

State Finances in India with Reference to Punjab:

“A Relook In View of Globalized Scenario”

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Of

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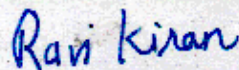
I hereby certify that the work which is being presented in this thesis entitled "State Finances in India with Reference to Punjab: A relook in view of Globalized Scenario" in partial fulfillment of the requirements for award of the Degree of Masters of Philosophy in Economics, submitted in School of Management and Social Sciences, Thapar University, Patiala, is an authentic record of my own work carried out under the supervision of Dr (Ms) Ravi Kiran, Associate Professor, School of Management and Social Sciences.

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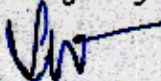
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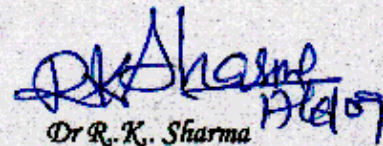


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Abstract

State Government Finances is one of the areas in Macroeconomic Management of Finances in general and public finance in particular. Political philosophy of the Government is always reflected through its budgets. Similarly, Financial Practices and policies have to operate in a given set up of political ruling party in any nation. Therefore, it is very difficult to demark boundaries of economic and political science in macro-economic of an economy.

Centre-State financial relations have created a tension for both the governments. Scientific studies are necessary for better management of developing countries like India. Now-a-days every State has financial problem to manage its budget deficit.

This study provides a self contained overview of present problem of State finance in India and Punjab. It begins with overview of State finances and Punjab, political aspects and aspects of India's state government finances and Punjab finances going on to consider various developments that have shape the states current fiscal situation, including the roles of national economic reform, the intergovernmental transfer system, tax reform. Policy options for reforming institutions of fiscal federalism system, borrowing mechanisms for the states, and governance are then discussed, with an emphasis on the principle that states should have appropriate incentives for fiscal discipline at the margins of revenue and expenditure.

An effort has been made in this study to highlight the changing role of sources of revenue as well as the nature of rising expenditure both at national level as well as in the state level in Punjab after the post-reform period.

The study attempts to examine the extent and causes of fiscal stress of Punjab Government. Hence the present study will help in suggesting the policy implications reduce mounting revenue and fiscal deficit of Punjab Government.

CHAPTER I

INTRODUCTION

1.1) State Finances: An Overview

State Finances in India is an important and complex subject which carries both economic and political issues and is broadly influenced by functioning of both the Central and State Governments. The concept and the functions of the Government have changed and at present it is universally accepted that the object of the Government is to maximize the welfare of the people. The modern Government is committed to accelerate the economic development through mobilisation of additional financial resources for planned growth. Finance is the one of the powerful tools in order to correct regional disparities of growth through proper macro economic management of financial resources of the State Governments. Thus in the developed as well as in the developing countries, the functions of the Government are increasing with the increase in liabilities and responsibilities and scientific resource management has become basic issue. Therefore, to discharge all these functions and responsibilities, the modern Governments have to increase their expenditure by mobilising additional funds in the given situation of the nation.

In a federal structure, the States carry out many functions and bear responsibilities which have far reaching consequences, towards development of the economy. The Constitution of India sets forth in detail, the political and the Governmental structure of the country based on specified sphere of activities of Central and State Governments. The Constitution provides a three fold classification regarding the division of taxation and legislative powers, which are termed as State List, Central List and Concurrent List. Both the Centre and the State Governments exercise their powers to raise revenues and determine the expenditure pattern based on the Constitutional classification. As it has been observed, the assignment of certain taxation powers to the States does not give them resources sufficient to meet the responsibilities bestowed upon them. So the Constitution mandates the transfer of resources from the Centre to the States in the form of tax shares and grants as determined by the

Finance Commission. Outside the finance Commission, the Planning commission also provides for the States' plans in the form of plan grants and loans. States also receive funds in lieu of Centrally Sponsored Schemes from various ministries. Under the constitution the State Governments have been provided with separate powers, functions and financial resources. Though not originally envisaged by the Constitution, the Planning Commission has become Central to Indian plan process and more so for the Centre-State financial relations. The Planning Commission support to State plans as determined by the "Gadgil Formula"(which has been revised now) and other Centrally sponsored plan schemes have been established which involve matching to the State spending., Due to time bound nature of the schemes, the subsequent recurrent expenditure responsibilities devolve wholly on the States; which believed to have worsened' the long term fiscal situation of the States.

The nature of the assignment of expenditure functions is fairly typical of federal nations, and broadly fits with economists' theoretical rationale. The role of sub-Central authorities in a federal ion should be understood from the point of view of allocation, distribution and stabilisation functions. The general consensus seems to be that the subcentral authorities may have a considerable role to play in the allocation function which means providing local public goods. Other goals may be served better by the Central Government. The most commonly claimed advantage with federating units (States) is that they have the ability to provide services in accordance with the needs of local areas. If the Central Government provides for these services, a uniform provision to everybody may arise which may not be suitable to local conditions and aspirations.

