical integration with all its attendant evils.

2.1.4 High and multiple rates

With a narrow base the rates have to be high to raise the same amount of revenue. Where the trade margins are high (in the case of certain consumer durables, the margins can be more than 100 per cent of the ex-factory price) the rate of tax at first point has to be higher than if the margins were taxed. Finding it difficult to raise the level of sales taxes at the first point any further, the States are now resorting to additional levies like turnover tax, additional sales tax, surcharges and so on, making the system totally non-transparent and the tax incidence arbitrary and unpredictable.

All this further aggravates the distortions inherent in a manufacturer's tax. It also provides incentives for evasion and avoidance and generates pressures for exemptions and concessions. One thus witnesses multiplicity of rates based on classification (sometimes hair-splitting) of commodities and sectors with bizarre results. Not surprisingly, the system has proved to be a breeding ground for disputes. Over 30,000 excise cases are pending before the Appellate Tribunal alone (over 12,000 before the High Courts). In some States (e.g. West Bengal) the numebr of sales tax cases awaiting decision before the appellate authorities is more than 50,000.

2.1.5 Taxation of inter-State sales

Another major source of distortion is the system of taxing inter-State sales under the Central Sales Tax (CST) Act. Though legislated by Parliament, it is administered by the States who also retain the revenue. Operation of the inter-State sales tax implies taxation according to "origin", that is, where the goods are produced, no matter where they are consumed ("destination"). This constitutes a serious impediment to the free flow of trade within the country and is inimical to competition and efficiency. It also conflicts with principles of inter-jurisdictional equity because the producing States can export their taxes to others, constraining the domestic tax base of the poorer consuming States (like U.P., Bihar and M.P.). Four "high income" States with less than 20 per cent of the country's population account for 45 per cent of the total revenue from CST, while the low income States with 44 per cent of the population get 18 per cent of the CST revenue as in Table 1.

The States have been trying to "export" taxes via the CST and at the same time undercutting each other in sales tax rates to attract trade and industry. This has created a situation in which all States are finding it difficult to rationalise their tax structures, and in some States, products like automobiles are currently being taxed at the sale low rate as cereals.

Taxation of inter-State sale combined with the tax on inputs encumbers exports since under such a system the incidence of tax on export production cannot be reliably quantified, much less relieved.

Since transfers between the branches of a firm do not constitute "sale", one way of avoiding the CST is to transport goods across State borders as transfer on consignment. With a large part of the inter-State trade now flourishing in several States in the form of consignment transfers, the States have been clamouring for a tax on consignments too. If introduced, this will exacerbate the hindrance caused by inter-State sales tax to the flow of trade within the country and the growth of the common

TABLE 1 : Statewise Distribution of Population, SDP and Revenue from Sales Tax (In per cent)

States	Population	SDP@	C.S.T.*	C.S.T.*
High Income States				
1 Maharashtra	0.46	15.30	17.37	21.78
2 Gujarat	4.95	6.81	9.57	11.89
3 Haryana	1.97	3.12	2.13	6.19
4 Punjab	2.43	4.72	3.09	5.22
Sub total	18.80	29.95	32.16	45.08
Middle Income State				
5 Andhra Pradesh	7.97	8.31	8.82	
6 Karnataka	5.39	5.89	7.28	7.84
7 Kerala	3.49	3.17	5.57	2.87
8 West Bengal	8.15	8.73	6.75	8.82
9 Tamil Nadu	6.69	6.86	11.47	9.71
Sub total	31.68	32.95	39.89	34.31
Low Income States				
10 Bihar	10.35	6.01	4.25	5.22
11 Madhya Pradesh	7.93	6.36	4.22	6.85
12 Orissa	3.79	2.74	2.21	0.56
13 Uttar Pradesh	16.66	13.27	9.88	4.15
14 Rajasthan	5.27	4.85	4.39	1.32
Sub total	44.00	33.23	24.95	18.10
Special Category States				
15 Arunachal Pradesh	0.10	0.12	0.00	0.00
16 Assam	2.68	2.34	1.57	1.76
17 Himachal Pradesh	0.62	0.67	0.37	0.25
18 Jammu & Kashmir	0.92	N.A	0.38	0.00
19 Manipur	0.22	0.19	0.06	0.00
20 Meghalaya	0.21	0.17	0.07	0.30
21 Nagaland	0.14	0.11	0.08	0.00
22 Sikkim	0.05	N.A	0.02	0.03
23 Tripura	0.33	N.A	0.09	0.00
24 Goa	0.14	0.26	0.36	0.17
25 Mizoram	0.08	N.A	0.00	0.00
Sub total	5.51	3.86	3.00	2.52
Total (25 States)	100.00	100.00	100.00	100.00

Sources : 1. RBI Bulletin, (various issues)
2. Census of India, 1991
3. Indian Public Finance Statistics, 1992

Note : Classification of the States as per the Ninth Finance Commission Report.
@ : Quick Estimate of SDP at current prices for the year 1990-91; * : Average for the years 1988 to 1991; N.A: Not Available, GST = General Sales Tax, CST = Central Sales Tax
SDP : State Domestic Product

market, and accentuate the disparities in the revenue levels among the States. While the trend all over the world is towards unification of markets to promote competition and efficiency, India is almost the only country going in the opposite direction.

