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Gender Impacts of Revenue Collection in India

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Foreword

> Gender-responsive budget analysis is increasingly becoming a tool for managing critical governance issues and for assessing the impact of economic policies on women.
>
> *Commonwealth Plan of Action for Gender Equality 2005–2015*

The Commonwealth Secretariat has played a pioneering role in conceptualising gender-responsive budgeting (GRB) and initiated the development of relevant tools and methodologies. The promotion and implementation of GRB has been a key focus of the work of the Secretariat's gender programme for a number of years. Since 2005, Commonwealth Finance Ministers have committed to promoting and implementing GRB, and their meetings have reviewed progress every two years. GRB has also been endorsed by Commonwealth Heads of Government Meetings, including in the 2007 Kampala Communiqué.

This is because GRB is a key instrument in tracking how governments are investing in advancing gender equality and equity. The rationale for its use derives not only from the need to reduce gender inequality as a social justice issue, but also from economic arguments based on efficiency and growth. Its importance was reflected in the themes of the Commonwealth Eighth Women's Affairs Ministers Meeting (8WAMM) in 2007 and the 52nd Session of the United Nations Commission on the Status of Women (CSW) in 2008, both of which focused on financing for gender equality and the empowerment of women.

GRB initiatives have become increasingly important in the context of globalisation and trade liberalisation, the changing nature of the aid architecture, and increasing fiscal devolution to provincial or state governments and local government authorities. It is estimated that gender budget work in some form or another has been initiated in approximately 60 countries, of which at least half are members of the Commonwealth. Much of this work has focused on the expenditure side of the budget. However, and especially for those countries that have already implemented GRB initiatives, there is a need to look also at the revenue side. This means analysing the gendered impact of the revenue and tax system (not only taxes on personal and corporate income, but also indirect taxes, changes in tariffs and trade taxes and the introduction of user fees) and accounting for the care economy, focusing on the invisible contributions of women.

An earlier economic paper, *Gender Impacts of Revenue Collection: The Case of Taxation*, reviewed the literature on the gender dimensions of taxation and their implications for tax policy. It provided a starting point and framework for analysis of the nature of the differential impacts of tax systems on men and women, and emphasised the need for the design of gender-sensitive revenue measures. This paper, on the impact of tax reform in India, is one of two case studies that examine these issues in the context of a specific country.* It looks at tax collection structures, the gender impacts of direct tax-

*The other is *Gender Impacts of Revenue Collection in Uganda* by Nite Tanzarn.

ation and the current burdens of taxation, and the impacts of user fees and value added tax (VAT). It includes research at local level, interviews with key informants and workshops. Its analysis and findings make an important contribution to the literature on the subject.

We would like to express our gratitude to Nirmala Banerjee for writing the paper and for her responsiveness to tight deadlines. We would also like to thank Debbie Budlender, who guided the process and provided detailed comments on the paper; Sarojini Ganju Thakur, Head of the Secretariat's Gender Section, who conceived and co-ordinated the project; Tina Johnson, who edited the text; and Guy Bentham, who facilitated the publication process.

We are confident that this paper, part of the Commonwealth Economic Paper Series, will be very valuable to those who are working to integrate gender concerns into economic policy.

Ransford Smith
Deputy Secretary General
Commonwealth Secretariat

Acronyms and abbreviations

AIIMS	All India Institute of Medical Sciences
CSW	Commission on the Status of Women
GDP	gross domestic product
GSDP	gross states' domestic product
GOI	Government of India
GRB	gender-responsive budgeting
MPCE	monthly per capita consumption expenditure
NIPFP	National Institute of Public Finance and Policy
NSSO	National Sample Survey Organisation
OTR	own tax revenue
PDS	public distribution system
UNDP	United Nations Development Programme
UNIFEM	United Nations Development Fund for Women
VAT	value added tax

1

Introduction

At the 1995 Fourth World Conference on Women in Beijing, representatives from the developing world shared their growing impatience about the slow pace of improvements in gender relations. Even in countries that had long ratified the Convention on the Elimination of All Forms of Discrimination against Women, policy makers had failed to do enough towards fulfilling those promises. Therefore, it was necessary not only to demand more concrete commitments from governments but also to closely monitor each government's actions on all fronts, starting with an analysis of its relative financial priorities and the administrative machinery that it sets up to fulfil those priorities.

With this objective, several studies have been made of the expenditure side of the annual budgets of the Government of India (GOI) and of some of the country's state governments. These studies, under the sponsorship of the United Nations Development Fund for Women (UNIFEM), the United Nations Development Programme (UNDP) and the Ministry of Women and Child[1] have brought out the meagre extent of resources committed to gender-sensitive measures by successive governments (see, for example, NIPFP, 2003, 2004; SACHETANA, 2003; Eapen and Thomas, 2005). Moreover, attempts to examine the implementation process of specific budgetary policies have shown that there were many gaps between professed objectives and actual programmes on the ground. This severely impaired the desired impact of the measures and led to questions about their utility (SACHETANA, 2003; Unni and Rani, 2005).

Most of these studies so far have been of the expenditure side of various budgets; however, it is equally important to study the other side of the budget, which shows the means used to get resources for activities. Choosing between different ways of raising the necessary resources is an important problem for policy makers because there is usually a significant difference in the impact of those various methods on production and distribution in a given economy. Public finance theory is particularly concerned with devising a mix of methods that can minimise the cost of raising the required resources and also converge as closely as possible with the distributional ends desired by policy makers. The question to ask is therefore: if other things remain the same, what would be the relative impact on specific groups of population of two alternative methods of raising the same amount of resources?

Objective, organisation and sources

Objective

This paper aims to analyse the relative impact on the poor – and especially on women among them – of some recent changes in the pattern of resource mobilisation at the central and state levels in India. To some extent, these changes in fiscal policies have been a consequence of new economic policies adopted by the GOI since 1991. Partly also, there was an urgent need for all levels of government to raise more resources for meeting their fast-increasing expenditures. For many years, several high-powered expert committees had been urging major reforms in India's tax policies with the overall intention of promoting faster economic growth and at the same time ensuring that the burden of taxation is spread equitably, i.e. by taking into account the relative ability to pay of different groups in the population (GOI, 1993, 2002a, 2002b).

Organisation

The first part of the paper describes the constitutional position of different levels of government in India, and the inter-relations between them as they have changed over the years. In the same section, there is a brief review of the relative fiscal positions of different levels of government as compared to their functions and of recent changes in those positions. The paper provides some details on the financial position of the GOI and of some major state governments over the past several years. For local government organisation and finances, the information provided is for West Bengal and a selection of local bodies in that state.

The second part of the paper analyses the possible impact of some specific recent changes in the revenue-raising systems of different levels of government. For the GOI, it examines the shift from trade taxes to direct taxes that took place in the last decade. At the state level, it looks at the rules and regulations governing the levy of value added tax (VAT) in West Bengal and its impact relative to that of the earlier sales taxes. In addition, it examines the levy of user fees for health services in that state and the possible impact of these again on the poor and on women. A brief concluding section summarises the findings.

Sources

The material used in the study is from several kinds of sources. First, it has used budgets and other official sources such as the Economic Surveys of the GOI and reports of the Finance Commissions. Second, it reflects some academic discussions on related issues. Third, I have interviewed several experts on public finance in India at different levels. In addition, the paper uses a lot of material that was collected in the course of several studies conducted by myself with the Centre for Studies in Social Sciences, Kolkata, and with SACHETANA in the last decade and a half.[2] I also conducted a brief case study of user fees for health services at a government hospital and in the health department of the state government.

In addition, meetings with women in two villages of West Bengal were organised with the help of SACHETANA during March and April 2006 (see Appendix 2). The findings played an important role in drafting this paper. Policy makers in India are disadvantaged for want of detailed data regarding happenings at the grassroots. In particular, there are no regular channels of communication through which the views and problems of women – especially poor women – can be communicated to decision makers. Therefore, even with the best of intentions, the latter continue to have very vague ideas about the lives of these women. To give just one example: the current policy of the GOI is to promote hospital deliveries of all children. This does not allow for the fact that for a large section of rural women, hospital treatment is anathema, given the difficulties they have in reaching there and the treatment they have learned to expect from hospital staff.

Meeting a group of women helps to correct some of these lacunae because women willingly talk about their lives when they are in a group of peers, and their talk usually resolves round their current problems and their ways of dealing with them. For example, in these meetings there was considerable discussion about the rising prices of daily necessities, particularly food-grains and kerosene under the collapsing rationing system. They had a lot to say about the poor state of publicly provided health services and the mounting costs of sending children to schools, which has led many of them to take up some paid work and also cut down household expenditure on items like fuel. Some were aware of the changes in trade policies and talked of market prospects for local products like flowers and fish. All this provided a very valuable starting point for the selection and analysis of changing fiscal policies that is the focus of this study.

2

The Structure of Governance

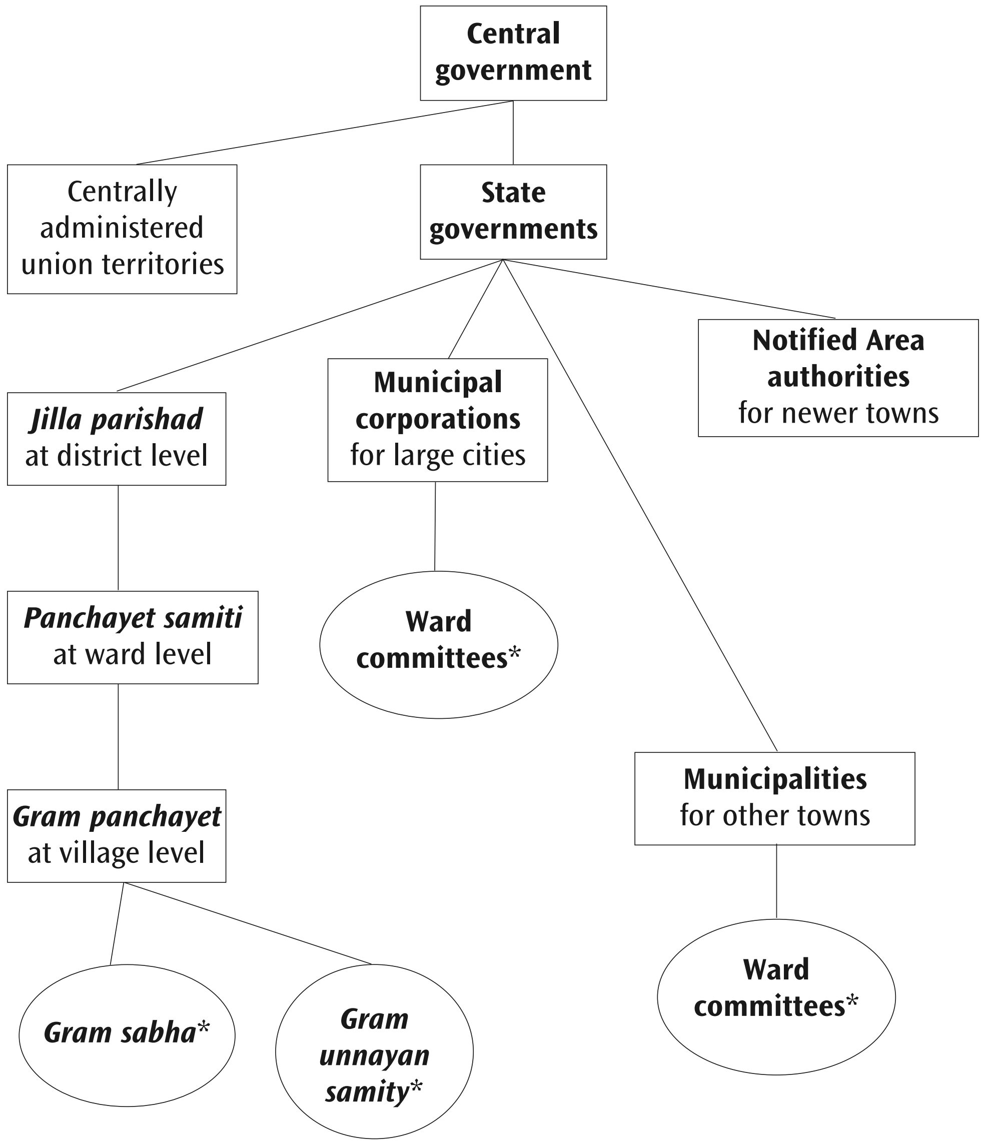
Different levels of government

The GOI – officially referred to as the Union Government – is the governing body of a federal union of 28 states (each with its own elected government) and seven union, i.e. centrally administered, territories. The system of governance was initially designed to have two tiers, the Union and the states; however, in 1992, Parliament passed the 73rd and 74th amendments to the Constitution to set up and constitutionally recognise a third tier of government at local levels: *panchayets* in rural areas and municipal bodies in urban areas.[3] Each state in its turn was authorised to create further two or three tiers within local governments to facilitate greater decentralisation of functions. Now, besides the GOI and the state governments, India has around a quarter of a million local governments.