The functions of the Central Government are those required to maintain macroeconomic stability, international trade and relations, and those having implications for more than one State. The major subjects assigned to the States comprise public order, public health, agriculture, irrigation, land rights, fisheries and industries and minor minerals. The States also assume a significant role for subjects in the Concurrent list, such as education and transportation, social security and social insurance. The assignment of tax powers in India was based on a principle of separation, with tax categories being exclusively assigned either to the Centre or to the States. Most broad-based taxes have been assigned to the Centre, including taxes on income and wealth from non-agricultural sources, corporation tax, taxes

on production (excluding those on alcoholic liquors) and customs duty. A long list of taxes is assigned to the States, but only the tax on the sale of goods has been significant for State revenues. This narrow effective tax base is largely a result of political economy factors that have eroded or precluded the use of taxes on agricultural land or incomes by State Governments. The Centre has also been assigned all residual tax powers. The tax assignment system has some problematic features. The separation of income tax powers between the Centre and States based on source (agriculture vs. non-agriculture) has created avenues for evasion. Therefore, the study of State finances occupies an important place in the process of economic development in view of macroeconomic policy.

Within the framework of the Constitution, a variety of political approaches and ideologies have flourished. At the same time, the political system has faced new challenges as a result of economic liberalization. Regional inequality has increased, and there is a growing threat of private affluence thriving as islands in the midst of public squalor, as governance has sometimes been reduced to handouts and retreat from responsibility. On the other hand, some States or regions have been able to become homes for world-class enterprises. More and more, attention has shifted from national policy to State Government functioning. The Indian States provide stark contrasts in terms of their economic and political performance. However, one common development they have all shared is deterioration in their fiscal situations over the last decade. Federal fiscal set up provides a favorable environment for the economic development at the Centre as well as the State level. The soundness of a State's finances depends upon the following factors. First; the State should generate enough resources to meet its own development needs; second; share of debt to the State Domestic Product should be at a lower level; and third; the borrowings from various sources should be made (of productive investments). These factors invariably assume a well designed expenditure scheme which is development oriented. The expenditure pattern should take care of under privileged sections of the population and also give impetus to the development process. In the federal structure of India; the States are bestowed with responsibilities which outweigh their resources. So far as debt burden of the States is concerned, a major chunk of it comes from the Centre. The loans granted by the Centre are mostly for specified projects which, in reality reduces the autonomy of the States in deciding about their development plans. As it has been mentioned

earlier, the recurrent expenditures on various projects are borne by the States which in fact compounds their fiscal problem. States in a federation also may not always be able to provide services to the optimum level due to the presence of distortions in the system itself. A major problem with decentralized provision is that, the authorities might be too small to exploit many of the economies of scale, which is possible for the Central Government. In India, according to the Constitutional provision, income tax, corporation tax, union excise duties and also the import and export duties are with the Centre. Such taxes with wide economic bases enable the Central Government to maintain a vast unified market. Such unified and large national markets seem to, have helped the States also. Despite the above advantages, distribution of financial resources poses a serious problem in a federation. In India, mismatch between administrative responsibilities and financial resources of the States has been a matter of concern. Problems arising out of division of tax powers and other resources vis-à-vis the distribution of responsibilities assume importance in this regard.

In a federal structure Central intervention is necessary (a) to bring about more efficient solutions in those areas where autonomous actions of the regional Governments might lead to less than optimum solutions and (b) to reduce inequalities between regions and (c) also to ensure horizontal equity throughout the country. While there is evidence of changes in perception of the role of the States among the policy makers in the various policy Statements, actual implementation of the new policies is less impressive. Lahiri and Fardoust (2000) have commented “As a direct consequence of ...economic and political developments of the past decade, appropriate policy responses, expenditure allocations and revenue efforts of the Indian, State Governments have become very important for growth and welfare. Perhaps, most States have lagged behind the Central Government in introducing economic reforms in the post 1991 period. This relative lack of progress is evident in the areas of tax reforms, disinvestment and liberalization of rules and procedures. A large majority of the States has followed shortsighted, populist policies that have harmed their economic and social development. The composition of expenditures as well as the stock of infrastructure assets has deteriorated with the neglect of cost recovery mechanism for maintaining public assets.

Reform at the State level is critical for the country. Clearly a large part of the onus for stimulating economic development and attracting the necessary investment resources lies

with the States. States “will be competing more intensely than before, in market place for resources in future and, States may find it somewhat difficult to place a significant responsibility on the Centre for their relative performance” (Reddy 2000). The persistent fiscal imbalance involving increasing deficits in revenue account and consequent debt burden on States. The rapid increase in the revenue deficit of the State Governments is indicative of the fact that day to day financial requirements of the State Government have far exceeded their day to day income. Thus, if the State Government can not reduce their day to day expenditure requirement, they have to necessarily make efforts to mobilise additional resources and at the same time also avoid wasteful expenditure, wherever possible. Total revenues of the States could be augmented by strengthening the non- tax revenue sources and as a measure of reform in their tax structure. The State Governments have to think very seriously regarding mobilisation of resources, and at least, from the relatively richer section of the rural population. This justifies the needs of the present study. There is no urgent need to have a relook at the State’s Finances in view of all these.