2.16 Complex laws and administration

The distortions are compounded by the complexity of the laws and administration. In order to counter avoidance and evasion, the laws have been tightened to help enforcement and elaborate procedures and forms have been laid down. These have, however, not been very effective in the absence of a modern system of information and administration. On the contrary, they have added to the complexities.

The damage caused by the distortions discussed above remains to be quantified. There can be little doubt, however, that the resulting losses to the economy are enormous. It cannot be gainsaid that if trade and industry is to grow, the tax system must be neutral, that is, it should not interfere arbitrarily with producer and consumer decisions. If competition and efficiency are to be promoted, there has to be a level playing field. Neutrality in the domestic market is also a prerequisite for external neutrality, especially in an increasingly competitive world.

3 Directions of Reform

If the ills of the present system are to be remedied, the problems have to be attacked at their roots and not by simptoms. The guiding principles should be neutrality, simplicity and equity. Due note must also be taken of the compulsions of a federal polity and the revenue needs of different levels of government.

It can be demonstrated that the value added tax could provide a solution to most of the ills of the present system. If levied on a comprehensive base including goods and services at a uniform rate, a VAT would help restore neutrality, simplify the laws, reduce litigation and provide an elastic and stable source of revenue.

3.1 Design features of VAT

Introduction of VAT calls for several choices in regard to its design features. Some of the basic questions that arise are: How to compute the tax - by subtraction method or by the tax credit method? Should it follow the principle of origin or of destination? What should be the threshold for a dealer to be liable to pay tax? How to treat farmers and small producers/dealers? What should be the treatment of foreign trade? What about exemptions? Should the base be tax inclusive or should it exclude the tax?

The commonly adopted form of VAT is the destination-based, consumption type, operated through the tax-credit or invoice method. While a single uniform rate enhances simplicity and transparency, VAT is levied in some countries at two rates (one standard rate and another for essential consumption goods) and rarely at more than three. Essentials are also exempted in many countries instead of being taxed at a lower rate. For administrative simplicity, small businesses (that is, those having sales below a specified limit) are left out of the liability to pay VAT.

If VAT is to be introduced in India, the choice should be the invoice operated consumption type with a uniform or at the most two or three rates and a cut off point that would leave out small businesses without undue risk to revenue. Also, if common market is to grow, *the tax should adhere strictly to the principle of destination.*

In implementing the VAT based on the destination principle in a federal country like India two additional important choices centre around the questions: (i) which level of government should levy the tax (the

Centre or the States, or both) and (ii) what should be the mechanism for operating the destination rule?

3.2 The options

The options for introducing a VAT in the Indian context are:

i. A National VAT - VAT as a National levy implemented through a Parliamentary legislation and administered by the Centre (or the States on behalf of the Centre) replacing both Central excise and sales tax, covering all goods and services, with arrangement for revenue sharing.

ii. State VAT - Centre withdrawing from domestic trade taxation and leaving it to the States to levy the tax on domestic trade in the form of VAT, replacing both Central excises and sales taxes (allowing a few special excises on sumptuary and luxury items to be levied by the Centre).

iii. Dual or Joint System - Both the Centre and the States levying VAT either concurrently or independently, converting their excise and sales taxes into VAT.

The pros and cons of the various options are briefly discussed below.

3.2.1 A National VAT

A unified system of taxing domestic trade in the form of a national VAT imposed and administered by the Centre would appear to be most attractive from many angles. It would, at one stroke, bring about harmonization and help remove the tax on inter-State trade.

Rough computations show that if applied on a comprehensive base (that is, removing the exemptions but excluding services, with a threshold of Rs.30 lakh and two-thirds of the agricultural output outside the base) a uniform rate of about 18 per cent could be revenue neutral (that is, would yield the same revenue as currently derived from Union excises and sales taxes combined). If services are included in the base, the revenue neutral rate works out to a little over 16 per cent.

Though attractive from many angles, a scheme of tax reform that takes away the most important tax powers of the States and increases their dependence on the Centre would not be acceptable to the States. The States then would have to depend on the Centre for over 70 per cent of their tax revenue as compared to 32 per cent at present. Nor would that be desirable in principle. It would go against the tenets of fiscal decentralisation which is widely believed to be crucial for the effective functioning of a multi-level system of governance, allocation of resources for public spending according to the preferences of the people and promoting fiscal responsibility at all levels. It would call for a major amendment to the Constitution, which, given the present political configuration in the country, will not be easy to carry out. Moreover, in a vast country like India, the Centre would inevitably have to depend on the States in administering such a tax. (The Central excise department now handles only about 1,50,000 assessees. A nationwide VAT would involve dealing with at least a million taxpayers. For all these reasons this option does not seem to be either desirable or feasible.