In rural areas, there are three tiers to the local government, one each at the level of a village (or a small cluster of villages as in the case of West Bengal), at the level of a block and then at the district level.[4] Elections to these three tiers take place simultaneously and are by direct voting for candidates at each of the three levels. In urban areas there are municipal corporations, each authorised by a separate act of the concerned state government, and municipalities for smaller towns, all of which are governed by a common state level act. Newer towns are usually under a Notified Area Authority till they get the status of a municipality. Below these levels are ward committees; while councillors for municipal corporations and municipalities are elected from time to time by adult franchise, ward committee seats are supposed to be filled by nominations and should comprise a group of concerned citizens of the locality. In this paper, the state level situation is illustrated mainly by the pattern in the state of West Bengal, not necessarily because it is typical, but because I am more familiar with it. Figure 1 shows the structure of governance as per the Indian Constitution, of which only the last two levels mentioned in circles are without a constitutional status.

For the legislative functions, the Constitution has provided three lists: the union list, the state list and the concurrent list. Functions included under the concurrent list are those where both the Union and the state governments are permitted to legislate. Besides this, the GOI also has powers to intervene in functions in the state list. The states in turn have been authorised to devolve any of their own functions on to the local government bodies; among states, there is a great variety in relations between the state and the local governments. Each state promulgates its own enactment regarding the system of local government (e.g. The West Bengal *Panchayet* Act no. XLI of 1973, as modified on 31 January 2004 for that state), which lists out the functions and revenue

Figure 2.I The Indian governance structure



*Specific to West Bengal, created by state acts.

sources that can and may be allotted to each level of local government in the state. The *panchayets* in this state cover a cluster of about ten villages with around 10,000 voters, while the middle level, the *panchayet samiti* area, corresponds to that of a block. The *jhilla parishad* is at the district level.

The West Bengal state government has created two more additional layers of local government below the *panchayet* level. Each village is now supposed to form a *gram sabha* and every adult in the village is its member. This *gram sabha* is to meet at least twice a year. In one meeting, the village is to decide on its priorities for local government programmes in the coming year and get them passed by a hand vote. In the other meeting, the budget of the *panchayet* is to be presented for the information of the *gram sabha*. There is also to be a body called the *gram unnayan samity* of nominated members under the leadership of the representative elected from the village to the *gram panchayet*. This body is to liaise between the *gram sabha* and the *gram panchayet*.

According to the Constitution, functions of national defence and international relations are reserved for the GOI. In India's planned economy, decision-making powers regarding the direction and scope of economic development also rest primarily with the Centre. In that capacity, the GOI has chosen to make large public investments for providing some of the more important public goods such as country-wide transport linkages, major irrigation schemes and electricity generation as well of basic goods like steel and coal. Moreover, in general it controls the country's monetary policy.

The state governments have been given the main responsibility for providing social services, particularly education and public health services as well as curative and preventive health care. Among their other functions are building and maintaining roads, providing irrigation and electricity, and maintaining law and order. Furthermore, several state governments, including West Bengal, have made large direct investments in some important industries like surface transport.

The GOI has always utilised the government machinery in each state for executing several of its programmes, particularly those aimed at poverty alleviation. Lately, increasingly, it has been assigning some of these programmes directly to local bodies as well. State governments also give grants to local bodies for carrying out some specific programmes to which it has made budgetary allocations.

In this entire system, only local governments, i.e. the three tiers created through the 73rd and 74th amendments to the Constitution, have reserved 33 per cent of their seats for women. These seats rotate from one election to another, and for each reserved seat all the candidates standing for the election are supposed to be women. Moreover, not only one third of the seats but also one third of the posts of heads and deputy heads in local governments (called *gram pradhans* and *upa-pradhans*) are constitutionally reserved for women. There is a campaign on for similar reservations for women at the other two levels as well, but with little success so far.

Sources of revenue

The Constitution has also divided the sources of revenue into three parts, with the GOI given the more potentially progressive sources, mainly taxes on incomes and profits. It also has powers to levy an excise on manufacture of goods. Powers to tax international trade in commodities, i.e. exports and imports, also rests with the Centre. In addition, all powers to levy taxes on heads that are not specified in the Constitution remain with the GOI. Under that provision, the GOI has recently initiated a tax on services, which is the fastest growing section of the Indian economy. Thus, in spite of being a federation, India's fiscal system is a highly centralised one.

States can levy the following taxes: (i) taxes on sales of commodities, (ii) taxes on land and buildings, (iii) taxes on agricultural incomes, (iv) excise duties on intoxicants and alcohol, (v) taxes on entertainment and (vi) taxes on professions, trades and callings.

Each state is authorised to share its taxing powers as well as functions with the local bodies in any way it prefers.[5] However, the Constitution had tried to ensure some financial independence for the local bodies through the requirement that each state appoint a state finance commission every five years. In West Bengal, the state government has shown great readiness in putting in place the framework of local government and in holding regular elections at that level. Also, it has recently set up its third state finance commission. In general, local bodies everywhere get powers to tax land and property, though not to collect the agricultural income tax.

Table A (Appendix 1) gives details for one year of the resources raised by all states and the GOI from various sources at their disposal. In 2003/04 the GOI's gross tax receipts (gross of the share of states in those receipts) were Rs. 25,434 million, while for all states taken together own tax receipts were Rs. 15,920 millions. Under the directives of the Finance Commission, the GOI distributed about one fourth of its total tax receipts among states. The non-tax receipts of the GOI were also much larger than those of all states taken together. In the year 2003/04, it collected Rs. 7,690 million by way of these sources while the state collected about Rs. 3,806 million from similar sources. The GOI was expected to also share these receipts with states as grants, which in that year amounted to Rs. 4,887 million (i.e. considerably more than states' own collection from non-tax sources). The states together thus got nearly one third of their annual revenue receipts as shares in Central tax receipts or as grants from it.

Each state generally follows the same format as in Table A (Appendix 1) for presenting its revenue receipts. Table B (Appendix 1) gives details of the format of presentation of the capital receipts of states. State budgets also include separate statements of their schematic expenditures for which funds are received from centrally sponsored or central programmes.

Changes in revenue and expenditure patterns

In the period since India switched to the new economic policies in 1991, the country's fiscal position has undergone some major upheavals. Recommendations of the Fifth

Central Pay Commission suddenly raised government expenses of salaries and pensions to its staff and to teachers in the mid-1990s. Average salaries of government employees went up by as much as 60 per cent in a short period (GOI, 2004, table 4.2.1, p. 486). The last few years of the millennium also saw very high nominal interest rates adding to the fiscal burden of debt servicing. Furthermore, there was a marked recession in the country's economy during the early years of the new decade, and that was followed by a severe draught in 2003. It is worth examining how the country's fiscal position worked out through these several years.

Total revenue expenditure of the GOI had stood at just under 13 per cent of the country's gross domestic product (GDP) in the period 1991/93.[6] By 2001/03, this ratio had gone up somewhat to 13.4 per cent. Although the overall change was not very large, the composition of that expenditure had changed radically within the period. The share of pension payments to its former staff had gone up by nearly 50 per cent, as had interest payments whose share in the total had increased by around 18 per cent. The GOI tried to curb its expenditure by reducing to some extent the share of subsidies, particularly to households, in its expenditure budget.[7] However, the bulk of the adjustment came through a fall of over 40 per cent in the share of capital expenditure in the GDP between 1990/93 and 2000/03 (GOI, 2004, pp. 34–36). Table 2.1 shows the changing composition of total expenditure of the GOI from 1991 onwards.

Table 2.1. Composition of the expenditure of the GOI, 1990/91 to 2003/04 (as a percentage of GDP)

	1990/91	1995/96	1999/00	2003/04[a]
A Revenue expenditure	**12.9**	**11.8**	**12.9**	**13.1**
Of which				
Interest payments	3.8	4.2	4.7	4.5
Pensions[b]	0.4	0.4	0.7	0.5
Subsidies	2.1	1.1	1.3	1.6
Rest of A	6.1	6.1	6.2	6.5
B Capital expenditure	**5.6**	**3.2**	**2.5**	**4.0**
A+B Total expenditure	**18.5**	**15.0**	**15.4**	**17.1**

[a]Revised estimate.
[b]The state in India pays pensions only to its own employees; there are no old age pensions for other retired workers except under some special provisions under its poverty programmes. Those are not included here.
Source: GOI, 2004, Table 3.3, p. 35.

Table 2.2 shows that there have been even more dramatic changes on the revenue side: from 1991 onwards, as part of its new policy of trade liberalisation, the Government had been compelled to reduce its levies on imports and exports. To make up for this loss, it made great efforts to rationalise the rate structure of direct taxes, expand their base and tighten their collection machinery. It can be seen from Table 2.2 that in 2003/04 customs duties had come to account for just over half their share in 1990/91, but part of the gap was being made up by the impressive gains made in the collection of direct taxes. Personal income tax and corporation taxes, which together had yielded less than 20 per cent of GOI tax receipts in 1990/91, were estimated to generate over 40 per cent of the same in 2003/04. In absolute terms, receipts of the two direct taxes as a percentage of the GDP rose by over 100 per cent.

Table 2.2. Composition of tax receipts of the GOI, 1990/91 to 2003/04 (percentage)[a]

	1990/91	1995/96	1999/2000	2003/04[b]
Corporation tax	9.3	14.8	17.9	25.0
Income taxes	9.3	14.0	14.9	16.3
Excise duties	42.6	36.1	36.0	35.7
Customs duties	35.8	32.1	28.2	19.1
Union taxes as % of GDP	10.1	9.4	8.9	9.2

[a]The table leaves out some minor taxes, hence the total does not add to 100 per cent.
[b]Revised estimate
Source: GOI, 2004, Table 3.2, p. 33.

State finances

Since the mid-1990s, none of the states has been able to collect sufficient current receipts from all their sources to cover their current revenue expenditures; hence they have been facing a substantial revenue deficit every year. The revenue account deficit of all states taken together had been only 0.7 per cent of the total gross states' domestic product (GSDP) during the period 1993 to 1996. This figure rose to as much as 3.2 per cent of the GSDP in the period 2000 to 2003 (GOI, 2004, Table 3.8, p. 43). The immediate cause for this crisis was the fact that state governments had also been compelled to accept the recommendations of the fifth central pay commission. Many of the state functions – such as education and health services – are particularly labour intensive, so the shock of a sudden rise in employee pay packets hit them even harder than at the Central level. One result common to most states was a rapid increase in their outstanding liabilities in the form of debt. This in turn worsened their revenue deficit position because of the increased liability of annual debt charges.

Some states, notably Karnataka, Kerala and Tamil Nadu, made serious efforts to raise additional tax resources during this period. Therefore, the tax-GSDP ratio of all states taken together went up between 1993/96 and 2000/03 by 0.7 percentage points. Tables 2.3 and 2.4 show that the total tax collection of all states taken together rose faster than that of the GOI so that states' share in total tax collection in the country has been steadily going up (row 1 in Table 2.3).

Table 2.3. Trends in percentage shares in revenue items of GOI and state governments: 1985/86 to 2003/04 (actual)

	1985/86		1990/91		1999/00		2003/04	
	GOI	All states	GOI	All states	GOI	All states	GOI	All states
Items of revenue								
Own tax revenue	49.0	51.0	48.1	51.9	46.7	53.3	45.3	54.7
Own non-tax revenue	62.1	37.9	55.1	44.9	62.4	37.6	66.9	33.1
Own revenue collection[a]	69.5	30.5	67.8	32.2	65.9	34.1	57.4	42.6

[a]Sum of gross tax collection and own non-tax collection; excludes transfers from GOI to states by way of grants.
Source: Rao, 2005, Table 22.1, p. 443; figures for 2003/04 from CMIE, 2005.

Table 2.4. Changes in states' resource position (actual)

	1985/86	1990/91	1999/00	2003/04
Indicators re states				
Own revenue collection as share of own revenue expenditure	57.7	53.1	49.8	53.0
Share of states in the total of revenue by states plus the central government	56.0	54.6	56.4	50.7
Own revenue collection as % of own total expenditure	52.6	51.7	56.0	52.6

Source: Rao, 2005, Table 22.3, p. 446; for 2003/04 figures, CMIE 2005.