Taxes on land and agricultural income have witnessed a rapid decline in their contribution in the State tax system. On the other hand State Governments should not enter in to a ‘tax war’ to attract new investments; rather they should develop such infrastructural facilities which help to sustain development and at the same time provide an incentive for investment in the State. State Governments have made substantial amount of investments in public sector enterprises, which have been yielding very low rate of returns Presence of large number of sick and loss making industries in the States has deepened the fiscal problems due to budgetary support to such loss making units. The State Governments should take steps to withdraw gradually from all loss making public undertakings. The reluctance to levy proper user charges on social and, economic services and the poor and declining returns from departmental and non-departmental economic enterprises are the principal reasons for the low and declining proportion of non-tax revenues. The low rates or return and some times negative return on these kinds of services involve budgetary subsidies which has been increasing over the years. State subsidies to undeserving people and chronically loss making industrial units does not make much sense looking to the overall fiscal crisis faced by the States. The rationale behind allocation function for any Government is that the resources

should be put to proper use to derive optimum social benefit. Hence, each State Government must address itself and identify the areas where the economy expenditure can be practiced.

The economic reforms that began in the early 1990s brought to the fore the role of State Governments in attracting new investments from the private sector needed for growth. In the previous regime of Centralized planning, the States' role was largely limited to lobbying for public sector investment. Private investment was influenced by the incentives offered by the States for such investments, but the Centralized planning process laid down the criteria for new investments. In the new environment of liberalised economic policies, State Governments are increasingly recognising the need for a more competitive approach to attracting new investments in their own States. This change in the perception on the part of the State Governments is also due to the emergence and frequent election, of regional level political parties at the State level and their need to improve economic performance as an important electoral appeal. The industrial policies announced by the various States in the mid-1990s reflect the recognition at State level of the need for a pro-active policy towards attracting private investment.

The economic reforms in the 1990s at the national level have also led to a greater focus on the activities of the States. The dominance of Central planning and the grip of economic controls have waned with the change in focus to market-driven and private sector-fuelled development and by growing globalisation. There is a shift towards decentralisation of Government, with local urban and rural Government strengthened by the Constitutional amendments of 1992. It is recognized too that the priority areas in Government expenditure for development are physical infrastructure (roads, waterworks, power), and social infrastructure (schools, hospitals, family planning), where public funding and provision are determined mainly by State Governments.

The recent interest in the study of State finances has its root in the increasing fiscal imbalances and regional inequalities experienced by the States and their wider consequences on the growth of the economy. Normally, overambitious Five year plans and involvement of States to execute them have led the State Government to go in for excess investment and

excess expenditure against their normal level of rising financial resources. Therefore management of financial resources has become a vital issue considering macroeconomic policy of the nation. Many problems emerge from the structure of Centre-State transfers and the incentives and distortions inherent in the system. Increasing interference in States' affairs by the Centre through Centrally sponsored schemes and implementation of externally aided projects, has reduced States' autonomy in decision making in various fields. In addition to the regular transfer of resources to the States, these programmes have created increasing reliance of States on the Centre for funds. Also, the States are not free to borrow on their own as permission of Central Government is mandatory for various borrowing transactions involving internal and external sources. Therefore there is a case and sound background to study finances of the State Governments in India, so as to review economic sovereignty of the State and their role in raising mounting amount of internal debt not only in the local currency but also external debt in terms of global level finance in other currencies. How far dependence of State Government on the Centre is desirable appears to be an important issue which needs an empirical investigation by the academicians.

1.2) Punjab Economy

A modest-sized state tucked away on the northwestern border of the country with a population of 25 million Punjab has an uncommon prominence in India. For more than four decades now, it has remained the most prosperous and developed state in the country with the lowest rates of poverty. Its turbulent history, including redrawing of its borders at the time of independence, huge grain surpluses produced by its farmers since the Green Revolution, which helped the country gain self-sufficiency in food, its location as a frontline state on an often hostile border, its ability to bounce back to normalcy and preserve its social gains following the violent separatist insurgency in the 1980s, its contribution to Indian military, pop culture and sports and the visibility of its diaspora both across the country and the world have lent Punjab a profile higher than many of India's much bigger states.