3.2.2 State VATs

From the angle of linking spending decisions with revenue raising powers and thereby promoting fiscal responsibility, widening the sales tax base of the States by getting the Centre to vacate the domestic tax field has much to commend itself. In the public finance literature, there is a strong body of opinion that favours assignment of income and capital taxes to the federal government and taxes on consumption to the sub-national levels (although the contrary

view is also held by some). The diminution in the Centre's revenues such a scheme would entail could be taken care of by: (a) permitting the Centre to levy special (non-rebatable, non-sharable) excises on a few sumptuary items, and (b) bringing down the level of flow of federal funds to the States (devolution of taxes, or grants or both).

However, commendable in principle, replacing both Central excises and sales taxes by a regime of State VATs does not seem to be feasible at present. First of all, it would call for a drastic reallocation of tax powers between the Centre and the States the implications of which need to be gone into in depth. Secondly, it would entail a sharp drop in Centre's revenue since collections from excises contribute about one-third of its total tax revenues at present (Rs.18,000 crore out of about Rs.58,000 crore)[1] and, even with special excises on selected items, the Centre's revenue would drop by at least Rs.12,000 crore. With the revenue from customs dwindling in the wake of liberalisation of foreign trade, the Centre may not be able to balance its budget under such a regime, or be in a position to play a significant role in bringing about some equalization in the level of public services in the country through transfers to poorer States unless: (i) its revenue from income taxes improves dramatically, and/or (ii) the share of the States in the Central revenues comes down sharply, or (iii) the Centre sheds some of its functions or responsibilities. None of these seems likely to come about in the foreseeable future. Moreover, given the uneven quality of sales tax administration in the States, for the Centre to withdraw from the indirect tax field immediately might also be a little too risky for revenue. One also wonders whether it would be possible to set up a destination-based system of domestic trade taxation without Centre's active involvement. In any case, reform along these lines would involve a radical shift in the powers and functions of the Centre and the States which cannot be brought about without a national consensus.

3.2.3 A dual VAT system

For reasons mentioned above, in exploring the possibilities of introducing VAT in India, one has to think of a dual system in which both the Centre and the States share the consumption tax base in a mutually acceptable arrangement.

3.2.3.1 Concurrent VAT

A theoretically appealing variant of the dual system is one which the Centre as well as the States have concurrent jurisdiction in taxing goods as well as services going up to the retail or final-point sale. Under such a system, there would be a common base for both Central and State VATs. The States would have the powers to fix the rates but within a harmonized system of narrow rate bands. Inter-State sales will carry a rebatable Central VAT while State VATs would be zero-rated and taxed by the importing State. A concurrent VAT extended upto the retail stage would get over many of the problems in administering the taxes at the manufacturing level encountered under the present excise system and first-point sales taxes. The evils of tax exporting and hindranace to inter-State movement of goods would also go.

However, effective administration of a concurrent system would call for a degree of coordination between the Centre and the States that is lacking at present and would be difficult to achieve even with the best of intentions. There could also be conflicts between the tax authorities at the two levels over assessment of the base that would not be easy to resolve. Moreover, the

1. As of 1992-93 (R.E.)

administration of a VAT by the Centre beyond the manufacturing level would require the help of the States since the Central Excise Department is simply not equipped to handle the number of dealers who would come within the tax net under a VAT regime even if the threshold is fixed at a relatively high level.

Considering the problems that the Centre would face in implementing a VAT beyond the manufacturing level the Tx Reforms Committee (TRC) of which Prof.Raja Chelliah was the Chairman, while recommending that the Central VAT be extended to the wholsesale stage, had suggested that the tax on the wholesalers be administered by the States who could also retain the revenue so collected. This, the TRC had felt would not call for any constitutional change. In essence, however, the TRC proposal would only be a variant of the concurrent VAT and encounter similar problems.

Apart from the conflicts which it might generate, a concurrent VAT would be seen by the States as an invasion into their tax powers. The arrangement favoured by the TRC, viz. the States be called upon to collect the Central VAT at the wholsesale stage also does not seem to be very satisfactory as it could also lead to conflicts between the Centre and the States since the VAT paid at the Central level would be rebatable against the VAT leviable by them on wholesalers. Also, if a manufacturer buys inputs from a wholesaler, the Centre would have to give rebate for the tax collected by the States at the wholsesale stage.

While designing a model of dual VAT, it is thus advisable to explore ways in which both the Centre and the States can move their respective excises and sales tax systems towards a system of VAT within the framework of the Constitution and improve their implementation through better legal and administrative structures.

3.2.3.2 Independent dual system

Given this background, the only feasible option seems to be a dual system in which the VAT s levied by the two levels of government independently within the exist-ing constitutional framework. This would be possible if the MODVAT now operating through the excise tax system is made into a full-fledged manufacturers' VAT and the States also adopt a destination-based harmonized system of VAT in place of the chaotic sales taxes operating now. Although it would not be the perfect or first best solution to the problems of the present system, reform on these lines would go a long way to remove many of its ill effects and perhaps lay the foundation for an even more rational regime in the future. The main elements of reforms envisaged under this scheme are outlined below.

