

transaction (e.g. VAT & Service tax on EPC (engineering, procurement and construction) contracts.

- Reduces cost of production.
- Achieves, uniformity of taxes across the territory, regardless of place of manufacture or distribution.
- Provides, greater certainty and transparency of taxes.
- Ensures tax compliance across the economy.

Need For Goods and Services Tax in India:

The introduction of the GST brings about a macroeconomic dividend as it reduces the overall incidence of indirect taxation and therefore the overall tax burden by removing the many distortionary features of the present sales tax system. There are four important macroeconomic channels through which this happens:

- a) The failure to tax all goods and services distorts consumption decisions; GST reduces these distortions and enables all economic agents to respond more effectively to price signals.
- b) The non-refundable taxation of capital goods discourages savings and investment and retards productivity growth. This is perhaps the most important gain through introduction of GST in an emerging economy like India.
- c) For a given constellation of exchange rates and price levels, violation of the destination principle places local producers at a competitive disadvantage, relative to producers in other jurisdictions.
- d) Differences in tax bases of different States and the Central government greatly increase costs of doing business. The GST based tax reform provides a real policy opportunity to do something about this problem without waiting for prior and sweeping political economy changes.

There has been a lot of controversy on implementing GST in India, one of the main reasons behind being the pivotal and a major change needed in the constitution written by our forefathers:

The Constitution provides for delineation of power to tax between the Centre and States. While the Centre is empowered to tax

services and goods up to the production stage, the States have the power to tax sale of goods. The States do not have the powers to levy a tax on supply of services while the Centre does not have power to levy tax on the sale of goods. Moreover, the Constitution also does not empower the States to impose tax on imports. Therefore, it is essential to have Constitutional Amendments for empowering the Centre to levy tax on sale of goods and States for levy of service tax and tax on imports and other consequential issues. As part of the exercise on Constitutional Amendment, there would be a special attention to the formulation of a mechanism for upholding the need for a harmonious structure for GST along with the concern for the powers of the Centre and the States in a federal structure.

Despite the major hurdle mentioned above, GST is seen as the panacea for removing the ill-effects of the current indirect tax regime prevalent in the country. If adopted and implemented in its true spirit, GST may neutralize the existing problem of taxes being levied on top of taxes and would also help to spur the economic growth.

FDI in Retail: Boon or Bane

Ganganjyot Kaur Narwal

For some time now, India has been witnessing heated debates over allowing Foreign Direct Investment (FDI) in some more sectors. Most recently, allowing 51% foreign direct investment in multi-brand retail saw a huge uproar. It drew attention from almost all sections of the society. On one hand, FDI is believed to be a boost to economic growth, but on the other, apprehensions have surfaced emphasizing the loss of social welfare to small farmers and traders. To find a balanced solution to this issue, a deep understanding of the complex composition of the Indian economy is essential.

In simple terms, FDI is defined as the net cash flow of investments from overseas. United States of America is the highest recipient of these cash flows accounting to almost \$194 Billion in 2010. China happens to be the second largest recipient with a total of \$85 Billion. UNCTAD in its investment report classifies India as the second most important country in the world for FDI. Further analysis reveals that in a developing country, FDI can boost up an economy's GDP by 5% to 35%. India is one such country which can benefit tremendously from FDI. At present, India allows 100% FDI in areas like floriculture, horticulture, animal husbandry and services among others. However, the actual investment is a mere 32%. Industries such as mining of gold, silver and precious stone etc too have 100% FDI permissible. Asset reconstruction companies, among others, are some services with full FDI allowed. Atomic energy, real estate and tobacco etc are completely banned from any foreign investments.

The apprehensions over the credibility and functioning of FDI are rising as the government is becoming more and more liberal with its FDI policies. Unfortunately, not much can be concluded from the persistent debate about FDI because the debate itself is not pointed in the right direction.