Nevertheless, compared to the functions given to the states, their sources of revenue are severely limited. Among those available to them, land taxes could have been a major source of income and have considerable potential for equity and progression. However, these have been discredited for their long association with the excesses of *zamindars* and their British masters.[8] In India's rural economy, which is still dominated by farmers and agriculturists, the tax has thus been politically unacceptable, especially for elected representatives at the levels of state and local governments.[9] Add to that the local perceptions about rampant corruption of officials operating in their areas, and one can appreciate why village people in general feel that a rupee of taxes is a rupee wasted (Akerlof, 2005). The upshot is, land revenue yielded less than 1 per cent of the total own tax revenue of states in 2003/04 and, with agricultural income tax, the total receipts of rural land-based taxes were only about 1.7 per cent of states' own tax revenues in that year (Table A, Appendix 1).

The most important state tax has been the sales tax that is traditionally levied at the stage of final sales to consumers. Here too, there has been a lot of pressure to make the tax progressive, firstly by exempting daily necessities, especially food items, and then by going in for graded rates of taxation, which in the case of West Bengal has been more steep than in most other states.

Variations between tax efforts of different states

The picture of revenue collection by all states taken together hides a lot of variations between the situation of different states. West Bengal's performance in particular has been one of the worst among them, probably due to punitively high rates of sales taxation on selected items combined with lax tax administration. The state also had the highest percentage revenue deficit among all major states. Tables B and C in Appendix 1 provide the relevant numerical data to show the wide variations between the per capita total revenue receipts and per capita own tax revenue receipts (net of shares in central taxes) for 14 major states of India in the period 1990/91 and 2002/03.

Table 2.5 examines whether these variations in fiscal performance of different states can be explained by the difference in their relative levels of development. For each state, the table gives figures of its own tax receipts as percentages of its GSDP for two periods, 1993/96 and 2000/03. The last column shows the relative buoyancy of tax receipts in each state, i.e. the increase in tax receipts per one rupee increase in its GSDP. In West Bengal, tax buoyancy was at its lowest. As a result, the state's tax receipts as a percentage of GDP actually went down between the two time periods.

Table 2.5. Comparative performances of states: own tax revenue (OTR) as a percentage of gross state domestic product (GSDP)

	Average OTR as a percentage of GSDP		Buoyancy[a]
	1993–96 (A)	2000–03 (B)	1993–2003
States			
Bihar	3.71	4.46	1.290
Gujarat	7.51	7.71	1.010
Haryana	7.22	8.30	1.205
Karnataka	8.53	8.33	0.969
Kerala	8.45	8.11	0.946
Madhya Pradesh	4.91	6.45	1.452
Maharashtra	6.64	7.76	1.221
Orissa	3.93	5.81	1.639
Punjab	6.88	7.13	1.061
Rajasthan	5.50	6.48	1.231
Tamil Nadu	8.40	9.00	1.110
West Bengal	5.46	4.26	0.690

[a]Buoyancy is the rate at which OTR increases per unit increase in GSDP.
Source: GOI, 2004.

Centre/state fiscal relations

As mentioned before, the Constitution recognises that the sources of revenue assigned to the states do not match with their responsibilities. It has therefore made provisions for them to share in GOI revenues. These allocations from the Centre to states come through the five-yearly awards of the Central Finance Commission as well as of the Planning Commission, along with annual allocations made by any of the central ministries to states for measures and programmes included in their budgets but to be carried out by state governments. The awards under the Finance Commission are the most important as they account for about 37 per cent of the total annual tax and non-tax receipts of all states taken together. The Finance Commission is responsible for determining the total amount to be shared by the states; it is also to indicate the principles of sharing that amount between states and, based on those principles, to work out the actual share of each state in that pool for the coming five years.

In addition, each state receives grants from the Centre based on some assessment by the Commission of the state's 'needs' for meeting gaps in its annual recurring or revenue budgets. These needs are determined on the basis of some norms regarding the state's efforts to raise its own resources as well as the objective of ensuring that the standards of services given to all Indian citizens are similar regardless of the particular state where they are located. The amount to be received as grants is fixed for five years, while the amount that each state gets as its share in the GOI tax pool is naturally expected to grow as the Centre's tax receipts grow from year to year. The GOI is bound to follow the awards of the Finance Commission for the next five years, until a new Commission gives the next award. Currently, the Indian fiscal system is working as per the recommendations of the Twelfth Finance Commission.

In addition, once every five years, the Planning Commission prepares a plan for economic development. In this it also recommends how much of the public resources for development are to be assigned to states for their development efforts. Of these, a section of the resources gets transferred from the Centre to states, either as loans or as grants, partly for investing in state schemes and partly for carrying out specific Central schemes. In addition, different Central ministries give occasional grants to different states for implementing some of their policy measures at state level.

For the Finance Commission to make recommendations for sharing resources among states, there have to be some objective criteria that fulfil requirements of justice between states as well as of meeting their relative needs. In contrast, the Planning Commission is concerned more with efficient deployment of investment resources between alternative development schemes, which may or may not be uniformly spread throughout the country. Table 2.6 shows the extent of resource transfers at different points of time. Over the years, the non-Finance Commission grants have gone down relative to the Finance Commission grants. This is in keeping with the general decline in public expenditure on capital account.

Table 2.6. Relative transfers to states by Finance Commissions and through other means (percentage of GDP)

Year	Finance Commission transfers	Non-Finance Commission transfers[a]
1993–94	3.05	2.02
1998–99	2.44	1.17
2000–01	3.02	1.20
2002–03	2.80	1.22
Average for 1993–96 [A]	2.94	1.62
Average for 2000–03 [B]	2.88	1.23
[B]–[A]	–0.05	–0.39

[a]As explained in the text.
Source: GOI, 2005, Table 3.6, p. 39.

From the Eleventh Finance Commission onwards, there have been several marked changes in the pattern of devolution of resources from the Centre to the states. According to the earlier pattern, only the income tax and union excise tax receipts were in the divisible pool. By the 80th amendment to the Constitution, the pool has been expanded to include receipts (net of cost of collection) of all taxes barring a small set. In this excluded set is the power of the GOI to tax certain services that are to be decided by Parliament. However, once these are taxed, the devolution of their receipts is to be as per the recommendations of the Finance Commission.

The other major change has been in the relations between the Centre and the urban and rural local bodies. The view of the Tenth Finance Commission had been that the devolutions from states to their local bodies should be a concern for the respective state finance commissions, whose recommendations would then be a part of the information supplied by each state to the Finance Commission. However, since that machinery was not working properly, the Eleventh Finance Commission made special recommendations about the size of grants to be given directly by the Centre to rural and urban local bodies and their division between different local bodies. The Finance Commission also recommended that the GOI should indicate how those resources are to be used by those bodies. The Twelfth Finance Commission has followed the same pattern.

Local finances

Under the current provisions, West Bengal has already gone through three local level elections and has recently appointed its third state finance commission. Among the three tiers of local bodies, only the lowest (the *gram panchayets*) have powers to levy taxation. They can also collect fees, rents, cesses, etc.[10] The other two levels of local bodies are not empowered to collect any taxes; however, if they create some asset, they can collect fees, tolls or cesses for use of that. They can also give specific suggestions about these to the *gram panchayets* under them. The bulk of their resources originate either from the state as part of measures that are included in its nationally approved five-year plan under the Planning Commission or other measures that are put forward by individual departments at state or Central level. Also, the *gram panchayets* may request either of the higher-level local bodies to execute on their behalf some measures that they have adopted in their budgets.

Since the functions and financing patterns of local bodies in each state have been left to the decisions of that state, there are considerable variations in the practices. Our work with these local bodies indicated that, even within the state, there is little uniformity in how accounts were kept and budgets presented. But, once a year, the plans and budgets of each *gram panchayet* are to be put on its notice board and presented before one of the biannual meeting of the *gram sabhas* falling within this ambit.

Table 2.7. The number of local bodies in West Bengal and in India

Rural local bodies (RLB) (including Autonomous District Councils)	Number	Urban local bodies (ULB)	Number
West Bengal			
1 *Gram Panchayats*	3,358	Municipal Corporation	6
2 *Panchayat Samities*	341	Municipalities	114
3 *Zilla Parishads*	18	Notified Area Authority	3
Total	**3,717**	**Total**	**123**
India			
1 *Gram/Village Panchayats* (including Village Councils and Boards)	236,350	Total no. of Municipal Corporations	109
2 *Panchayats Samities*	6,795	Total no. of Municipalities	1,432
3 *Zilla Panchayats*	531	Total No. of *Nagar Panchayats*	2,182
4 Autonomous District Councils	9		
Grand total (all RLBs)	**237,824**	**Grand total (all ULBs)**	**3,723**

Source: GOI, 2005, p. 427.

The West Bengal state government has given considerable publicity to its intentions and policies of decentralisation through local bodies. However, evidence from the ground does little to support those claims as far as rural local bodies are concerned. So far, the only tax they receive is that on land and buildings. No other state tax is assigned to them or shared with them. Local bodies have been given several sources of non-tax revenue, including trade licenses, market fees, and fees for licensing fairs and making sanitary arrangements for them, renting out buildings, running ferries, collecting road tolls, etc.

The main source of revenue for them is grants. The state government gives all local bodies – i.e. all units of local government at the officially approved levels – a subvention grant that entirely covers their expenses of salaries and allowances to staff and elected representatives and of running the office. Each local body gets a grant under the Finance Commission awards, as mentioned before. In addition, local bodies get funds to carry out poverty alleviation programmes on behalf of the GOI. The state government is also supposed to give those units of local government untied grants to carry out schemes of local improvement that the bodies have prioritised. Furthermore, local bodies can raise loans with state guarantee for any capital work they plan.

To find out the practices of local bodies in West Bengal, SACHETANA collected such information about 22 rural *gram panchayets* from eight different districts within the state. These indicate that:

- The per capita tax receipts in most local bodies are negligible, partly because of low assessment and partly because a very low percentage of the amount due as per assessment is collected from each taxpayer.
- There are wide variations in the extent to which local bodies use their non-tax sources of revenue.
- Regular salaries and office expenses of each local body outstrip their own resources by a wide margin. The largest single grant received by them from the state government is meant mainly to cover these overheads.
- Untied grants from the state are relatively very small. Even for these, *gram panchayets* complain that the state government gives specific directions about their use.
- Local bodies are not always capable of spending the funds they get within each fiscal year, and in several of them there is a growing balance of resources carried over to the next year (Table 2.8). This is partly because the funds usually arrive too late for them to enable the *panchayets* to use them within the year, but also because many local bodies are not equipped to carry out all the diverse tasks that they are being given.

Table 2.8. Budgetary position of selected *panchayets* (in Rs. '000s)

	Opening balance			Total expenditure as % of total receipts		
Gram Panchayet	**2001/02**	**2002/03**	**2003/04**	**2001/02**	**2002/03**	**2003/04**
Maraikura	420.2	182.0	367.6	93.3	89.4	82.1
Sahajadapur	674.4	407.3	527.8	77.0	77.8	77.3
Baishata	740.1	330.0	372.9	85.0	86.1	79.4
Pipragachhi	562.3	478.3	615.4	65.5	64.9	72.0
Mayureswar	217.6	147.0	358.9	90.3	76.9	73.0
Balpai	345.2	63.0	331.5	96.6	82.8	66.2
Kundala	512.4	217.9	405.6	85.6	79.1	63.6
Nutangram	76.1	57.5	77.2	95.3	94.9	69.0
Daspalsa	553.4	229.4	351.3	87.9	77.4	70.1
Beldurganagar	1,065.7	1,083.4	1169.1	61.8	66.2	70.5

Source: SACHETANA records of *panchayet* finances.

From several earlier village meetings,[11] SACHETANA had found that the levy of tax on land and buildings has become a highly politicised matter in this state. A woman *pradhan* said that in the villages, taxes were collected by cadres of the ruling political party and often led to bitter disputes, even to the murder of rival party members. Politicians were reportedly uninterested in making a proper assessment of property values; moreover, there were many anomalies. In some cases, people had built houses on other people's land and could not be taxed. In some *gram panchayets*, it had become a standard practice to charge each householder a standard though trivial amount even if he or she had no assessable property. In this, *gram panchayets* under women heads did not fare any better.

In several of our meetings, a common complaint made by women elected representatives was that, even when a woman was the *pradhan*, she and the other women members were not informed about the date and timings of *gram panchayet* meetings when financial matters – including budgets – were discussed. When they complained, they were told that they should attend meetings more regularly. They did not claim that their tax collection records were any better, mainly because the rules and regulations for the levy of any tax had either not been formulated or were not clear to them.