3.3 A feasible scheme of reform towards VAT

3.3.1 A Central VAT on manufacturers[2]

MODVAT can be reformed and made into a full-fledged manufacturer level VAT with the following measures:

a Widening of the base to include all goods produced, manufactuered or imported and a few selected services;

b Provision for full and immediate credit of input duty to registered manufacturers and producers for

- all raw materials and parts used in manufacturing;
- production machinery and equipment for use exclusively in taxable manufacturing; and

c Rationalisation of the rates to introduce a structure of not more than three rates at the most and eventually a uniform rate. However, excises would also be levied on selected luxury items and commodities with negative externalities.

Measures outlined above might help avoid many of the problems and worries which a concurrent VAT or extension of MODVAT to wholsesale traders would give rise to.

Exercises carried out with available data show that with excises converted to VAT and the rates reduced to three (10,15 and 20 per cent) along with (non-rebtable non-sharable) excises on a few commodities and tax on selected services, it should be possible to carry out these reforms without large loss of revenue. There could, in fact, be a gain of about Rs.1,000 crore to provide a cushion for the change.

Eventually, in order to keep the burden of taxation by both levels of government within reasonable limits and allow more room to the States, the rate of Central VAT should be brought down to a uniform rate of 10 per cent.

Under a tax rental agreement, the Centre now levies an additional excise duty in lieu of sales tax on three commodities viz. textiles, tobacco and sugar but the States are unhappy with the arrangement. In a reformed regime of commodity taxes, the States should ultimately get back the powers to tax these commodities even though the Centre would also be free to levy Central VAT on them at appropriate rates.

3.3.2 Reforming State sales taxes into State VATs

Measures which could go a long way to remove the non-neutralities and harmful effects of sales tax systems operating at present and achieve a measure of simplicity would be to:

a Convert sales taxes into VAT by moving over to a multistage system of sales taxation with rebate for tax on all purchases with only minimal exceptions.

b Extend the tax base to include all goods sold or leased with minimal exceptions, and services which are integral to the sale of goods. The base should also include services which are predominantly of a consumption nature and can be taxed conveniently by the States.

c Allow input tax credits for all raw mate-rials and parts, consumables, goods for resale, and production machinery and equipments. (No rebate will be allowed in respect of overhead expenses like repairs, etc., office equipment, construction materials and fixtures and purchases in use of transportation and distribution of goods).

d Replace the structure of tax rates with two or three rates within specified bands, applicable in all States and Union Territories.

e Remove the exemptions except for a basic threshold limit and items like unprocessed food and also withdraw other concessions like tax holiday, etc.

f Zero-rate exports out of the country and also inter-State sales and consignment transfers to registered traders with suitable safeguards against misuse.

g Tax inter-State sales to non-registered persons as local sales.

h Modernize tax administration, compu-terise operations and the information system and simplify forms and procedures.

The measures for harmonization of the rates will call for agreement among States

2. These proposals were drawn up before the Central Budget for 1994-95 was unveiled.

and also the Centre (the latter for the Union Territories). If the States signal their agreement on such a package, the Centre should permit the States to tax three additional excise duty items, viz., textiles, tobacco and sugar under State VATs.

Further, under the CST at present, there is a ceiling on sales taxes that can be levied by the States on certain commodities considered vital for inter-State trade and commerce (called declared goods) even when sold within their own territories. The ceiling is equal to the tax on inter-State sale (i.e. 4 per cent). With the reforms outlined above these restrictions should go. However, the Central legislation to fix the ceiling rate for declared goods may be retained to ensure that the States accept and adhere to a harmonized rate structure.

The most convenient method of operating a destination-based system of State VATs to zero-rate inter-State sales between registered dealers. As a safeguard against misuse a system of advance payment of tax by the importing dealer can be devised. Under this system inter-State movement of goods through consignment transfers should be treated on the same footing as inter-State sale between registered dealers. As an interim system, exporting States may levy a tax on inter-State sales at a low rate for which importing States would grant rebate and the revenue will be shared through a pooling arrangement.

Informal discussions with State government officials suggest that such a scheme of reform as outlined above might receive favourable consideration in general. The rate bands proposed are: 4 to 5 per cent for essential goods and 12-14 per cent for all other goods. Basic, unprocessed food items may be exempt while tobacco, alcohol, petroleum, aviation fuel and narcotics may be subjected to a non-rebatable VAT at a floor rate of 20 per cent (see Statement 1). The tax on the high rated items will not be rebatable although the tax paid on their inputs will be credited against the VAT payable on them. Resellers would however be entitled to deduct the tax paid on their purchases from the VAT payable on their sale.

Eventually the States should be given the power to tax services in general. A beginning can be made by bringing under the State VATs, services which are ancillary or incidental to the production or supply of goods and also those which form a significant part of final consumption like photo processing. VAT on such items of consumption need not be rebatable. The Parliament can pass a legislation empowering the States to levy the tax on services so selected. Pending a general extension of the tax base to services, the taxes on entertainments, electricity duty and taxes on passengers and goods carried on road may continue to be levied by the States.

STATEMENT 1

Proposed Commodity Grouping for State VAT Rates

Exemptions

1 Unprocessed cereals including rice, rice flour, wheat, atta, maida and suji.
2 Pulses
3 Fresh vegetables and fruits
4 Fresh meat, fish and livestock excluding race horses
5 Unprocessed salt
6 Fresh milk
7 All types of eggs
8 Plain water not including mineral water, aerated water, tonic water, distilled water, scented water or water sold in sealed containers/sockets, etc.

