

Book Review: 'Development and Taxation' deconstructs public finance

Comments in the book, written in BS over two decades, reveal Dr Shome's expertise in public finance

U Sankar | , 20 April April 19, 2017 Last Updated at 22:41 IST

DEVELOPMENT AND TAXATION

60 Critical Commentaries

Parthasarathi Shome

Academic Foundation

326 pages; Rs 1,095

Parthasarathi Shome's book *Development and Taxation — 60 Critical Commentaries* contains 60 papers in nine sections covering the macro economy, fiscal policy, taxation matters, income tax, indirect tax, international economic relations, socio-economic policy, political economy, and newest concerns. These comments, written in Business Standard over the past two decades, reveal Dr Shome's expertise in public finance, his ability to convey main points in an easily understandable manner and also to make suggestions for further work. He cites other scholars and provides lessons from his rich experience in economic policy-making as Chief of Tax Policy at the International Monetary Fund, Chief Economist of the UK revenue and customs department, Adviser to the Indian finance minister, and provider of fiscal technical assistance to three dozen countries including Brazil, which honoured him with its highest civilian award. Each commentary in the volume runs between four to six pages and is lucidly written and informative.

As a teacher, I am confident that graduate students in economics, policy makers and others interested in economic policy will benefit immensely from reading this book. For example, the commentary, "GDP Estimation Methodology — Exasperating Improvements", deals with Central Statistical Office (CSO)'s revision of gross domestic product (GDP) growth by about 1.5 percentage points for 2014-15. He notes that the shift of the basis of manufacturing estimates to business balance sheets and income statements from IIP and ASI (a) expands coverage from ASI's 200,000 companies to MCA's 500,000 companies, giving a larger sample, (b) provides estimation methodology closer to that of services sector, and (c) includes distribution costs. Also, the new series uses the concept of value added directly.

Regarding GDP reform, he says that GDP measurement (a) reflects any output of the economy without consideration of its morality or legality, (b) ignores the rapidly deteriorating social environment, and (c) ignores the extent of the black economy. He includes an article on India's recent demonetisation and its various economic and social effects including the likely impact on GDP.

Another omission is the loss of environmental damage due to decline in the quantity and quality of natural capital and pollution. In a recent paper, K J Arrow, P Dasgupta, L H Goulder, K J Mumford, and K Oleson, 'Sustainability and the measurement of wealth', *Environment and Development Economics*, 17, 317-353, 2012) report that between 1995 and 2000, India's growth rate of natural capital as -0.16. MoSPI's recent report by Professor Dasgupta, "Green National Accounts for India: A Framework" is a pioneering work. A World Bank paper by Muthukumara Mani, Anil Markandya, Aarsi Sagar, Elena Strukova and Gaurav Joshi estimates the annual cost of environmental damage in India at 5.7 per cent of GDP.

Dr Shome discusses issues and problems in the design of GST in India. He justifies an ideal GST because it (a) makes tax administration transparent, (b) is revenue productive, (c) removes distortions in business decisions by taxing only consumption, and not production, and (c) does not differentiate between goods and

services. He expresses concern about the intricacies of India's proposed GST structure, too many GST rates, and exclusion of petroleum and electricity which robs GST of comprehensive input tax credit. He emphasises, correctly, the ultimate test of GST is whether or not business and compliance costs have been reduced. In this context, he examines India's current low ranking in a cross-section of economies in the ease of paying taxes and ease of doing business.

The volume's scope extends to an array of global challenges beyond Indian economic policy or taxation. Dr Shome comments on the role of G-20 in enhancing good – rather than bad – characteristics of globalisation. He weighs India's relative advantage in its international economic relations with Japan over China, new opportunities for trade with UK after Brexit, selected considerations that the Euro Zone should itself consider, India's commercial possibilities with Italy that he pondered as he travelled across northern Italy, India's commerce with Latin America, Indo-Pak economic relations, and even the prospects for Myanmar after he led the first tax mission to that country as its new government was formed earlier in the decade.

Dr Shome addresses a range of socio-economic realities afflicting today's India, for example the need for healthcare and how the private sector could be encouraged to play a more prominent role. He writes about "Swachh Bharat", while pointing to the acute problem of open defecation where India lingers considerably behind comparable countries. He reminisces over the past of the Indian Railways against their prevailing condition. He cautions against the lapse and non-achievement of the demographic dividend. He talks of emerging regional resource wars in particular, water. And he looks critically at selected political and historical aspects including constraints facing modern democracies and practical ramifications of Indo-British colonial relations.

He urges the need for maintaining implementability of proposed policies. In the US, when a Bill is introduced in the House or Senate, the Congressional Research Service provides research support on issues relating to the design and implementability of a proposed change and invites comments. This practice enables legislators to understand the behavioural reactions of stakeholders to a proposed policy change and also engage in "nudging". In India, now ministries do seek expert advice and issue consultation papers but the practice has to be intensified.

The reviewer is former Director, Madras School of Economics