Elected women felt that *gram panchayet* budgets usually did not reflect the gender concerns of the village. Nevertheless, some of the women *pradhans* had made special efforts to raise non-tax receipts by developing and leasing out common assets of the village such as ponds, waste land for trees, etc. In most of these efforts, they had tried to involve village women and to direct the receipts to some requirements of those women.

3

The Impacts of Recent Changes in Revenue-raising Practices

Reduction of trade taxes

For the GOI, the most important change in its resource mobilisation practices was the shift in the composition of its tax receipts. As Table 2.2 showed, the weight of taxes on trade has gone down significantly while that of direct taxes has risen fast. From 1990/91 to 2003/04, the share of direct taxes in the GOI's total tax revenue rose from less than 20 per cent to over 40 per cent; at the same time, receipts of customs duties fell from 36 per cent to less than 20 per cent. On the whole, the GOI's tax receipts as a percentage of the country's GDP have been slowly going back to their earlier level of around 10 per cent. In other words, the GOI is now deriving approximately the same percentage of GDP as tax receipts as before but from a different set of taxes.

Reducing trade taxes had become necessary as a part of the new economic policies that promoted a more open trade regime. On the other hand, reforms of the direct tax system sprang from the long-standing recommendations of several expert committees (GOI, 1971, 1991; NIPFP, 1994) for a thorough overhauling of the direct tax regime in the interest of both greater yield and more efficient collection (i.e. with minimum collection costs). The very high and complicated multiple rates and exemptions were affecting incentives to work as well as encouraging avoidance. In the years since 1991, rates of direct taxes have been reduced, rationalised and enforced much more vigorously. Moreover, special efforts have been made to widen the base of personal income tax, which is still very narrow because it leaves out income from agriculture, value added per year from which still accounts for about 20 per cent of the country's GDP.[12] Nor is the system capable of levying and collecting direct taxes from the vast sector of informal workers, i.e. most of those who are self-employed or work for unregistered employers. The tax authorities have nonetheless made special efforts in the last ten years to expand that network by devising different methods of identifying new taxpayers. In order to identify and assess the incomes of those informal sector workers who are relatively affluent, authorities have resorted to other official or semi-official records such as those of persons with a telephone, a motorised vehicle, a credit card or a passport. This has enabled them to substantially step up their collection of direct taxes over the last few years.

Impact of the changes

Changes in income tax rates have little direct impact on the poor because they do not pay income taxes; in the year 2005/06 the tax was applicable to persons with incomes equal to or more than Rs. 100,000 per year net of personal allowances and exemptions for savings, housing, etc.[13] The majority of Indian citizens do not earn more than a fraction of that sum even if they get work throughout the year All in all, only about 16 million workers in India, out of the approximate total of 370 million, were identified as liable to these taxes in the year 2002/03 (GOI, Economic Survey, 2003).

For the few women who are assessed for personal taxes, the regulations are exceptionally generous in India. Even in the case of married couples, husband and wife are assessed separately and each independently gets a personal allowance as well as all applicable exemptions.[14] In addition, while the personal allowance limit for a man in 2004/05 was Rs. 100,000 per annum, for women it was Rs. 135,000, based on the argument that a working woman needs to get paid help at home. Again, these apply to a very small group of relatively rich women and are of little relevance to more than 99 per cent of working women in the country.

Theoretically, a reduction in any tax or duty on trade or consumption increases the welfare of consumers by reducing not only prices but also distortions (introduced by taxes) in the relative market prices of taxed and non-taxed items. Trade liberalisation also adds to the choices available to consumers. On all these grounds the new trade tax policies of the GOI should have been good for consumers.

However, changes in trade taxes affect only those goods that are tradable, since governments have no machinery to trace trade in non-tradables. The terms 'tradable' and 'non-tradable' need some explanation, particularly since – though they are widely used in economic literature – there is no standardised definition. In general, a good is considered tradable if it can be distanced from its supplier without loss of value. For example, the services of a hairdresser cannot be separated from the hairdresser herself or himself.[15] Although it is assumed that all goods – as distinct from services – are tradable, in less developed countries many goods have traditionally been produced and consumed only locally and could hence be left off the list of tradables. As technology changes, however, with the use of more capital for operations like preserving, packaging and transporting, many more goods like fresh fish have become tradable. In India, products such as grain flour, edible oil or spices and preserves are now being produced by large companies and are sold in packaged form in distant markets. Once an item becomes tradable, it can be traded internationally. Cuts in trade taxes will, in principle, reduce the prices of tradables relative to the prices of non-tradables.

Table 3.1 shows the shares in consumption of the poor and non-poor of tradable and non-tradable goods. It is based on my own rough judgement about what items are still largely being produced for local consumption and therefore are not subject either to sales taxes or to import or export duties. This division however, is strictly temporary and is liable to change very quickly over time. The group 'other non-tradables' is dominated by items such as rent for accommodation, schooling and health-related expenses. The table indicates that cuts in trade taxes have favoured the non-poor because the share of non-tradables in the consumption basket of the poor is relatively large. (Here, the issue is regarding cuts only in levies by the GOI on internationally traded items.)

Table 3.1. Percentage distribution of consumption baskets of different groups of the rural population, 1999/2000

Item	Bottom 30% persons	The rest	All
Food net of tradable items	57.5%	50.5%	49.1%
Tradable goods	19.8%	23.0%	20.9%
Other non-tradables	22.7%	26.5%	30.0%

Source: NSSO, 2001, tables 1R, p. A-17 and 5R, p. A-233.

In the period since 1991, prices of agricultural products, most of which are still not internationally traded except under government licence, have risen relatively faster than those of manufactured goods, which now can be regarded as internationally tradable because there are few controls by the state on their import or export. Table 3.2 shows these trends.

Table 3.2 Price indices of agricultural and manufactured products, 1991/92 to 2002/03

Year/Month	Index of manufactured products	Index of agricultural products	Index of manufactured products as % of index of agricultural products
(1)	(2)	(3)	(4) 2/3 x 100
1991–92	86.4	87.9	98.3
1994–95	112.3	116.1	96.7
1999–00	137.2	159.1	86.3
2001–02	144.3	169.5	85.1
2002–03	148.1	175.3	84.5

Source: GOI, *Economic Survey 1994/95*, Table 5.16, p. 90 and *Economic Survey 2004–05*, Table 5.4, p. 90.

This is what trade theory would lead us to expect: when there are more suppliers (in this case because the good is open for trade by international sellers), competition between them would force prices down as compared to the earlier situation when there were fewer sellers. Tradables, where sellers from all countries are competing, should thus become cheaper than non-tradables, which are supplied only by a few local producers. Therefore, persons who spend a higher percentage of their incomes on non-tradables should be worse off than those who spend a relatively larger share on tradables. In other words, trade liberalisation is likely to have worsened the relative position of the poor vis-à-vis the rich as far as their consumption of goods is concerned.

On the other hand, the recent cuts in trade taxes apply to goods and not to services, and therefore services became relatively more expensive compared to goods. The GOI has, in addition, imposed a flat rate tax on services from which only expenditure on health and education services is exempt. That means that services other than those two are likely to have become even more expensive relative to goods.[16] What impact would these provisions have on the poor relative to the rich?

The National Sample Survey Organisation (NSSO) provides five-yearly estimates of distribution of households by their monthly per capita consumption expenditure (MPCE) and also shows the average amount spent on different kinds of items for each MPCE group. For the year 1999/2000, the picture was as shown in Table 3.3.

Table 3.3. Expenditure on miscellaneous services and on health and education services by different MPCE groups in rural (R) and urban (U) India (in Rs.)

	Per capita monthly expenditure				Total average MPCE	
MPCE groups	**Misc. services**	**Index no.**	**Education and health**	**Index no.**	**Amount**	**Index no.**
R <470	14.0	100.0	17.9	100.0	277.7	100.0
R 470–950	38.9	277.9	53.8	300.6	623.2	225.5
R 950+	137.7	983.6	190.8	1,065.9	1,343.8	483.9
U <500	16.5	100.0	21.8	100.0	381.1	100.0
U 500–1120	57.2	346.7	64.4	295.4	745.1	195.5
U1121–1925	186.4	129.7	150.7	694.5	1,420.5	372.7
U 1925+	517.3	3,133.3	376.4	1,726.6	3,074.9	806.9

Source: NSSO, 2000, Tables 1R 30 and U 30, pp. 36–37 and Tables 7 R and 7 U, pp. 64–67.

It appears that as total MPCE level goes up, people everywhere spend more than proportionately on both groups of services. In rural areas, interestingly, expenditure on health and education rises faster than both total consumption and expenditure on miscellaneous services. In urban areas on the other hand, the increase in expenditure on the latter group of services is much faster than in total consumption and in expenditure on health and education.

One can conclude on the basis of this data that, as shown in Table 3.1, the poor have probably been more adversely affected by relative changes in prices of tradable and other food items; but when one takes into account consumption of various kinds of services by different MPCE groups, and when the incidence of changes in trade taxes and in taxes on services is pooled together, it seems that the urban rich would be paying considerable service taxes. Since expenditure on services goes up faster than on goods in higher income groups, the relief they have received through cuts in taxes on tradables is probably being offset by liability to service taxes, making the overall incidence of central taxes somewhat progressive.

Questions remain about the relative impact on women as compared to men of changes in trade taxes. The Indian data system gives information about the distribution by levels of MPCE only at the household level, which is then divided by the number of household members to work out the average per capita figure of total or item-wise consumption. In other words, the data collected for each of the sample households is of the aggregate spent by the household on a given item and there is no further information about its intra-household distribution. It is therefore not possible to work out the differential burden on women and men from that information.

However, it has been shown that a larger proportion of women are found in poorer households in both rural and urban areas (Banerjee, 2000; Sundaram and Tendulkar, 2004). Therefore any adverse effect of changes in trade taxes is likely to affect a higher percentage of women than of men. Moreover, one of the questions asked at the village meetings mentioned above was regarding the management of household expenses. The majority of women replied that, in the kind of occupations that their family men had been engaged in, incomes had lagged behind the general price rise. So, male contribution to family resources had not been increasing as fast as family expenses; in such situations, it was the women who had to find the means to make ends meet. In rural areas all the women had given up using commercial fuel for cooking and were collecting whatever combustible materials they could find for free. They had also taken up some activities such as keeping chickens or growing vegetables to supplement family incomes. Overall their workload has gone up significantly, particularly since finding free material to use as fuel is becoming increasingly difficult in West Bengal's rural areas.

I had no opportunity to collect systematic data about urban women's reactions to the new situation. In the city of Kolkata, however, more women now appear to be participating in family activities, especially petty trade. They too forage for things to burn; however, in the city, they do not get vegetable waste or wood and are often forced to use waste mixed with plastic or rubber, which is dangerous for their health.

Impact on producers

The impact of changes in trade taxes is not confined to consumers alone; they are of great significance to producers, especially of goods that compete with internationally traded goods either for their inputs or for their markets. India's trade reforms in 1991 were very largely triggered by external factors and not prompted by any careful analysis of the state of the country's economy. Hence, the liberalisation that took place was as sudden as it was drastic and had made no allowance for the existing state of the various productive activities in the country (Goyal, 1996, as quoted by Topalova, 2005). Trade policy reforms thus compelled a very large section of producers of goods to face competition from various unfamiliar directions. As late as 1989/90, the share of goods that could be imported under open general licence (i.e. without government controls) was only 12–15 per cent of all commodities being marketed in India. But between 1992 and 1997, the absolute number of products subject to quantitative trade restrictions by the state went down from 85 per cent to 45 per cent. For international trading, only a few goods mentioned in a single 'negative' list remained protected; all goods outside it could be freely imported (Goldar, 2002). Changes in trade taxes have therefore had a significant but unforeseen impact of on almost all producers of goods in the country.

Trade shocks and poverty

A very large percentage of rural and urban households in India are engaged in production of agricultural as well as industrial commodities for trade, on either a full-time or part-time basis. Many agricultural households, besides producing a staple food crop, also produce a commercial crop such as oilseed, cotton, jute, silk cocoons and fruits including coconuts for their cash requirements. Districts producing commercial crops also have traditional or modern industries for processing those products. All these crops and their processed products are sold on national and international markets. Many more households are engaged in the manufacture of products such as handlooms, handicrafts, coir products and processed foods. In any given area, the manufacture of one of these products is usually the single largest employer of rural labour, especially of female labour, after agriculture. Many of these agricultural and cottage industry products are or can be internationally traded so that their producers, whether cotton growers or handloom weavers, are likely to be affected by changes in trade taxes.