Punjab is one of the most prominent states in Northern India. Punjab is rightly referred to as “Golden State of India” owing to its high performance in all areas specially agriculture and

more importantly the green revolution. Punjab is a predominantly agricultural economy with nearly 84percent of its total geographical area is under cultivation. The Punjab agriculture under went a rapid transformation particularly after the mid 60s in the wake of new farm technology. Agriculture output as well as productivity increased tremendously since 1966-67. A high portion of State Domestic Product is being generated in agriculture and also large portions of population are dependent on it. . The agriculture has generated enough income to improve the standard of living of the people in the state. Agriculture in Punjab has been advanced in nature. The state is not rich in natural resources having negligible mineral wealth and coal. But its climate, soil and water resources are suitable for agriculture transport and industries.

1.3) Socio Economic Profile of Punjab

Modern growth theory (Lukas 1988; Romer 1990) indicates that growth can be boundless and show increasing returns if based on human capital formation. The general information on population based on 2001 census is presented in table1.1.

Table 1.1: Basic Statistic of Punjab

| | |
|-----------------------|---------------------------|
| Population | 24,289,296 (persons) |
| Male population | 12,963,362 (persons) |
| Female population | 11,325,934 (persons) |
| Urban population | 33.95 (percent) |
| Rural population | 66.05 (percent) |
| Density of population | 482 (persons per sq. km.) |
| Literacy rate | 69.75 (per person) |
| Males literacy rate | 75.63 (percent) |
| Females literacy rate | 63.55 (percent) |

Source: Census of India, 2001

On the basis Census of India, 2001 the total population of the state was 24.28 crore which is lower than that of many other states. The population density was 482 persons per sq. k.m.

The process of urbanization increased as compared to 1991 in 2001. It was 33.95 percent in 2001 as against 29.5 percent in 1991, but still the major portion of population i.e., nearly 66.05 percent live in rural areas depending upon agriculture. Share of population living below poverty line in case of Punjab is 6.2 percent as against an all- India average of 26.1 percent (Economic Survey, 2003-04), which is lowest among all the states.

Some of the statistics regarding health and literacy rate of the state as per the 2001 census has been given in Table 1.1 Literacy rate of the state is 75.63 percent as against 58.5 in 1991. The literacy rate among female is 63.55 percent and the male literacy being 69.75 percent. The quality of life judged from the angle of life expectancy is high at 68 years both for male and female.

Infrastructural facilities are much developed in case of Punjab. In terms of infrastructure development, Punjab continues to enjoy a lead among Indian states. All the villages in Punjab are electrified and 92 percent households have access to electricity, the highest among all the states in the country. The per capita consumption of electricity in Punjab was 800 kWh per annum, compared to the national average of 355 kWh (2000-01). Electricity has been a major contributor to agricultural and industrial development in the state. There are more than one million tube-wells and 90 percent of them are operated with electricity. The Punjab State Electricity Board (PSEB) is generally considered among the financially better performing public utilities, maintaining a collection efficiency ranging between 96 to 98 percent. Its financial position has further improved with the establishment of the Punjab State Electricity Regulatory Commission, which has insulated the board from populist measures like providing free electricity. The Punjab government now has to fully compensate the PSEB for supply of free electricity to the farm sector and the weaker sections. Moreover, 96 percent of the total cultivated area is irrigated. The area irrigated by canals has declined to 27.28 percent while area irrigated by tubewells has increased to 72.34 percent. Thus, agriculture is covered by a system of assured irrigation.

1.4) Sectoral Changes

Table 1.2 shows the different sectors of the Punjab state. With regard to structural change Punjab has already gained a lead. Technically speaking, the state is no longer an agrarian economy. The structural composition of the State's economy has witnessed progressive changes since the base year 1999-2000.

Table 1.2: Sector- wise Contribution of GSDP at 1999-2000 Prices

| Sector | 1999-00 | 2000-01 | 2001-02 | 2002-03 | 2003-04 | 2004-05 | 2005-06 | 2006-07 |
|-----------|---------|---------|---------|---------|---------|---------|---------|---------|
| Primary | 37.53 | 36.61 | 36.22 | 34.83 | 34.92 | 33.90 | 32.67 | 31.97 |
| Secondary | 22.75 | 23.12 | 22.21 | 22.26 | 22.54 | 23.50 | 24.97 | 25.90 |
| Tertiary | 39.72 | 40.27 | 41.57 | 42.91 | 42.54 | 42.60 | 42.36 | 42.13 |
| Total | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 | 100.00 |

Source: Handbook of Statistical on the Indian Economy, Reserve Bank of India

The share of primary sector which includes agriculture and livestock has come down from 37.53percent in 1999-2000 to 31.97percent in 2006-07 The share of secondary sector has increased from 22.75percent in 1999-2000 to 25.90percent in 2006-07 which is mainly due to increase in activity of construction sector. The share of tertiary sector which comprises of services sector has increased from 39.72percent in 1999-2000 to 42.13percent in 2006-07. This growth is mainly due to increase in contribution of transport, storage & communication, trade, hotels & restaurants and banking & insurance sector. It is evident that structurally Punjab's economy is following a trend that a fall in the share of agricultural sector in GSDP has given a corresponding rise in the tertiary sector. But agriculture still plays a dominant role in the economy of Punjab. The composition of State Income shows that the relative share of primary sector (which comprises mainly of Agriculture sector) in the Gross State Domestic Product at Constant (1999-2000) prices is 31.97 percent as compared to 25.90 percent of secondary and 42.13 percent of tertiary sector during the year 2006-07. What may be considered a matter of concern is the negligible growth in the contribution of the Secondary Sector in the last decade or more. Sectoral annual growth shows that the growth

rate of agriculture has been less than that of other sectors. The annual growth rate of agriculture sector 4 percent whereas the manufacturing sector has grown at 5.74 percent and service sector grown at 8.18 percent during in 2006-07.