Rate of Tax (4 to 5%)

1 Oilseeds, edible oils and oil cake
2 Processed salt
3 Dried fish, vegetables and meat
4 Pasturised milk
5 Chillies, turmeric, tamarind, cumin seed, dried ginger, etc.
6 Kerosene
7 Sugar

High Rate of Tax (Minimum 20%)

1 Diesel, petrol and aviation fuel
2 Opium, ganja, bhang, narcotics, etc
3 Liquor
4 Tobacco and tobacco products

All other commodities : Standard Rate (12 to 14%)

The potential benefits and concerns that the various components of the scheme might generate are set out in Statement 2.

Exercises based on available data show that such a regime can be revenue neutral even with zero-rating of inter-State sales, provided the reform scheme is implemented as a whole. However, some States where the level of taxation is high may have to pitch their rates high (e.g. in Gujarat, a rate structure of 5.14 and 32 per cent would be called for to make the reform revenue neutral). The average rate of tax in high tax States might be in the region of 12 or 13 per cent. This, however, takes no account of the likely gains from better enforcement that VAT should facilitate. With even a 10 per cent increase in revenue with better administration the revenue neutral rates would come down appreciably (e.g. for Gujarat, the rates could be 5, 13.26 vide Table 2).

Combined with the Central VAT, which under the proposed scheme, would contain rates going up to 20 per cent (even though the average would come to 15 per cent), standard rates of this order might appear to be a little too high. However, this is in reality the level prevailing now. Only the incidence of excise duties remains invisible. The position will not worsen with the proposed reform rather the rates can be brought down if the base is truly widened and substantial improvement takes place in administration.

Abolition of tax on inter-State sales may adversely affect the States deriving large amounts of revenue from this source. In the case of States like Maharashtra, the loss will probably be made up with the extension of the base to include consumption items like textiles and the capture of trade margins beyond the first point under the multi-stage system that VAT implies. For States like Bihar and Madhya Pradesh,

STATEMENT 2

Benefits of Reform Measures and Potential Concerns

Tax reform Measures	Benefits	Cocerns
Replacement of sales taxes by Value Added Tax	All round simplification Check on undervaluation and evasion at the first point of sale.	Cost of both compliance and administration may increase.
	Removal of economic distortions created by first point and cascading multi point taxes and consequent costs to industry and trade. Inclusion of wholsale and retail margins in the tax base. Maximum retail prices may become more effective.	Opposition from tax practitioners
Inter-State harmonization and rationalization of rate structure	Reduction in complexity and fewer tax disputes. Improved compliance and simpler tax returns.j Reduction in tax payer harrassment.	Low tax States may have to raise their level of taxation
	More neutral application of tax and reduced distortition of business decisions. Reduction in revenue loss through inter-State tax competition.	

Tax reform Measures	Benefits	Cocerns
Full rebating of tax on production inputs, including machine and equipment	Reduction in production and investment costs. Improvement in competitive position of domestic firms.	Revenue may suffer
	Higher economic growth.	
	Removal of bias in favour of vertically integrated firms and encouragement for economies of scale. Reduced pressure for selective industrial incentives.	
	More predictable incidence of tax.	
Removal of exemptions and concessions eexcept for a basic threshold and items like un processed food.	Widening of the base. Removal of economic distortions and levelling of the playing field.	Possible adverse impact on prices and industrial growth
Exemptions of un-registered sectors	Facility of compliance and administration. Protection of revenue	Some inequity and arbitriness in incidence
Zero-rating of inter-State sales and inter-national exports	Preservation of the national common market. Reduced distortions in production and distribution of goods.	Revenue loss for s States deriving substantial revenue from CST, Greater
	Removal of hidden taxes on inter-State and inter-national exports.	risks of evasion
Extension of State VATs to declared goods and sugar, textiles, and tobacco	Broader tax base. More neutral application of VAT. Simpler tax design. Substantial revenue gain.	
Modernization of administration, including computerization, simpler forms and procedures, and improved staff training	Revenue gain through improved compliance and enforcement. Greater fairness and uniformity in the application of tax.	This will require initial investment
Overall	Transparency, efficiency and simplicity. Greater control over incidence.	Administration and compliance burden
	Stable revenue source.	

TABLE 2 : Revenue neutral VAT Rates for Selected States: 1992-93*

State	With no administrative improvement		With administrative improvement	
	Tax rate regime	Average rate	Tax rate regime	Average rate
Andhra Pradesh	(4,9,20)	10.3	(4,8,20)	9.5
Gujarat	(5,14,32)	13.0	(5,13,26)	12.0
Maharashtra	(4,11,23)	11.7	(4,10,22)	10.7
Rajasthan	(4,8,20)	10.7	(4,7,20)	10.0
Tamil Nadu	(4,14,20)	13.1	(4,12,22)	12.1

Notes : 1. Figures in brackets give VAT rates for low rated, standard rated and high rated goods, respectively.