In her research study, Topalova (2005) addressed the very important question of whether the benefits (or costs) of trade liberalisation were spread evenly in all areas. She assumed that benefits of trade liberalisation could be measured by the extent to which poverty levels (head-count ratios and poverty gaps)[17] go down in a particular region. Her hypothesis was that, in the decade following trade reforms, there would be a greater impact (positive or negative) on districts that had a higher percentage of population depending on industrial employment. She therefore classified all districts of the 16 major states of India by the industrial composition of workers in each according to the 1991 census. She found that in rural districts where a greater percentage of the population depended on industries, the head count ratios of poverty over the relevant period went down by a significantly smaller amount than for the average district. In other words, although poverty levels went down (at last marginally) in all districts of India, they went down by a smaller percentage in districts that were more likely to be producing tradables.

These findings presumably mean that industries in India were unprepared for trade shocks and were adversely hit by the policy changes. There are several reasons why these industries are in this vulnerable position. One is that many of these crops and the industrial products based on them are of relatively poor quality, e.g. raw cotton or silk cocoons. Past history shows that, with open trade, demand for these products depends heavily on the supply position of producers of superior varieties from other countries. In years when that supply was down, there was an upsurge in demand for Indian products. Often in the past this had persuaded Indian producers to step up their production in the following year, only to make heavy losses when supply from elsewhere improved. Indian producers do not have adequate information about world production and demand trends, as a result of which they have been hit harder by trade vacillations. Even now this has been the case for cotton producers.

In addition, the GOI had long been protecting many small-scale, cottage and village industries from competition by reserving domestic markets for them and by barring the entry of competing foreign products through trade barriers. But such protective policies had done little apart from offering the units cheap credit and some inputs at subsidised prices. Over time, these industries had come to be dominated by intermediaries, mostly traders, who provided the actual producers with working capital and in return had the first option for buying their produce. This way they tended to push the producers into a state of bondage; the benefits of the facilities provided by the Government to small units went mostly to those intermediaries and left the producers with no resources to invest in upgrading the units. Therefore the value productivity of those units had remained low. When the earlier facilities such as subsidised inputs were withdrawn, the units could not withstand open competition with large modern units of domestic and foreign producers.

Why is the impact localised?

Under standard trade theory, in an open economy these kinds of pockets of poverty would be eliminated by factors of production – land or labour – moving quickly and smoothly to other, growth-prone or 'sunshine' industries; if necessary, labour could migrate to other areas where those industries are located. However, evidence on migration up to 2001 from census records suggests that till then, migration for work even within India was not on a large enough scale to counter the impact of decline of industries in some areas. The household-based survey that I undertook in 2003/04 in West Bengal found that out of 500 households, only 54 or just over 10 per cent had at least one migrant worker (Banerjee, n.d.). Migration of labour has been constrained because of two main reasons:

1 Workers in these traditional industries acquire their skills through family traditions; they have no exposure to other skills or to the basic training (often including schooling) that is required for absorbing new skills. For them, moving to a new occupation always means having to start at the bottom in its unskilled operations.

2 In an average rural district, there are few alternative occupations available that can absorb the redundant labour of another industry. Traditionally, all rural workers who were unable to find other work went into agriculture, even if on a temporary or part-time basis. However, census records for 1991 and 2001 show that during that decade, agriculture in most states had actually been shedding its labour and was obviously not capable of absorbing workers from other occupations (Singh, 2003, Table 8, p. 896.)

Impact on women

In areas receiving trade-related shocks, women are vulnerable both because they themselves may be workers in those industries and also because they belong to the households of such workers. From the recent household survey mentioned above, it appeared that the main strategy of families was for more members to enter the workforce and for all workers to seek additional work whenever available. This strategy required considerable flexibility in the deployment of family labour because of the need to cope with sudden changes in job availability. The survey result showed that it was mainly women who provided this flexibility, which meant that they also took up whatever wage work was available. However, because of their other commitments, their choices in this were limited either to part-time work or to home-based work.

If the time spent on all women's economic or productive tasks (whether market-oriented or not) was added up, then it was sufficiently long to entitle them to be recognised as workers in the official sense. But because they spent time on multiple tasks and could not specify any single task as their principle activity, they usually got left out of the official count of workers.[18] In many areas where traditional industries had collapsed, women took on multiple roles. For example, in Murshidabad area, where silk cocoon rearing and silk reeling industries had been badly hit by the policy of allowing free imports of Chinese silk (cocoons and yarn), women of traditional sericulture families were found working for longer hours (average of nine hours plus) than in any other area in the sample. They continued to rear cocoons, however small their returns, because even when prices of cocoons had fallen the family regarded women's labour as free. Also throughout the year they did piece-rated work of rolling *bidis* (hand-rolled cigarettes). In many families, this work now accounted for more than half the family income. The same was true of women in handloom weaving families of Hoogly district.

In spite of getting some recognition as workers from their families for their money-earning work, women's burden of housework remained unchanged; in almost all families no other member except minor children offered any help and no family had invested in any labour-saving gadgets.

In summary, the shift from trade taxes to direct taxes by the GOI had probably meant that in specific regions, producers of rural tradables had not been able to withstand the increased competition or to shift to other industries and areas. Therefore in those regions, poverty had been somewhat more persistent than in other rural areas. For women in those families, the crisis had led to a significant increase in their daily workload because of the adjustments required in the families' struggle to find alternative sources of income. Nevertheless, in the evolving situation, women had found a new confidence and a voice in family decisions even though it had not led to any reduction in their burden of traditional work as a nurturer.

The switch from sales tax to VAT at state level

At the state level, the most important change in the revenue regime has been a broad consensus between states, tax experts and the GOI to replace state level sales taxes by a value added tax (VAT). West Bengal has now passed the West Bengal Value Added Tax Act of 2003, which became effective from 1 April 2005. After a full financial year of its operation, the West Bengal Finance Minister expressed his satisfaction and claimed that receipts under the new regime have been satisfactory. Unfortunately, it was not possible to substantiate this claim from figures of receipts from budget documents because, as the officials in the state government's finance department explained, necessary changes in the budget procedures had not been carried out as yet and, therefore, the figures available were gross of all sales taxes; separate figures for VAT were not available.

Sales taxation as practised by states until recently was their largest single source of tax revenue. In the year 2003/04, its receipts constituted about 60 per cent of the total tax revenue of the states and were equivalent to about 3.5 per cent of the GDP of the country. It was a tax levied at the point of sale of a manufactured good; services were out of its coverage because the Constitution had clearly laid down that the tax, as assigned in the state list, was to be on manufactured goods only. This had severely limited the growth potential of the tax, since, as noted above, services are the fastest growing sector in the Indian economy.

Ideally, sales tax should be collected at the point where the good is sold to the final consumer. However, because of difficulties in reaching multiple small sellers in distant places, the tax used to be collected at the point of first sale, i.e. at wholesale level, which narrowed the tax base further in money terms. Moreover, state governments had found it politically imperative to exempt essential goods from its coverage and, at the same time, to make the tax rates progressive. And since they also had to raise the yield of that tax to meet their fast-rising need for revenue, state governments had come to levy multiple and steeply progressive rates on different goods. The Report of the Study Team for Reform of Domestic Trade Taxes in India (NIPFP, 1994) observed that, at the time of writing the report, sales taxation in India was the most complex system in the world and hence urgently in need of reform in the interest of both efficiency and fairness. The tax was considered defective for the following reasons:

- Levying the tax at the first point of sale meant that a significant part of the value added in later stages by operations such as packaging remained outside its coverage. It gave scope for malpractice by manufacturers, who left several value-adding operations out of the basic manufacture that then were done later by their subsidiaries.
- In this process, trade margins got left out of the tax coverage, which particularly favoured richer consumers because these margins could be very large for luxury goods.
- Because the tax was levied at an indeterminate stage of production, it created unintended distortions between goods produced by different producers who were using different methods.
- To counter these kinds of anomalies, many states levied a turnover tax that added a further burden on the taxpayer and often got transferred to the consumer in the form of higher prices.
- The base of sales tax was essentially narrow because of not taxing services.
- High rates gave an incentive for tax avoidance and, because this tax was collected at a single point, the Government lost the entire amount of tax that was due from those items.

- Sales tax was levied on some inputs as well as on capital goods. Some states set the rates of tax for those items somewhat low; nevertheless, in the assessment of taxation on the final product, there was no recognition or refund of the tax amount that had already been paid on capital goods. This had a cascading effect, in the sense that in the sales of the final good, those inputs and capital goods were being taxed once again. This meant that the ultimate prices charged to the consumers were higher.

VAT is also a tax on sale of goods (it too excludes services). However, it is a method of collecting the tax in instalments at several stages. The value added at each stage of production is the difference between the sale value of the product and the cost of the inputs that the producer had brought. In principle, the total tax amounts collected under VAT and under a retail sales tax would be identical, because the retail sale value is equal to the sum of value added at different points.[19] The tax due may be calculated either on the full sales value (and then the tax paid at earlier stages can be deducted to get the net liability of that producer); or, tax can be calculated only on the value added by that producer. If the tax rate applicable at all stages is the same, then the amount due would be the same in either case. Theoretically VAT has the following advantages over sales taxes:

- VAT is recommended for its neutrality, i.e. its non-interference with the decisions of economic agents about what to produce, by what technology and in what kind of production organisations. Because there is no cascading of the tax, it does not matter how much of the final value is added and taxed at each stage. There is therefore no incentive for vertical integration of units only to save on tax liability.
- Provided VAT is charged at the same uniform rate at all stages of production, it is easy to calculate at any point how much tax has already been paid. In other words, tax administration becomes transparent and there is no uncertainty about tax liability.
- Because producers can claim credit for taxes paid on their inputs, they have an interest in demanding invoices and tax records from their suppliers. This means that suppliers have to get themselves registered and keep proper records to satisfy their customers. Thus a much larger section of the economy comes under official recognition, which helps in collection not only of VAT but also of other taxes such as trade licenses, personal income taxes and corporate taxes.
- While avoiding sales tax was easy because of the single point of collection, with VAT it is more likely that some part of the total value generated will be netted for taxation.

In practice, the VAT regime recommended by the Empowered Committee under the Finance Ministry of the GOI and its application at state levels is somewhat different from the theoretical model. Ideally, there should have been a uniform VAT levied by one authority for the whole country. This would have removed several problems that have always haunted India's indirect tax practices. One such problem is of compatibility between central excise taxes, central sales taxes and the sales taxes and turnover taxes of different states; this is especially true in the case of inter-state sales. However, politically and practically, it was not possible to impose one centrally administered VAT; sales taxes are after all the lifeline of state finances and state governments would not have agreed to give up this sovereignty. Ultimately, as a compromise, each state was allowed to pass its own VAT law and the GOI agreed to phase out its central sales tax as well as its excise duties. The Centre is to be compensated for any possible loss from such measures by a reduction in its allocations to state governments.

VAT as practised in West Bengal

VAT as levied in West Bengal has four rates besides the exemption given to several essential goods. Exporters are taxed at zero rate,[20] gold and bullion are taxed at 1 per cent, inputs and capital goods are taxed at 4 per cent[21] and the rest, i.e. all taxable goods, are taxed at 12 per cent.

For the purpose of this paper, the more interesting question is about the treatment under VAT of purchases of capital goods by producers. Like all taxes on inputs, those on capital goods are also meant to be offset against their own tax liability. However, capital goods are lumpy (i.e. not divisible, such as machinery for making cars) and in any one year the price of a capital good and the possible tax credit to be claimed against it can be very high. On the other hand, that capital good is likely to be used for several years. The unit buying it may find that its own tax liability in the year of purchase is not sufficiently large to be able to use the entire amount of tax credit due. So the West Bengal Act provides that, for capital goods costing up to Rs. 1 crore (10 million rupees), the entire tax credit can be used in one year or, if this is more than the purchasing agent's own tax liability for that year, it can be carried forward to the next year. In the case of capital goods costing more than that amount, the credit is to be set off in four half-yearly instalments (i.e. in two full years).

This is a major change from the earlier sales tax system, where taxes paid by the sellers of a capital good were partly or fully included in its price to the purchaser. Because the final good produced with the use of the capital good was also taxed, the value added to it by the use of the capital good was taxed again. Over the life of the capital good, its entire value thus used to be taxed twice. The new system distinctly favours those using more capital goods than before, which for reasons set out in the next few paragraphs is likely to go against today's informal sector workers and especially women among them.