The above mentioned facts highlight the basic strengths of the state. Low poverty level relatively good Infrastructure facilities, high productivity of agriculture and good industrial base continue to be the major factors of the development of the state.

1.5) Punjab Finances

Finance of any state depends on the level of its development and structural framework. State finances of Punjab, to great extent, reflect its relative forwardness among the states in India. Punjab is one of the advanced State in India. Punjab, a predominantly agricultural economy, had the highest per capita income among all the major Indian states till 2003-04. It has the lowest poverty ratio of 6.2 percent as against an all- India average of 26.1 percent (Economic Survey, 2003-04).

Yet in many ways, Punjab's development experience is paradoxical: Its private sector is one of the most prosperous in the country, but its government is highly impoverished; it has virtually eliminated the gender gap in primary education, yet suffers from the problem of widespread sex-selective abortions and female infanticide (the gender ratio is only 874); and although it has a growing and large middle class, the quality of public services remains stubbornly poor. Punjab's fortune seems to be at variance with the rest of the country: The state grew rapidly (6 to 7 percent per annum) when much of India was wedded to a low rate of growth of 3 percent per annum and it's economy slowed down after the mid-eighties, when the rest of India took-off on a higher growth path. Not surprisingly, given the mixed results, there is a growing perception that Punjab's dominance and influence are waning in recent years and the state is lagging behind other states, especially the southern and western Indian states, in terms of growth and development. Concerned citizens of Punjab wonder whether the younger generation of Punjab would grow up in the most prosperous and developed state in the country like their parents and grandparents once did. The fault lines are clear and

visible: the state's public finances are under severe stress, the economy has stagnated, employment opportunities are shrinking, the quality of public service delivery is not as good as in many other states and the human development indicators are beginning to languish or even deteriorate.

Punjab once enjoyed the glory of being the most forward-looking state of India. This image prevailed for three decades till the early 1980s when the state got deeply embroiled in violent civil strife. Fortunately, Punjab came out of this crisis by the early 1990s and once again began to be counted as one of the most peaceful areas in the country. Although the state gained political normalcy with a strong secular outlook, neither its economic progress, nor its vibrant nature could be sustained. Consequently, in per capita income, Maharashtra overtook Punjab in 1992-93 as did Haryana in 2004-05. Punjab was third among the major state in India after Haryana and Maharashtra in 2006-07. The per capita income at constant prices has been estimated at Rs. 30158 in 2006-07 compared to Rs. 28872 in 2005-06 showing an increase of 4.45 per cent as against India's per capita income which was Rs. 22553 for 2006-07 as against Rs. 20858 in 2005-06, registering an increase of 8.1 percent during the year. The growth rate of the state has remained much below the national average Economic Survey of Punjab (2006-07). World Bank Report (2004) states that, 'If the current growth trend persists for another decade, at least four Indian states, viz. Gujarat, Karnataka, Maharashtra and Tamil Nadu, are likely to have per capita income higher than that of Punjab.' There have been other such reports and research articles detailing the crisis in Punjab, transforming its image from a socially and economically vibrant entity to a crisis-ridden state.

The most worrisome feature of Punjab economy today is the drop in its annual growth rate. The Table 1.3 shows that the growth rate of GSDP of Punjab declined from 3.96 percent in 2000-01 to 2.81 percent in 2002-03. It was 6.32 percent in 2006-07. By comparison, growth rate at the national level moved up from 4.35 percent to 9.62 percent during 1999-2000 to 2006-07. The table also shows that the percentage share of in GDP of India declined over the years. It was 3.76 percent in 1999-2000 and it declined to 3.18 percent in 2006-07. The annual increase rate of the state's per capita income is also very sluggish. It increased at a

very slow rate of 1.48 percent in 1999-2000 to 4.45 percent in 2006-07 as compared to India's growth rate.