2. Figures for Gujarat relate to 1991-92.

* These computations are based on tax turnover data furnished by the State Sales Tax administrations.

where CST on minerals yield substantial revenue, appropirate pricing of their natural resources and a wider base for their VAT should take care of the revenue loss, if any. Estimates show that with the widening of the base and withdrawal of exemptions and some improvement in administration, it should be possible to protect the revenues of even the exporting States with tax rates within the suggested bands. In most countries where VAT has been introduced on a comprehensive base, the additional revenue accural has outstripped the estimates.

As for price effect, international experience suggests that a revenue-neutral replacement of sales taxes by VAT is not inflationary.

3.4 Legal, administrative and institutional requirements

Reforms proposed in the proceeding paragraphs will require appropirate legislation for implementation and overhaul of administrative organisation and methods. Suitable institutional arrangements also would have to be evolved to formulate action plans and oversee their implementation. In particular, attention will be required on the following aspects of law and administration and institutional set up.

1 Drafting of the law and regulations.
2 Formulation of procedures and design of the forms
3 Reform of administrative systems and organisation
4 Computerization and modernization of administrative methods
5 Training and reorientation of staff
6 Taxpayer education
7 Creation of institutional infrastructur

3.4.1 Legislation

Once a decision has been taken in principle to introduce VAT and broad agreement reached about its basic design features, steps would be needed to prepare the necessary legislation with supporting regualtions.

Considering that uniformity of basic structure and procedures would be necessary for the harmonization and smooth operation of the system all over the country, a model law should be devised which the States can adopt with suitable changes but retaining the basic structure.

Drafting, being a specialised job, has to be undertaken by a team of experts. The States should jointly set up a team consisting of experts drawn from the law departments/ legal cell of sales tax departments and officers with background of sales tax administration to undertake the task of drafting the law. Since VAT would be an unfamiliar concept and its rationale may not be apparent to legal experts, it would be necessary to include a fiscal economist in the team. The tasks of the team should include, besides drafting the basic law, formulating regulations and resolving operational issues. It may be useful to hire consultants from abroad to help the team in some of these tasks.

The scheme of State VATs proposed in this study will call for some far reaching amendments in the Central Sales Tax Act of 1956 (e.g. to bring down the rate of CST to nil when the sale is between registered dealers, remove the ceiling on State sales taxes on declared goods and so on).

3.4.2 Procedures and forms

Implementation of any tax calls for prescribing operational procedures for :

- Registration of taxpayers
- Filling of returns
- Payment of tax
- Assessment and reassessment
- Appeals against assessment

3.4.3 Registration

Under a system of destination based VAT, inter-State movement of goods would need to be monitored and tran sactions between registered dealers across States cross-checked from time to time, eventhough on a sample basis. Hence, it would be necessary to evolve an all-India coding system and allot tax identification numbers to all registered dealers accordingly.

3.4.4 Tax return and other forms

Unlike under a sales tax with multiple levies and rates of tax, the VAT return form can be very simple, especially if the rate of tax is uniform. With more than one rate, space has to be provided in the return form for reporting sales and purchases under the different rate bands. Even so, the form should be simpler than those in vogue for sales taxes at present.

The periodicity of return filing and payment of tax would have to be determined in the light of the experience and requirement of each State. Some uniformity in this regard among all States would be desirable.

3.4.5 Invoices and accounts

Requirement of documents and forms to support a tax return should be kept to a minimum. The most important document for the operation of tax credit-based VAT is the invoice. The tax invoices which only VAT registered dealers should be authorised to issue should provide all relevant information regarding the seller, the buyer and also date of issue, serial number, particulars of goods sold and amount of VAT charged.

Dealers registered for VAT (other than those coming within the "small dealers" category) must maintain record of all tax invoices issues and received by them indicating their serial number, date, price charged and the VAT.

system in India, mainly through the pertinacious efforts of Pitambar Pant, which was initially opposed by no less a person than Gandhiji. The Chairman queried whether the proposed VAT would be neutral only in the sense of: a) the revenue shares now existing between the States and Centre would not be altered; or (b) it should not interfere arbitrarily with producer and consumer decisions. It was clarified that neutrality in the (b) sense has been employed in the report. A discussant pointed out that in India, which lacks a universal social security system, a uniform flat rate for VAT might prove to be a regressive tax.

Mr.N. Narayanan explained how the southern States had nearly harmonized their taxation structure within narrow bands, and how the real problem areas happen to be the Union Territories, whose taxation policies are causing havoc to the neighbouing States. So the Centre will have to pursuade the Union Territories to fall in line, if a harmonious VAT is to be introduced.