Impact of shift from sales taxes to VAT on the poor and on women

Because VAT is basically the same as the earlier sales taxes, fiscal experts generally feel that there is unlikely to be any difference in the impact on consumers – except that, since VAT does not have a cascading effect, it is generally expected that prices for consumers would be lower, thus raising their welfare. Moreover, because VAT is expected to be more difficult to avoid, VAT rates can be lower while the same amount of revenue is obtained. This will also increase the welfare of final consumers. Since essentials in India are exempted from all sales taxes including VAT, women in poorer households will continue to enjoy this benefit. A reduction in rates of taxes on consumption expenditure would favour the rich more since they spend a larger percentage of their incomes on non-essentials.

However, this shift from a retail sales tax to VAT may have a considerable impact on workers, especially on those in the informal sector. There is a close association between poverty and the informal sector because, by definition, terms of employment for the 85 per cent or so of workers engaged there are nowhere comparable to those in the formal sector. In particular, women in India are unable to become economically empowered because over 94 per cent of employed women work in informal activities where they usually earn less than the official minimum wage and have no security of employment or any other worker benefits. Records show that, in the decade or more since India adopted the new economic policies, the share of the informal sector in the country's workforce has been growing.

Although the informal sector is thus by far the largest employer, and is also responsible for producing 60 per cent of the GDP, there is no official recognition or record of the workers operating there. Owners of informal units and their workers are not assessed for direct taxes at the source of their incomes and they do not always have a trade licence. The sector, however, is closely linked with the mainstream or formal economy in two ways:

1 Informal units are part of a vertical chain of production operations. They may either use the output of some formal sector units (e.g. handloom units in the informal sector buy yarn from formal sector mills) or be engaged in producing goods that are then transferred to formal sector units and sold under the latter's brand name (e.g. footwear may be made by small producers and then finished and labelled as brand name products).

2 Units in formal and informal sectors often produce near substitutes for each other's products, which then compete for custom in local, national or international markets.

In general, the two kinds of units use somewhat different technologies for producing similar products. In the formal sector, units use relatively more capital per unit of labour. Informal sector units generally use a more labour-intensive technology but manage to stay in competition by paying lower wage rates, keeping down their overheads as well as charging lower prices for their products.[22]

VAT and the informal sector

It was noted earlier that substitution of VAT for earlier sales taxes has removed the cascading effect that the earlier measure had on purchases of capital goods. Now, producing firms that invest in new capital goods can get credit for the sales taxes paid on those goods; this means that the relative prices of capital and labour change in favour of capital, making it relatively cheaper for firms to switch to more capital-intensive technologies and to substitute capital for labour. At the same time, because of the reduced tax liability, the seller would be able to sell the final product at a lower price than before. Informal sector units, which had so far managed to compete by charging lower prices than the other units, would now have to lower their prices further if they are to stay in business.

In addition, an important aim of the Government in switching to VAT is to bring more and more activities and producing units under the tax network so as to enhance tax receipts by broadening the base. With VAT, a unit can get credit for taxes paid by their sellers on those inputs it purchases, provided it can produce an invoice that shows the amount of taxes already paid. This gives them an incentive to buy inputs only from registered units. Since unregistered sellers of inputs do not pay any tax at the time of their sales, they would, in principle, be able to charge a lower price for their goods than the registered sellers, thus countering this incentive for buyers. However, to circumvent this difficulty, the West Bengal government has made a further provision: if a registered producer buys inputs from an unregistered seller, then the buyer has to pay tax at the standard rate charged on that input. This amount, however, cannot be set off against the user's final tax liability. In other words, buyers are discouraged from buying from unregistered units because if they do, they are liable to pay an extra, non-refundable tax amount. Unregistered units can thus stay in business only by further lowering the prices that they charge for their products.

These two provisions, taken together, mean that over time more and more activities are likely to come into the registered sector, expanding the tax base in the economy and permitting the collection of the same amount of tax receipts from lower rates of taxes. Changeover to more capital intensive technologies will further mean that labour productivity will go up and workers will be in a better position to get organised and bargain for better work conditions.

However, there is a strong possibility that the workers who were previously engaged in informal units may not be able to manage that switchover. There are several reasons for this. First, several studies (Papola, 1981; Banerjee, 1988) have shown that informal sector units are often owned by self-employed workers who are severely limited by their lack of adequate capital resources. In the changed tax regime, it may not be feasible for them to cut down further on the prices they charge or the wages/earnings they pay themselves. Nor will they be able to change over to other technologies, given their initial handicap of lack of both human and financial capital. As a result, they are likely to be replaced by new formal sector units working with a different technology and probably with a somewhat larger scale of production. Unless demand for the products increases fast, there will also be a cut in the total employment in that industry because of the shift to production methods that use less labour per unit of production than before.

Second, as mentioned before, many of the informal sector units, especially of traditional artisans, are tied to intermediaries and traders. These intermediaries have never been interested in making long-term investments in these industries, and past experience suggests that if they find that returns on products of the informal units are no longer adequate, they would prefer to move out of those industries, thus pushing the units into a bigger crisis.

Third, even if the same units were to be modernised, workers who had earlier been employed in them may not have the skills required to work with the new technologies. In particular, there is a long history of women workers losing their jobs when industries change to more mechanised operations (Banerjee, 1985, 1998; Sen, 1998). This is partly because the workplace moves from homes to factories and it becomes necessary to put in regular and continuous hours. Or it can be because, with higher productivity, wages for the jobs go up and men take them over. The jobs women held admittedly were usually of poor quality, with low pay and no work security. But since any kind of wage earning jobs for women are scarce in this region, losing the existing ones may have serious consequences for the workers.

User charges

With the growing resource crunch, governments in India are looking for new sources of revenue and, alarmed by the country's high level of annual fiscal deficit, international development agencies have been encouraging their attempts. One suggestion, based on local government practices in the United States, is to charge the consumers user fees for utilisation of specific government services. User charges can be collected when the government provides an identifiable unit of service to an individual (hospital bed for one day to one patient, parking space to one car for one hour, and so on). This is actually not a new idea even in the Indian context because for a long time various governments have been charging tolls for use of bridges and roads and selling tickets for travelling by publicly run railways, buses and ferries. There are charges for car parking and fees for entry to certain gardens or parks maintained by the state. Governments in India are now trying to apply the principle more widely by putting charges on some basic services it provides to the people.

Collecting these charges serves several aims:

- It can control the misuse and wastage of a scarce public service and ration its use according to the intensity of the demand of potential users.
- In case of an essential service where government is unable to cater to the full demand, public supply of even a part of the service at reasonable prices can act as a check on overcharging by private producers.
- For provision of a particular service, user charges do not interfere with the benefit principle as do taxes because they are paid only by users and not by all residents. Most governments, particularly in India, find that their tax system is not sufficiently wide-based and flexible to enable them to maintain progression in the overall fiscal regime and yet find enough resources for their needs. In this situation, a cost-based user charge causes less distortion in the overall public finances than would additional indirect taxes that yield the bulk of public resources.

The state can resort to user charges provided:

- The concerned service is not a public good and the actual user can be identified. If it is a service like eradication of mosquitoes, for example, then everybody in the locality will benefit. It would not be possible to separate the beneficiaries from the others.

- The service is not a merit good, i.e. there are no external benefits from its universal provision. For example, vaccination against infectious diseases cannot be financed by user charges because it is important that all persons, whether or not they are willing to pay, are covered if the disease is to be eradicated.
- The service is not a constitutional or statutory obligation of the government.

Admittedly, levying fresh user charges on a service that had so far been free will have a discriminatory impact on the poor; the amount spent on it will be the same for all but will form a larger percentage of the income of the poor than of the rich. However, if the government was earlier financing the service by raising taxes and now can reduce the tax burden to the extent that the expenses are now financed by user fees, the overall effect is intended to be more equitable, because for reasons mentioned before, the taxes to be cut will be the indirect taxes whose burden is not spread very equitably.

Since independence, as a part of its vision of the country as a welfare state, the GOI used to heavily subsidise several basic social services, particularly education and health. However, after 1991, with the new economic policies and their growing emphasis on fiscal discipline, there has been a move towards economic pricing of some of these services. The GOI has been successful in hiking up fees in its prestigious institutions for technical and management education. However, similar attempts to make all higher education economically priced have proved to be very unpopular.

User charges for health services

In the same way, governments are now trying to reduce the subsidies in provision of some curative health services. In order to avoid popular protests against the measures, these have been introduced quietly in selected sections.

User charges at the AIIMS

The prestigious All India Institute of Medical Sciences (AIIMS) in New Delhi[23] was set up under a parliamentary act in 1956 stipulating that its expenses would be met from the Central budget. The institution has been used simultaneously for two purposes: on the one hand, it was supposed be a centre of excellence for providing top quality services and teaching facilities in the country; and on the other, it was to provide good health care for all who came there to seek it. For many years, the institution was used by people of all classes and, even if it involved long waits, the average Indian benefited from it.

The current policy, however, has a somewhat different focus. The institution is poised to be a state-of-the-art – what is called a five-star, super-speciality – hospital for those who can afford the new steep charges. On the expenditure side, it is reported that allocations to medicines and food for in-house and out-patients have been cut in favour of expenditure on research and machinery. This has meant that patients from middle and low-income households no longer have access to services there.

Under the new regime the charges are expected to yield about Rs. 120 million as against the annual budget of about Rs. 3,000 million provided for the AIIMS by the GOI. In other words, the charges are not really to raise revenue but to ration the service, and to reserve it for those who can pay the steeper prices. Thus, the services continue to be heavily subsidised, but whereas previously they had gone to people on a first-come, first served basis, they now go to a limited group chosen on the basis only of their ability to pay. There is no way that the system can admit considerations of ability to pay or urgency of need or even the seriousness of the complaint. Thus the effect on the incidence of GOI budgetary operations is likely to be regressive because the subsidies given to AIIMS service users will henceforth go exclusively to those who can afford the charges.

It can be argued that the AIIMS was set up mainly to reach excellent standards in medical services and teaching, and the present policy does help to fulfil this aim by investing more for the best equipment and research. In that case, however, the user charges are neither required nor warranted; the basic purpose would be served equally well if the services were to be rationed out among those who come there on a first come, first served basis or through a referral system that sends to AIIMS only those patients that need advanced medical care.

User charges in West Bengal's health services[24]

West Bengal's policy about user charges for health services is far from clear and there are many anomalies seen in practice. For example, the health department claimed that there were as yet no charges levied in rural areas, but many women attending our meetings told us about the charges they routinely pay. For urban hospitals, the health department issued a notification in March 2002 of their list of their charges for various services in public hospitals – though most patients do not know what their liability is or what they are entitled to in return for paying the charges.

The West Bengal system has the following problems:

- The rates are set at a fairly low level and can yield only a small fraction of the costs of providing the service. In the year 2003/04, the budget estimate for revenue expenditure on urban hospital services was Rs. 5,547.50 million, whereas the estimated receipts from patients were only Rs. 191.56 million.
- Hospital visits revealed that, in spite of the charges, the rush for services was unabated; in rural areas too, the women we met at our meetings (see Appendix 2) were quite ready to pay the charges provided they got the services. In other words, the charges appeared to be too low to deter service seekers. In fact, if the aim of levying the charges was to weed out at least the malingerers, then that was being done more by the frustrating queues and delays in reaching doctors. But this meant that genuine patients suffered equally.
- Paying the fee does not guarantee getting the specific service. Instead, patients increasingly find that after payment they still have to obtain the medicines, blood or

pathological tests and x-rays that have been prescribed from the free market at much higher prices.

- By charging heavily subsidised prices for these services and then failing to provide them to all, public authorities add an unnecessary element of arbitrariness and unwarranted discrimination among patients. The scarce items are distributed according to no clear criteria, which means that the large government subsidies that fund the services go to patients who are selected according to no justifiable principle.
- Patients have no way of protesting against these discriminations and that creates a feeling of resentment.
- Since user charges are collected from actual users against provision of some service, the receipts should, in principle, be recycled into running and improving those services. However, the West Bengal government has recently decided that 40 per cent of the receipts will go to the state's general budget and the rest will be put in a fund to be monitored by a committee called the *roogy kalyan samity* (committee for the welfare of patients), which is to decide on ways to use the fund for patient welfare. Patients do not have representation on the committee.

Health as a basic right

According to the Constitution, citizens have a fundamental right to life. Whether or not that implies a right to a healthy, disease-free life is a debatable point but, for a long time, the GOI had accepted the responsibility of providing citizens with health services, and it was in the spirit of that vision that government hospitals were set up in most districts and primary health clinics were established throughout rural areas with referral connections to higher-level service providers in the public system. Over time, however, governments have been unable to assign adequate resources to these services. The amount of government expenditure on health services is now less than 1 per cent of GDP, whereas the Common Minimum Programme of the current coalition party in power at the Centre had talked of allocating 3–4 per cent of GDP towards health services. The new move to collect user charges or to encourage a greater role for the private sector in the provision of health services is a reflection of the state's failure to fulfil its earlier promises.