Table 1.3: Growth Rate of GDP and Per Capita Domestic Product of India and Punjab at 1999-2000 Prices

| Year | GDP Of India | Growth Rate | GSDP Of Punjab | Growth Rate | Per Capita Net National Domestic Product | Growth Rate | Per Capita Net State Domestic Product | Growth Rate | Percentage Share Of Punjab In GDP Of India |
|---------|--------------|-------------|----------------|-------------|--|-------------|---------------------------------------|-------------|--|
| 1999-00 | 1786525 | - | 67176 | - | 15881 | - | 25611 | - | 3.76 |
| 2000-01 | 1864300 | 4.35 | 69836 | 3.96 | 16172 | 1.83 | 25990 | 1.48 | 3.75 |
| 2001-02 | 1972606 | 5.81 | 71174 | 1.92 | 16764 | 3.66 | 25994 | 0.02 | 3.61 |
| 2002-03 | 2048287 | 3.84 | 73172 | 2.81 | 17101 | 2.01 | 26065 | 0.27 | 3.57 |
| 2003-04 | 2222758 | 8.52 | 77212 | 5.52 | 18317 | 7.11 | 26955 | 3.41 | 3.47 |
| 2004-05 | 2388384 | 7.45 | 81229 | 5.20 | 19325 | 5.50 | 27851 | 3.32 | 3.4 |
| 2005-06 | 2612847 | 9.40 | 85729 | 5.54 | 20858 | 7.93 | 28872 | 3.67 | 3.28 |
| 2006-07 | 2864309 | 9.62 | 91148 | 6.32 | 22553 | 8.13 | 30158 | 4.45 | 3.18 |

Source: Central Statistical Organisation

It increased from 1.83 percent to 8.13 percent during the same period. It seems that it is becoming increasingly difficult to maintain the pace of growth that Punjab witnessed in the seventies and the eighties. There has been a considerable slowdown in the nineties with the rate of growth of the economy coming down to less than 2 percent as against an all-India average of nearly 5 percent per annum, whereas it was 6.4 percent during the seventh five year plan when the all-India growth rate was 5.65 percent (Statistical Abstract, Punjab, 2003).

The main reason for the declining growth rate of the economy has been the decade-long civil strife in the eighties coupled with a slowdown of the agricultural sector. The average rate of growth of the primary sector was 5.5 percent in the Sixth plan which has come down drastically to 1.8 percent during the Ninth plan. The performance of this sector has been erratic during the last one decade. There are several reasons for the faltering performance of

the Punjab economy in the post-reform period when other states of India Began to perform better than before. The fiscal crisis is a manifestation of various political, economic and administrative failures of the government during the period of militancy when the civil administration was non-functional, ineffective and non-accountable. No effort in the post-militancy period was made by the elected governments to put the economy back on the path of economic development; attributing the deteriorating fiscal situation of the nineties to the decade of political strife in the state was considered enough. Punjab has been under fiscal stress since 1984-85, when it became a revenue deficit state. In 1990-91 Punjab had the dubious distinction of being amongst the states with the highest fiscal deficit. There was minor fiscal consolidation in the mid-1990s but the position in the late nineties once again deteriorated. State finances of Punjab have not been in good shape for quite a long time. The fiscal policy in the state has resulted in growing deficits and debt burden.

So, in order to understand the state finances of Punjab, in proper perspective, it would be very essential to examine and analyze the broad budgetary parameters, such as the tax and non-tax revenues transfers from the centre and the pattern of expenditure. It is also necessary to find out whether, the buoyancy of individual taxes is in tune with the increase in state's NSDP during the recent years.

1.6) Statement of the Problem

In India the main issue that concerns most public discussion on Government finances has been almost exclusively on Central Government Finances. Correcting the fiscal imbalances that the country faces today in the face of burgeoning public debt, rising defence expenditure, rising administrative expenditures, etc., is the single most important task of fiscal management in India. Several corrective measures towards this end have been initiated and adopted by the Centre since 1991 in terms of tax reforms and changes in the structure and pattern of financial transfers to the States.

The finances of State Government too have been deteriorating over the last several years. The main causes of the problem have been the failure to contain wasteful expenditure and

reluctance to raise additional resources on the part of States. Responsible fiscal management has also become extremely difficult with frequent elections, unstable Governments, and competitive populism practiced by different political parties expiring for powers. There is a growing need for increased financial assistance from the Centre to the States. However, with the resource crunch which the Centre is facing, there has been a reduction in the tempo of Central assistance to the States. As a result, with limited funds and declining Central assistance, State Government have been depending more and more on high cost of borrowings, which have further worsened their financial position. The issue of State Government finances thus become increasingly important and deserves adequate attention.

In this study, an attempt has been made to analyse the budgetary trends of the State Finances in India and Punjab Government Finances for the period from 1980-81 to 2006-07. The total period further divided into two periods- Period I (1980-81 to 1992-93) and Period II (1993-94 to 2006-07), to compare the financial scenario before and after the reforms.. The data of Net State Domestic Product of Punjab and GDP of India is taken at constant prices of 1999-2000. The compound annual growth rates of broad budgetary parameters are calculated. Buoyancy is a measure of responsiveness of yield to any change in the state income including the additional effort of the government in the form of expanding the tax base or enhancing the rates of existing taxes and/or levying new taxes. Buoyancy has been calculated for individual items of tax revenue and development expenditure.