GENDER AND HUMAN RESOURCE DEVELOPMENT *

1 WOMEN constitute one half of the potential human resources of any society. Yet we find the efforts for development of human resources are largely male-oriented. There is a need to understand gender-specific issues so that social intervention programmes can be rendered more effective from the perspective of uniform development of both sexes. With this objective in the background, the 24th Inter Disciplinary Research Methodology Workshop brought together about thirty individuals representing diverse interests : social scientists doing research in the area of women and development; activists from NGOs concentrating on empowerment of women; professionals from the field of law and management sensitized to the gender-issues etc. Altogether 15 papers which can be broadly classified into the following three categories were presented and discussed :

i) issues pertaining to evolution of appropriate research methods to focus on gender specific issues

ii) factors which seem to impede women's empowerment and

iii) historical perspectives on women and gender related issues;

2 Though there were some vigorous arguments suggesting that problems of women in society cannot be and should not be understood in a restraining framework of "gender-related" issues, the consensus was that the advantages of a "selective" or "biased" perspective to comprehend problems of women is desirable and necessary. The dominant research methodology views women as a target group for research. Women researchers using this methodology are expected to suppress their emotions and their subjective feeling of involvement with other women. This will not aid research aimed at designing intervention programmes. Hence alternate research methodology based on the collective experience of women in the movement becomes necessary.

3 The supposedly value free, neutral and uninvolved approach by researchers leads to the neglect of perspective to understand gender-specific issues. Gender gets amalgamated into a diffuse caste/class/ religion categorisation. Hence it may be more desirable to have a "value-frank" framework than claim the impossible value-free framework for research, atleast for research concerning gender issues. In the "value-frank" framework the specific premises underlying the researchers' questions/ motivations are clearly spelt out(and are open to any criticism) so that hitherto ignored dimensions are brought to the fore and their effect on research findings explicitly considered rather than being incidental or unavoidable "noise" surrounding the main signal/theme. With such a conscious perspective, the experiences of groups which are dealing with problems of women should be more formally and rigorously analysed to glean appropriate research as well as intervention methods to facilitate development of women.

4 Existing received theories on caste neglect gender which is central to any understanding of the dynamics of caste, its evolution and perpetuation. Neither do they recognise that within castes men and women are affected differently. While attempting to correct this imbalance, one would be cautious not to over-privilege gender. Such gender-orthodoxy will come in the way of understanding the issues such as the role

* The statement of the 24th Interdisciplinary Research Methodology Workshop, held at ICSSR, SRC, Hyderabad from June 7-10, 1994. This was the third in the series of three workshops on "Human Resource Development".

of production relations in defining relations of power between caste and untouchability. There is also an urgent need to recognise the selective "listening" among academics. Only selected academics are "listened" to and cited while views of organic intellectuals such as Phule, Periyar and Ambedkar are excluded. Such blindspots have led to the prevailing undesirable biases in social theories of Indian society which are to be corrected.

5 The methods of enquiry for understanding women's issues have to be carefully chosen paying extreme attention to avoid even unintended, nevertheless subconscious androcentric values and attitudes. This point was amply reinforced during the discussion of a paper describing a possible approach to understand the factors which influence the timing of the marriage for a girl. Information gathered from parents of girls given in marriage and or about to be married were organised within a framework of a life course, comprising of distinct stages of attaining puberty, preparatory/ training period, search period, engagement period, etc. Analysis of this information using a regression model led to some inferences on the correlation of age at marriage and factors such as education, caste, whether the marriage is consanguineous or otherwise and others. While some of the inferences may be of some interest to stimulate further questions on the sociological process of marriage, it was pointed out that it is problematic to mechanistically apply quantitative models based only on a few variables in a context where numerous factors interact. More importantly, the labels used for the chosen variables were considered to be revealing the subconscious male bias of conventional research methodology. Conscious efforts are needed by researchers to overcome this problem.

6 The relationships between poverty caste, class, education religion etc. and labour force participation of women are explored. No elaborate techniques are deployed in the analysis; rather the attempt here is to obtain as much mileage as possible from a rather elementary statistical examination of the data after subjecting the latter to suitable disaggregation. It would be better if the data could be disaggregated to the finest possible extent both : across space and across social groups. However, such an attempt is restricted by the availability of data.

7 The question whether treating women as a special category to understand problems of human resource development came up again in the discussion on a paper dealing with struggles of Dalits and Dalit women. Dalit women are forced to seek/ search for an identity as a group because the problems they face are the result of interaction of several factors such as caste, class as well as gender. Dalit movement leaders are diffident to view dalit women's problems as a separate category for fear of marginalising what they consider the priority issues of dalits as a group-men as well as women. Such apprehensions on the part of the leadership of dalit movements (primarily male dominated) have prevented dalit women taking up movement leadership. However, it is an agreed view that the Dalitbahujan movements have been more gender-conscious than all other movements in modern India. It is also necessary to keep in mind the distinction between Dalit patriarchy and Brahminical patriarchy. A critique of patriarchy must start with democratic elements rooted in Dalit patriarchy. Women's groups are reluctant to treat dalit women as a separate category for a similar reason viz. women's unity may be adversely affected on account of differences in concerns of different castes. As a consequence dalit women are joining together and forming separate groups. How well these groups will be networked with or supported by existing dalit movements and women's movements is to be watched and understood.