Poverty and health services

The move to fund part of state expenditure on health services through user charges raises a major moral issue. On the one hand, the quality of private sector health services in India is very good; however, that is not available to the poor. And recently, these hospitals and clinics are increasingly being shaped to provide state-of-the-art services for attracting medical tourists from among first world patients. The expenses involved in reaching high standards of excellence and the growing competition from consumers from among the world's rich are together pushing the prices of private health facilities out of the reach of the average Indian. For them, subsidised health services provided by the state are the only option.

Moreover, there is a close connection between poverty and ill health. The poor are more prone to diseases because they do not have access to clean water and proper sanitation. Many of the jobs they are engaged in for a living are hazardous but, as informal sector workers, they get no protection or insurance against those hazards. For an average family, a major illness is a sufficient cause for plunging it into temporary or permanent poverty. This is not only because of the expenses of treating the illness; it is also because if the patient is the main earner, then his/her loss of days of work also means a loss of income for the family. Among such workers in the informal sector, a significant number of males migrate for work singly; some of them contract HIV and carry the infection back to their wives. HIV and AIDS are expensive to treat and, in time, completely incapacitate the adults – including the workers in the family (Kapur Mehta and Gupta 2005). If the state withdraws from providing the necessary services at subsidised rates to the poor, then these families are doomed to penury for generations.

Women and health services

For women of poor families, it is doubly important that the state continues to provide health services at subsidised rates. First, if the male earner falls ill, then the responsibility of looking after the patient, finding money for his treatment and at the same time supporting the family falls entirely on the woman, who herself runs a high risk of being similarly infected. On the other hand, discussions in the village meetings indicated that women and their families set a low priority on the health needs of women themselves and relied mostly either on public services or on village 'quacks' for any medical help. If the services of trained personnel under the public health system become more expensive, it is certain that women will increasingly rely on unqualified practitioners for their treatment. There has to be some clear thinking on the part of policy makers about these consequences before they decide to impose across the board user charges that cover even the running costs of health services.

Second, women need health care in connection with their reproductive roles. India's maternal mortality rates at the turn of the century were still unacceptably high at 409 per 100,000 live births; West Bengal's rate then stood at 266 and the state ranked 8th in the country (Govt. of West Bengal, 2004/05, Table XV, p. 311). The main reason for these high rates – as identified by the Planning Commission in its draft Approach Paper for the Eleventh Plan (GOI, 2006) – is lack of expert help for women at the time of delivery. In 1998/99, for India as a whole, only about 40 per cent of births were with a safe delivery procedure (i.e. with help from trained health professional such as a doctor, nurse, midwife or health visitor). In West Bengal the percentage was slightly better, at 46 per cent. Since most urban births in the state were in hospitals, the rural position was no doubt much worse than that indicated by the state level average. However, private sector professionals would find it unprofitable to reach women in remote, scattered hamlets unless they could charge high fees.

In general, women find it more difficult to seek help for health problems because families do not encourage them to forego work for morbidity or to spend money for treatment. In the Rapid Household Survey undertaken under the Reproductive and Child Health programme it came out that about 18 per cent of men reported having any symptoms of sexually transmitted diseases or reproductive tract illnesses, but of these 51 per cent had sought treatment. Among women, 30 per cent reported having at least one symptom of these diseases, but only 30 per cent had got treatment (Ghatak 2005, p. 45). Women also have difficulties accessing treatment because the clinics and hospitals are situated far away from their homes and also involve long waits and repeated trips. This means that women normally find it harder to get professional health services than men although they may need them more.

In reality, the user charges that the West Bengal government is collecting are quite low, and in all our interviews and meetings we found no resistance from women about paying them. However, the state, in diverting that money to other purposes than improvement of health services, has once again failed to take account of the needs of the people at the grassroots. The women we met desperately want public health services to be extended and run efficiently without the corruption and negligence that is built into the system at present. They also want roads and transport to enable them to reach the clinics. Alternatively, they want mobile clinics and visiting professionals to come to them rather than their travelling long distances. In short, they want more of a government presence and not less, even if it means paying higher user charges.

4

Conclusion

There have recently been a number of attempts at gender- and poverty-sensitive analyses of government budgets in India. The initial focus has been on the expenditure side of the budget because it includes many programmes that are targeted towards women and the poor. The revenue side of the budget has received a lot less attention because, at first glance, not many of the poor and especially women among them appear to be taxpayers of any significance. The only taxes that they do pay are sales taxes (also taxes on imports and exports) because they buy some of the taxed commodities. The available data on consumption expenditure does not permit a gendered analysis because the information is on a household rather than individual basis, though one can do a partial class analysis. For example, given the amount spent by those below the poverty line on food and kerosene in 1987/88, the steep rise in the prices of these commodities because of cuts in government subsidies[25] between 1991 and 1993/94 reduced families' real incomes by about 20 per cent between 1987/88 and 1993/94 (Banerjee, 2004). However, there was no information about what were the class-wise demand elasticities for those items, what kind of adjustments were possible for those families and how the costs of those adjustments were distributed between different members of the families. To that extent the analysis was misleading about the final outcome.

I discussed the theme of this study with several well-known fiscal experts (see Appendix 3) who in recent years had been somewhat exposed to analysis of gender issues in the Indian context. Although they were still sceptical about some of the feminist assertions, they nevertheless provided me with valuable insights into the ways in which revenue-raising systems had been changing in the period since 1991 at the Centre and in the states. In their opinion, the new developments, and particularly the specific measures discussed above, are a move towards making the Indian fiscal system more efficient, more growth-prone and, at the same time, somewhat more progressive.

The analysis behind these conclusions is theoretically impeccable; however, one feels that the arguments are not quite complete because they only refer to one part of the economy, leaving out significant other sections of economic agents and their activities. The experts focus on persons who are in the tax net and changes in whose tax liabilities can be measured. They also consider the views of various organised industries and politically vocal groups, which can provide hard data about the possible impact on them of the changed policies. But these exercises do not take account of the remaining large and amorphous group of persons and activities that nevertheless make a significant contribution to India's GDP as mentioned before. Because of the very nature of those activities and their organisation, it is difficult to obtain regular and systematic information about the effects on them of changes in the policy outlook. Most macro-models therefore assign them to a residual and autonomous category; impact on them, if at all measured, is considered on one-to-one basis but not woven into the mainstream model.[26]

This, however, means that these exercises remain partial and cannot deal with some of the glaring anomalies in India's macro-economy. For example, the Planning Commission in its draft Approach Paper to the Eleventh Plan has admitted that the rate of decline in poverty has been much slower than its earlier assumptions; but there was little analysis about who particularly were the losers and for what reasons. Even when some groups have been identified as losers – for example, cotton growers – there is no investigation into how families cope with sudden poverty, what adjustments are made and who bears the brunt of those adjustments To give another example: policy makers blame rigidities in the labour market for holding back the pace of growth of employment and industries and therefore for the slower growth of the economy. But they know full well that the bulk of the production in the country takes place in the informal sector where there are no labour laws. Indian capitalists have very ingeniously managed to weave informal forms of production organisation into the mainstream economy, but there is no analysis of the impact of changes in fiscal policies on these informal production units. Similarly, though all around us we see women working hard to ensure their families' survival, their work finds no place in the official version of the functioning of the economy.

For this paper, which is concerned with the impact of changes in resource-raising methods on the poor and women among them, the data and their sources used in standard theorisation about tax incidence were of little use. Much more relevant were the insights that emerged from several area- and industry-specific studies with which I have been associated during the past decade or so. Because those findings essentially referred to another section of the economy, the economic reasoning that could account for them and the conclusions that emerged from there were also different from the mainstream analysis.

Shahe Emran and Joseph Stiglitz have written several papers dealing with reforms of indirect taxes in developing countries with large informal sectors (see, for example, Emran and Stiglitz, 2004a, 2004b). They have considered the case of an economy where trade taxes were replaced by a VAT with the same revenue yield. Their assumptions were that the formal and the informal sectors both produced tradable products that were near substitutes for each other, although the VAT applied only to products of the formal sector. Under these assumptions they showed that imposition of a VAT in place of trade taxes would push more and more activities into the informal sector, making it necessary to hike up rates of VAT and thereby further raising the prices of the formal sector products. This would cut into consumer welfare by reducing their consumption in real terms.

The case considered in this paper is basically different. Trade taxes in India have been largely replaced by better collection of direct taxes from a wider network of direct tax payers, which had the potential of making the overall central tax system more progressive in its incidence. That the move, by liberalising international trade in commodities, made many traditional producers and workers worse off is not because the tax system had become more regressive; it was because in India, the process through which an economy adjusts to trade shocks is not being allowed to work itself out. There are critical barriers that prevent free and smooth movement of factors of production, especially of labour and enterprise, between industries that have lost their markets to industries that have been able to expand their markets. One of the barriers is imposed at the international level; capital is allowed to move freely between countries but there are severe restrictions on the international movement of labour. Within the country too, workers find it difficult to move because of language barriers or local prejudices. And in any case, the jobs they move into after migration often do not pay enough for them to move their families to their new workplaces. Because the state cannot remove those barriers, it has to admit that the new regime has made a large section of the workforce redundant or has at least increased the risks and uncertainties they face in their quest for a livelihood. For women of those households, the change leads to an increased workload and a greater responsibility for continuous adjustments that are required to combat that uncertainty.

The basic design of VAT as introduced at state level is about the same as the earlier sales taxes that provided exemptions for essentials and had somewhat progressive rates that were higher for luxuries. However, because of its different collection procedure, VAT is expected to generally reduce tax avoidance and also to prevent the cascading effect of taxes on capital goods. The system as operating in West Bengal gives incentives to getting more units registered and in the tax network as well as for a switch to more capital-intensive technologies. The move has much to recommend it because it will expand the state's tax base and it will also raise the labour productivity of its industries. Both these trends are likely to improve the working conditions of workers who get employment in the working units.

However, this move too will probably discriminate against the existing workforce due to workers' inability to move to the new industries because of either want of necessary skills or limited mobility. Past experience (Mitter and Banerjee, 1998) has shown that in such situations, women who had earlier been working in the more labour-intensive jobs are the ones to be made redundant immediately and not given access to new skills or jobs that replace their earlier ones. There are few reasons to believe that, for the majority of Indian women, things have improved significantly since then.

The third alteration in the Indian public revenue system considered by this paper was of introducing user charges for some basic public services. From discussions with potential payers, it seems that, for the poor and for the average woman, there is no viable alternative to government's provision of health care and they would willingly pay higher charges if that would ensure a better supply of health services. Currently, however, the revenue that is being raised by user charges is not being used for improving the availability or quality of public services to the average person. Therefore, levying user charges has probably made poor women worse off without offering any hope of a better future through the changed policies.

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Appendix 1
Revenue Receipts

Table A. Revenue receipts (actual) of Central Government and all state governments (in Rs. Lakhs)[a]

Central Government	**2003–04**	**All states**	**2003–04**
Total receipts	475,311.0	Total receipts	521,836.0
Revenue receipts	263,878.0	Revenue receipts	312,279.4
Tax revenue (net)	186,982.0	**Tax revenue**	225,343.5
Gross tax revenue	254,348.0	States' own tax revenue	159,203.2
Excise duties	90,774.0	**1 Taxes on income**	2,229.3
Customs duty	48,629.0	Agricultural income tax	15.7
Corporation tax	63,562.0	Taxes on trade professions	2,199.4
Taxes on income	41,379.0	and callings	
		Hotel receipts tax	14.1
		2 Taxes on property and capital	18,131.4
Service tax	7,891.0	**transactions**	
Taxes of union territories	658.0	Land revenue	2,155.0
Other taxes and duties	1,455.0	Other receipts	
Transfer to national calamity	1,600.0	Stamps and registration fees	15,906.1
States' share[b]	65,766.0	Urban immovable prop. tax	70.3
		3 Taxes on commodities and	138,842.5
		services	
Non-tax revenue	76,896.0	Sales tax	97,309.1
Interest receipts	38,517.0	State excise duties	19,441.7
Dividends and profits	21,159.0	Taxes on vehicles	9,958.6
External grants	2,159.0	Taxes on goods and passengers	4,038.0
		Duties on electricity	5,517.2
Other non-tax revenue	14,416.0	Others	2,577.9
Union territories	645.0	Entertainment tax	
		Other taxes and duties	
		4 Share in Central taxes	66140.3
		5 Non-tax revenue	86,935.9(a)
		(a) States' own non-tax revenue	38,064.1
		Interest receipts	8,595.6
		Dividends and profits	393.1
		General services	9,334.4
		Other services	3,186.4
		(b) Grants in aid	48,872.0

[a]A Lakh Rupee is Rs. 100,000.
* to be deducted from gross tax revenue to get net tax revenue
Source: CMIE, 2004.