Indian GDP consists of a 27% contribution from agriculture and rest 73% from services and industries. Demographic statistics suggest that the proportion of the population engaged in the agriculture sector is 60%. It is just the 40% in manufacturing and services which make the largest contribution to the GDP. Disproportionate contribution by agriculture is a proof of poor performance and low income generation in this sector. Indian agriculture is in jeopardy as even

with a 100% FDI, there has hardly been any significant investment. Thus, the immediate focus of FDI policies must be agriculture and agriculture based industry.

Food production in India has increased tremendously over the years. The Indian food processing market is an assured source that can attract large scale investments. India has a wide ranging and extensive base for food processing industries. So far, 100% FDI policy has met with negligible success as the impetus for foreign companies has not been enough. The need of the hour is for policies to be framed and implemented in such a way that the potential of the agriculture sector can be put to best possible use.

Rapid urbanization, industrialization and fast changing lifestyles open vast potentialities for an increased demand for processed food. This industry already accounts for 32% of the country's total food market. Estimated to be almost \$121 billion, it is definitely one of the largest industries in the country. FDI policies, if implemented in innovative ways, can help tap the potential of this market.

Certain factors such as a cheap labor force should be one of the greatest incentives given to the foreign companies for investment. Further, this will tremendously help the Indian workforce, which is needlessly engaged in agriculture, to disengage itself and turn to new avenues of employment.

Increased awareness about the need to incentivise India's food processing sector has led the ministry of Food Processing Industries to come up with policies such as Vision 2015, Mega Food parks and Agri-export zones. Such policies must focus on deriving investment from foreign resources. Kellogg's, Nestle, Heinz etc are some

existing companies in this sector. Entry of many more is needed.

Agriculture, being the largest sector (in terms of employment), is the key to success. Many areas such as irrigation and technological assistance for machinery, implements, and farm management need attention. Credit market hitches, disguised unemployment and risk bearing are some other loopholes that need to be fixed. For example, in the Indian context, underground water has been the major source of irrigation. Large exploitation of this source has led to a great fall in underground water resources. Foreign companies, if allowed to enter the arena of irrigation, can address issues of poor irrigation. Vast areas have inadequate facilities of irrigation and farmers' dependence on monsoons is a serious problem in the country. Construction of ponds, canals, reservoirs, etc will become easier and more efficient with Foreign Direct Investment. The methods of watering could be changed from flood to drip and sprinkling irrigation. Other services such as storage, procurement, etc will be better-planned and at the same time, will open new opportunities for jobs. Credit flows and risk sharing will be much better than at present.

U.S.A, the largest economy in the world, has approximately 60% of its FDI in food processing/convenience goods sector. This serves as an example for an agrarian economy like India to understand the growth potential bestowed within this sector. The terms and conditions of the FDI policies may be debated over in such a way that small farmers and traders benefit tremendously without jeopardizing the profits earned by overseas companies. A win-win situation can emerge provided the policies are framed in a desirable way.

Foreign Direct Investment has now become an essential domain in the Indian growth issue. In conclusion, Indians must shift away the focus of the current debate from the economic creditability of F.D.I to its orientation so that maximum benefits can be extracted.

Understanding Direct Cash Transfers

Aditi Singh

The newly launched Direct Cash (Benefits) Transfer (DCT) scheme has generated a lot of debate and this article aims to explore the pros and cons of it. Under this scheme, the government will transfer cash benefits directly to the bank accounts of identified beneficiaries. Initially, this scheme covers only scholarships, pensions and Mahatama Gandhi National Rural Employment Guarantee Act (MNREGA) wages. The identity of the person will be verified through the Unique Identification (UID) or Aadhaar cards.

To start with, let us examine the advantages of this scheme. First, direct cash transfers can be targeted unequivocally to the poor, which reduces the corruption caused due to the presence of middlemen. Second, the Aadhaar number will help to eliminate duplicate cards and cards for non-existent persons or ghost beneficiaries in schemes such as MNREGA. Third, DCT can plug leakages of the Public Distribution System (PDS) by reducing hoarding, black marketing and wastage. If the fair price shop dealers get the same price from their legitimate customers as from the black market, then there is no incentive to cheat. These three factors, together, lead to massive savings for the government. Even if these leakages are conservatively estimated