1.7) Approach

The budgetary data on the State finances in India and Punjab finances taken for this study follow economic and functional classification implemented by government of India with effect from 1974-75.

The budget of State government has been classified into three components, (i) Consolidated fund, (ii) Public Account and (iii) Contingency Fund. All the budgetary transactions in the category of capital and revenue account are contained in the consolidated fund. The budget is exhibited in terms of two Accounts namely, Revenue Account and Capital Account. Again

each Account there is a division of receipts and ex towards planned and non-planned items. The revenue account comprise of routine type of expenditure such as expenditure on administration of the State and expenditure on various services like social services, economic services and general services. Capital receipts include internal debt, loans from the Centre, recovery of State's own loans and advances from the State corporations, corporative societies and dividends, if any, and from the State Public Enterprises. Capital disbursement consists of State's own investment outlays, repayments of debts and the loans and the advances made by the State to various entities, corporation etc.

The Public Account contains funds which the State holds as a trust for other entities. This would include items such as deposits from municipal corporations, pension and provident funds and reserves and depreciation funds. The contingency fund is as its name implies a fund for emergency use. It does not, in fact, contain any real money, but is an accounting figure which included in budget to cover unforeseen expenditures. Expenditures from Contingency Find can be made with cabinet consensus which may not need legislative approval. In the present study, the analysis is confined to the consolidated fund only.

1.8) Objective of the Study

The main objectives of the study are:

- To examine the trends in the overall budgetary position of the State finances in India in the Pre and Post globalisation period.
- To study the growth and pattern of tax revenue and non-tax revenue of Punjab finances in Pre and Post globalisation era.
- To study growth pattern of Punjab Government expenditure in Pre and Post globalised era. It also analyses the different types of budgetary deficit including gross fiscal deficit.
- To examine the causes of fiscal stress of Punjab Government.
- To suggest the policy implications reduce mounting revenue and fiscal deficit of Punjab Government.

1.9) Data Sources

The present study spans over more than two decades from 1980-81 to 2006-07. The study is based on secondary data. Data and other relevant materials for the study have been obtained mostly from the Annual Financial Statements and Explanatory Memorandum on the Budget of Government of Punjab, RBI Bulletin, Handbook of Statistics on Indian Economy and also from Budget Documents of the State Governments, Reserve Bank of India, 2007. Data on population and related indicators viz, density, urbanization etc., were obtained from Census of India 2001 various issues of Economic Survey published by Government of India as well as Government of Punjab. Data on Net State Domestic Product and Sector Income are obtained from the publications of Central Statistical Organisation and also from the relevant Statistical Abstracts of Government of Punjab.

1.10) Methodology

Least square linear regression method has been used for calculating Compound Growth Rate of important variables covered by the study. As the study relates to time series, it is quite possible to notice different trends.

The growth of various heads of revenue and expenditure will be analyzed with the help of compound annual rate of growth.

$$Y = ab^t$$

The compound annual rate of growth will be calculated by using the Semi log Model and applying the method of ordinary least square (OLS) as explained below:

$$\text{Let } Y = ab^t = (I + r)^t \dots\dots\dots (i)$$

$$\therefore \text{Log } Y = \log (ab^t) = \log a + t (\log b)$$

$$\text{or } \log Y = A + B_t \quad (\text{Here } A = \log a, B = \log b)$$

$$\text{or } \log Y_t = A + B_t + U_t ; (t=1,2,3,\dots\dots n) \dots\dots\dots (ii)$$

where $Y_t = t_{th}$ observation on the variable Y for which rate of growth is to be calculated.

t = Time variable taking n values 1, 2,, n and in this study n takes 27 values from 1980-81 to 2006-07.

U_t = A random disturbance (or error) term at t satisfying the user assumption of OLS

r = rate of growth or compound annual rate of growth

a and b are parameters of original model (i) and A and B are the parameters of transformed model (ii).

From (ii), a and b are calculated as follows.

Log a = A, a = Antilog A

Log b = B, b = Antilog B

Since $(1 + r) = b$,

Since rate of growth is calculated in percent terms

$r = (b-1) * 100 = (\text{Antilog } B - 1) * 100$

1.11) **Buoyancy**

Individual components of State's tax revenue and development expenditure have been regressed with respect to Net State Domestic Product at constant prices of 1999-2000. Buoyancy is a measure to estimate the responsiveness of the tax revenue to changes in income. For calculating the responsiveness coefficient of different taxes as a whole, from the time series data, the revenue function that has been used in this study is

$$T = ay^b$$

$$\text{Log } T = \text{Log } a + b \text{Log } Y \quad (i)$$

where T = Tax Revenue, Y = Net State Domestic Product, a = Constant term and b = Buoyancy Coefficient. This function, however, needs two basic assumptions. Firstly, it assumes that responsiveness would remain constant over a time period and secondly, it assumes the existence of a significant correlation between two variables Y and T. The equation-(i) measures tax responsiveness, which is generally called buoyancy of the tax revenue with respect to State income.

