

Abstract

The *motivation* for this research has been the recent (since 1991) changes in the Indian economic scenario. The thesis has evolved after a survey of the literature on Structural Adjustment Programmes (SAP) and analyses the ways in which the government can actively participate in designing a suitable structure of the production' sectors of the economy. In order to guide the reform measures, the *opportunity cost* (shadow prices) for the various Production sectors are computed based on an Input-Output table (115 sectors) of the Indian economy.

The *objective* is to use these prices to compute the *Social Profitability* of the sectors and to comment upon the *comparative advantage* of the economy. Subsequently, the dissertation attempts to set out normative guidelines for Commercial policy. Trade policy (including Trade liberalisation) and Commodity Tax policy reforms.

The most *commonly used concepts* to analyse comparative advantage have been the *Effective Rate of Protection* (ERP) and *Domestic Resource Cost* (DRC). ERPs have been argued to be insufficient to adjudge comparative advantage while computation of DRCs, in practise, are based on the market prices (which are distorted). Thus the Social Profitability approach deserves merit, and it is more comprehensive than a purely financial appraisal.

The *methodology* involves usage of Project Appraisal techniques (that have evolved over the years with research at World Bank and at United Nations Industrial Development Organisation) in consonance with those in the area of Indirect tax reforms.

The need for an overview of the economy is important, to decide upon policies for long term growth and development. The success of business and economic activity depends crucially on the *policies of promotion and protection*. The system of taxation and subsidies has a profound influence over the structure and growth of the economy. It is precisely in this context that the policies should be mutually reinforcing and should be guided by a consistent set of norms, like shadow prices. In order to design an appropriate system of rewards and incentives, the dissertation works out the directions of reform of indirect taxes, utilising the concept of *Marginal Social Cost of Funds* (MSCF), which is the cost of raising one unit of revenue from taxing a commodity. The principle for reform is to reduce the taxation on commodities that have a relatively higher value for the MSCF and vice versa. The dissertation also touches upon issues related to taxation of intermediate goods and final consumption goods.

A large set of data, retrieved from various sources, has been utilised to carry out this exercise, and the robustness of the results is tested by sensitivity analysis across various parameter values.