8 Several papers discussed some historical perspectives of gender-related issues. One of them dealt with the origin and evolution of dowry practice. There continues to be confusion regarding the conceptual clarity of the term "dowry", particularly the modern version of it. The practice of giving jewels, cash and other gifts to the bride by her parents was prevalent largely among upper caste/upper class families. But in the last 20-30 years this practice seem to have spread to lot of other communities - even those which were practicing only payment of a bride price, viz. bridegroom paying the would-be bride's family some 'compensation' for taking her away. The more recent consequences of the modern dowry practice has manifested in the form of violence against women, dowry deaths : suicide of young wives etc. It was also recognised that dowry giving practice cannot be viewed only from the economic perspective but in the context of ideology of power structure viz. the dominance of patriarchic ideology and the unequal relationships between genders with in the institution of family and marriage. From the ancient times as exemplified by Manu's pronouncements on the need for women to be dependent always on a male member - father, husband or son, the woman had been conditioned to be male-dependent. Impact of such a dependency syndrome on the origin and evolution of dowry practice needs to be understood more clearly.

9 The importance given to procreative activity of women at the expense of her own desire or pleasure has been a great obstacle to women's empowerment : " when pleasure occupies smaller and smaller public space and a more guilty private space, women do not become empowered " is the way one viewpoint was expressed. However it was recognised that if the female sexuality had to be freed from societal institutions such as marriage and motherhood, one must face the consequences of breaking up the institutions of family and marriage themselves. It was also pointed out that restraints on sexuality seemed to be less oppressive in the lower castes and classes among whose members, the attitude towards family as an institution were relatively flexible. Accordingly, more thorough study and analysis of attitudes on sexuality as well as existing practices among different caste/class groups, and the changes in these attitudes and practices over time will be required to understand the full implications of freeing the sexuality of women towards the objective of empowering them. It is important to recognise what may be termed as the "politics and economics of sexuality" manifest in state policies regarding promotion of birth control practices and methods and the vulgarisation of sexuality through media for commercial ends. In the short run it is necessary to launch a vigorous attack on such commodification of women's sexuality, while at the same time providing healthy sex education and counseling to all the relevant sections of the society.

10 A comparison of the nationalist movement and the Dravidian movement in Tamil Nadu, indicates that while the nationalists mobilised women and brought them into politics, it was done within a redefined patriarchy; in contrast, the Dravidian movement mobilised women with the aim of dismantling patriarchy by questioning key patriarchal institutions such as family, marriage and chastity. However, if the radical agenda of the Dravidian movement got diluted with time, the movement in its effort to assert a Tamil national identity ended up chaste Tamil women as a symbol of the Tamil nation. A comparative study of similar movements in places like Maharastra would provide the elements for an agenda for the feminist as well as the currently emerging Dalitbahujan politics.

11 Over a period of time some reforms in the legal system have opened avenues for women to fight gender inequality in the

society. However dissemination of legal provisions which facilitate empowerment of women is still very meagre and great efforts are required to create awareness among women of their legal rights. The arguments that a common or uniform civil code will be an immediate solution to the anomalies of diverse personal laws for different religious groups did not find favour with many. The dangers of the existing Hindu code being adopted as uniform civil code were brought out. These laws are themselves loaded against women and need considerable reform. Thus it is important to recognise the efforts of women's movements working for desirable reforms within the existing personal laws of different religious groups, identifying desirable features in each of them and evolving a secular model of a common civil code. Further, continued efforts are necessary to understand the implications of the existing provisions of personal laws relating to marriage, divorce, maintenance, dowry and property. The various difficulties and handicaps women face in getting these laws enforced must be documented by collecting data/case studies, paying attention to the details of the provisions and the way they get interpreted from time to time.

12 Papers which enquired into issues pertaining to the participation of women as entrepreneurs and scientists, suggest that the male-dominant values and attitudes have resulted in women's role in the society as entrepreneurs is marginal. Entrepreneurship, defined as the ability to invest resources in a new enterprise, is almost impossible for women since they have no control over the family's resources; in fact they seem to enjoy very little control even over resources accumulated through their own efforts. While "women-as-entrepreneurs" and "women-as-scientists" enquiries are just illustrative, the main issue to be recognised is that for most women, right from childhood, barriers to the development of their full potential has been the fact of life. Unless conscious efforts are taken to remove such barriers, intervention programmes for women development may not achieve their objective. This is revealed by the analysis of a government scheme to promote women entrepreneurs in the gem-cutting trade in Tamil Nadu.

13 A premise that the potential of science to bring about social changes motivated the enquiry on the role of women as scientists and the quality and direction of scientific work women do. The unscientific (superstitious belief and religious bigotry) attitude among the scientist community is as strong as in any other community. This prejudices the pursuit of science. The male domination in scientific establishments is as blatant as in the rest of the society. Hence role of women in the field of science also is marginal. However, the optimistic view is that conscious efforts to encourage more participation of women in the field of science and education with concurrent struggles to project a women's perspective on the directions for scientific research will lead to science serving humanity in more effective and less harmful ways than is found presently.

14 There is little doubt that women in general and rural women in particular are major users of natural resources such as fuelwood, water and fodder. The degradation of the natural resource base as a consequence of developmental activities has had disproportionate impact on women. It has been shown that women have to spend more time in the collection of fuelwood and water. A village level case study infact demonstrates that women expend more energy than men and consume fewer calories. A newly emerging field "ecofeminism" contends that there is a parallel and connection between the violence against nature and the violence against women. Thus an "ecofriendly" approach would in the long run be of benefit to women.