Table B. Per capita total revenue receipts for major states, 1990/91 to 2002/0 (Rs.)

	1990/91	1994/95	1998/99	2002/03
State				
Andhra Pradesh	804	1266	1945	3018
Bihar	500	796	1104	1394
Gujrat	818	1769	2662	3528
Haryana	1162	3292	2775	4094
Karnataka	865	1472	2224	3059
Kerala	826	1560	2321	3340
Madhya Pradesh	687	1182	1827	2219
Maharashtra	1102	1790	2376	3211
Orissa	686	1077	1292	2293
Punjab	974	2465	2488	4545
Rajasthan	829	1324	1626	2315
Tamil Nadu	911	1594	2359	3339
Uttar Pradesh	60	910	1099	1674
West Bengal	604	957	1226	1812

Source: Reserve Bank of India, 2004.

Table C. Per capita own tax revenue for major states, 1990/91 to 2002/03 (Rs.)

	1990/91	1994/95	1998/99	2002/03
State				
Andhra Pradesh	398	609	1086	1656
Bihar	132	215	318	333
Gujrat	581	1075	1591	1879
Haryana	650	1057	1580	2625
Karnataka	519	906	1375	1975
Kerala	461	935	1499	2293
Madhya Pradesh	265	446	823	1022
Maharashtra	649	1121	1552	2355
Orissa	211	278	422	780
Punjab	637	1209	1410	2345
Rajasthan	276	483	747	1107
Tamil Nadu	559	1009	1592	2298
Uttar Pradesh	227	331	500	768
West Bengal	313	520	624	879

Source: Reserve Bank of India, 2004.

Appendix 2
Village Meetings

For this project, I organised two village meetings with the help of SACHETANA, one in Bakcha on 31 March 2006 and another in Kaichidanga on 7 April 2006. Each was also organised with the help of a local NGO that had long worked in that area and had easy relations with local resident and was attended by more than 40 women, including some elected women representatives in the *panchayets*. The meetings had the active cooperation of elected office holders in local bodies of the area.

Bakcha village falls under the Purva Medinipur district and is well-connected by paved roads to one of the stations on a main railway line. It is also a relatively prosperous area. Many of the women we met there had some school education; the NGO had ensured that even the older women were literate. The general awareness about the role of women in local governments was quite high. They knew about budgets and grants from higher-level governments. There was a great deal of interest in getting their children educated, and many told us about the efforts they made to get extra income to pay for this. Although wage-paying jobs for women were very scarce, each was making some efforts to add to the family income by undertaking any of several kinds of activities, including keeping animals, growing vegetables, processing grain, stitching garments, making bidis etc. However, those who belonged to self-help groups admitted that, so far, these groups had not been very successful in getting them better work.

As against that, Kaichidanga is in the relatively backward district of Uttar Dinajpur. The population is largely tribal though there is also a significant presence of Muslims. The organisations the women belonged to had tried to make all of them literate but had not been very successful. Most of the tribal women worked as agricultural labour during the season. Men from some of the families had migrated for work, and some of the women were in sole charge of cultivating the family plots. They were not very cognisant about the local government system or about the changing trends in the economy. However, they were fully vocal about issues of immediate concern to them, and one of their main concerns was the state of health services. One of them told us how, not being able to get any help from government doctors and tired of paying the stiff charges for private clinics, the family had ended up with local practitioners of magic and voodoo. As she said, 'at least they were cheap and no less effective than a doctor who was never there!'

The workshops were conducted in a more or less identical manner; in the mornings, after some introductions, we explained our reasons for organising the meetings. For this we used some charts and diagrams describing the way in which the system of government was organised and the ways in which they themselves were supposed to be the decision-makers as well as the potential beneficiaries of that system. This was to highlight the importance of raising and spending local resources according to local preferences and priorities. The session was conducted more as an on-going discussion between us and the participants rather than as the delivery of a monologue.

The discussion brought out the following views about resource-raising efforts at local levels:

- Political parties in West Bengal generally did not favour collecting local resources for local use and led people to believe that higher-level governments owed it to them to finance their needs. Women assumed the higher-level governments had instruments to tax richer people, whereas local government taxes would fall on the poor.
- The women said that they had protested vehemently on principle to the state government's recent efforts to impose a tax on keeping domestic animals, even though they knew that the tax rates were very low.
- Their general view was that people in decision-making positions would use resources raised locally for their own aggrandisement rather than pay heed to genuine local needs.
- There seemed to be less resistance to user fees that people normally paid for ferry services or market stalls, because they immediately got the quid pro quo.
- There was resentment from both the elected women and the others about whether the women elected to local governments had made any efforts to meet women's needs. The elected women complained about how difficult it was for them to intervene in decisions about local expenditure. The rest complained about a lack of a platform to express their views. They explained that it was not easy for them to raise a voice at the *gram sabhas* in the presence of men, but they were gradually starting to do so and their meetings in self-help groups had assisted them in this.

After lunch, in both meetings, we organised the women into several small groups, each with a facilitator, to discuss their experience of getting public services on payment of user fees. For these groups, we had developed a small questionnaire mainly about two such services: the public distribution system (PDS), a rationing system where villagers are provided with food-grains and kerosene at subsidised prices; and local state-run clinics and hospitals where patients pay a charge. For the PDS the government provides four types of ration cards for households of different income levels; for each kind of card, prices of the food-grains are set at different levels. The discussion brought out the following points:

- Although most women knew about the PDS and rationing system, they had stories only about its corrupt and inefficient functioning. They were mainly interested in getting their supply of kerosene, which they used for lighting since there was no electricity in the village. For cooking, all women had to spend considerable time every day collecting leaves, sticks, dung and other refuse. There was no exception to this. Outside the rationing system, kerosene was not available or came adulterated.
- The women roundly disclaimed our information that there were supposed to be no

charges for rural health facilities. Each had paid some amount for treatment every time, although it was never clear what they were entitled to in return.

- Although they complained about the frequent absence of health workers, the dirty conditions of hospitals, corrupt doctors, rude nurses and so on, they would still prefer to use government services because the personnel are better qualified.
- The alternative for them was to go to 'quacks' (their word), untrained medical practitioners who were in the village and available but often dangerously wrong.
- Many of them had gone to private hospitals and nursing homes as a last resort; but the difference between the prices there and at government facilities was huge.
- They complained about the fact that most doctors in government clinics and hospitals also ran private services in the neighbourhood and encouraged people to visit those on promises of more thorough examination and treatment but at a much higher charge.

The overall view in both villages was that women would not mind paying somewhat higher user charges, provided the government clinics were in easy reach, were open more regularly and had regular supplies of medicines and other facilities. At present, there was an acute shortage of these services, and each had a horror story about how somebody near to her – husband, child, parent or sibling – had suffered for want of access to those services, and how the family had incurred huge expenses in ultimately getting those from private sources.

Appendix 3
List of Experts Consulted

1. Dr Govinda M Rao, Director, National Institute of Public Finance and Policy (NIPFP)
2. Dr R. Kavita Rao, Reader, NIPFP
3. Dr Ameresh Bagchi, ex-Director, NIPFP
4. Shri Nripen Bandyopadhyay, Member, State Finance Commission, West Bengal
5. Prof Soumen Shikdar, Head, Economics Department, University of Calcutta
6. Prof Ritu Diwan, Department of Economics, Mumbai University (who referred me to her paper mentioned in the references)
7. Prof Abhijit Banerjee, Department of Economics, Massachusetts Institute of Technology (MIT), Cambridge, MA

Notes

1 Previously the Department of Women and Child under the Ministry of Human Development.
2 SACHETANA is a voluntary organisation for research on gender issues in the Indian context. The author is a founder member and an active researcher.
3 India has a long tradition of some kind of village councils generally known as *panchayets*; also there have been municipalities and municipal corporations in towns and cities for over 150 years. However, till 1994, these had been governed by specific state acts and had no constitutional status.
4 A block is a unit of administration roughly corresponding to the coverage of one police post. It is under the district administration and is now attached to the middle level of local government in rural areas.
5 Only the lowest level, the *gram panchayet*, is authorised to levy taxes. The other two levels get their resources from allocations to their area for specific measures from the state. They are also empowered to collect fees and charges for any specific service they may provide.
6 Revenue expenditure comprises annual recurring expenditure for items for which the government has accepted responsibility. It includes items like salaries and wages of existing staff and pensions, etc. to retired staff, costs of running offices, routine maintenance costs of public assets as well as grants that the government had to pay.
7 The GOI sharply increased the prices of rationed allotments of food grains and fuel to all households other than those below the poverty level. There were also some adjustments made in subsidies for fertilisers; but the Twelfth Finance Commission had noted that there were still many anomalies in those subsidy payments.
8 Collectors of district land revenues.
9 Akerlof (2005) argues that state and local governments tend to be closer to local people and are more committed to carrying out the wishes of their constituents than those elected to the distant central Parliament. They therefore find it much harder to overcome local resistance to particular tax measures.
10 A cess is a tax whose receipts are earmarked for a specific government function; for example, receipts from an education cess are to be spent only on a specific education policy measure of the state.
11 These meetings were a part of the exercise sponsored by UNIFEM for training on gender-responsive budgets for elected women in *gram panchayets*.
12 As mentioned before, the Constitution has given all powers to tax land and income from it to state governments.
13 This exemption limit and regulations are liable to change in each budget.
14 In the United Kingdom and the United States of America, incomes of married couples are jointly assessed with only one personal allowance between them. The lower income (usually the woman's) gets fully taxed at the marginally highest applicable rate.
15 In principle these too can be made tradable, as for example a medical specialist can be consulted on electronic mail or by telephone.
16 Admittedly, most goods attract sales taxes and now VAT at the state level. However, here the discussion is about the exclusive incidence of changes in central taxes.
17 Head-count ratio measures the number of people below a region's specific poverty line in relation to its total population. Poverty gap measures the deviation of the average per capita consumption level of the poor from the general average per capita consumption level.
18 In this context, 'productive work' is defined as work on all tasks whose products could possibly be locally sold, regardless of whether or not the products were actually marketed or wholly consumed within the household. This includes tasks like collecting fuel but leaves out tasks of cleaning, cooking and child rearing.
19 Provided at no stage has any producer made any losses.
20 The difference between exemption and zero rate is that exempted goods get no credit for the tax paid on their inputs, if any, while for zero-rated goods (which are largely meant for the export market), producers can claim a refund for taxes paid on inputs. For the rest of the goods, producers are not given a refund but can offset taxes paid at earlier stages against their own tax liability.
21 Medicines are taxed under a separate formula that approximates the 4 per cent rate, even if most of them are final consumption goods.
22 For keeping down the overheads, informal sector units often put out the work to home-based workers or compromise on working conditions.
23 Information about user charges at the AIIMS was obtained from the website http://www.cpiml.org/liberation/year_2006/February/user_charges_aiis.htm, which has an article based on an interview with Dr Anoop Saraya of the AIIMS.

24 I conducted a brief review with SACHETANA of the situation in one Kolkata Hospital. The two village meetings that were organised as part of this project also yielded some information about the situation in West Bengal's rural areas.

25 A cut in subsidies can be seen as a means of raising resources at the command of the government.

26 In an earlier paper I argue that, starting from the Second Five Year plan model, the informal sector in the Indian economy had been left out of the plan model (Banerjee, 1988).

About the Author

Nirmala Banerjee is an economist who trained at Bombay University and the London School of Economics and Political Science. She worked as an urban planner before joining the Centre for Studies in Social Sciences, Calcutta from where she retired in 2001 as a professor of economics.

Her areas of research are wide-ranging, starting from public finance, industrial structures in the unorganised sector and gender studies, especially the economics of women's work and its relations with women's overall social position. She specialises in applied economic research and has carried out a number of field studies and historical enquiries. She has published several books, and numerous articles and seminar papers.

She has been very active in India's women's movement and is a founder member of and active worker in a Kolkata-based women's organisation, SACHETANA. She was a founder member of the DAWN group and was the president of the Indian Association of Women's Studies. More recently, she has worked on the analysis of public policies in India and the interaction between those policies and the lives of people at the grassroots.

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