1.12) Significance of the Study

The study has been undertaken to examine the Extent and causes of fiscal stress of Punjab Government. Hence the present study will help in suggesting the policy implications reduce mounting revenue and fiscal deficit of Punjab Government.

1.13) Organisation of the Study

The present study is organised into six, chapters. The first chapter deals with the importance of the study of State finances of Punjab. it clearly narrates the basic framework pertaining to Statement of the problem ,objectives of the study, data sources and methodology, chapter scheme etc.

The second chapter deals with the survey of literature in which an attempt is made to review previous studies with reference to State finances for earlier different periods.

The third chapter describes the overall budgetary position of State Finances in India.

The fourth chapter analyses the revenue resources tax and non-tax in revenue account of Punjab State. The chapter is divided into three sections- Section A deals with the overall Budgetary position of Punjab State Finances. In Section- B the total budget receipts and in Section- C total revenue receipts of Punjab has been analysed. Various types of tax and their behaviour over the years are analysed in terms of compound growth rate and buoyancy.

The fifth chapter discussed the expenditure pattern of the State in revenue account. The chapter is divided into three sections- Section A deals with the total budget expenditure. In Section- B the total revenue expenditure and in Section- C fiscal indicators of Punjab have been analysed. Various types of expenditure and their behaviour over the years are analysed in terms of compound growth rate and buoyancy.

The last chapter (Chapter six) presents summary and conclusion of the study as well as future areas of research. A few important suggestions are also given, for under taking of the studies.

CHAPTER II

REVIEW OF LITERATURE

A review of literature became extremely important as it helps in knowing what others are doing and in avoiding duplication of work. It also helps in giving direction to the research. State Finances has always drawn attention of the researchers. Although enough research has been done, a lot more is still required specially in new of the changing role of the States in the globalised new world.

K. Raman (1969) examined the overall trends in the finances of State Government from independence, i.e., 1951 onwards to 1966. The study found that there was a phenomenal growth of the size and operation of the State Governments in revenue as well as capital account. This was due to implementation of Five year plans and increase in development expenditure. The Central control and assistance have come to occupy the prominent place in the finances of State Governments and the volume of debt of State Governments has increased enormously due to widening gap of the budget deficit. The study also analyses the efforts of additional taxation made by various States during this period. The analysis shows that the total expenditure of the State increased nearly 3.5 times in 15 years of planning. On the other hand, development expenditure rose by nearly 5 times and non-development expenditure by nearly 4 times. The study concludes that State should encourage becoming capable of selecting really valuable schemes, so that planning can be more effective. The study suggests that experts of Centre who formulate schemes should come to State to implement the schemes which they have formulated. In the same way, experts in the States should go Centre to participate in policy making.

The study by Jain (1978) on State Finances in India from 1950-51 to 1976-77 makes an attempt to present a rational, integrated and consistent approach to the problem of State Finances of India. The object of the study is limited to present a coherent and integrated picture of State finances and attempt is made to highlight the fiscal inadequacy of States which is caused by constitutional constraints. The researcher observed that the present fiscal

inadequacy of State Governments is partly due to their unwillingness to impose an additional taxation and their inability to rationalize their tax structure and partly due to the constitutional framework which restricts their financial autonomy by making them increasingly dependent on the Centre. The analysis reveals the fact that no basic structural change has taken place in the financial operations of the State Governments during the period of study. The State Governments always experienced the paucity of funds to meet the excess expenditure. The researcher suggests that the State should device a rural tax policy to tap part of the increased income of the more prosperous agriculturists. The study underlines a the importance of uniform tax policy for all States with regard to Sales tax, motor vehicle tax, State excise duty and electricity duties etc. Coordination policies should be promoted among neighbouring States. The neighbouring States should be prepared to adjust their tax rates.

Parkash (1983) made an attempt to present an in-depth examination in the various aspects of the finances of the State of Punjab. The study covers the period from 1967-68 to 1975-76. In analyzing the overall budgetary position of the State, the researcher has observed that the State of Punjab has witnessed continuous deficits on capital account which has partly been financed through the surplus on the revenue account. The importance of Central grant and shared taxes has been noticed in the finances of the State. However, the researcher observed that Punjab had been making vigorous efforts for the mobilisation of additional revenues both from tax and non-tax sources. Regarding Central transfers through shared taxes and grant in aid, the study has noted with concern the weightage given to the criteria of backwardness by the various finance commission from the first to the sixth finance commission which has penalized efficiency and prudence of progressive States like Punjab. The study also examined the total indebtedness of the State of Punjab which has depicted a growing trend in the early years. However, various measures undertaken have reduced the burden of the State's indebtedness. The researcher has suggested that the State Government of Punjab should strive for the mobilisation of the additional revenue both from tax and non-tax sources by specially tapping the additional income generated in the agricultural sector through suitable tax policies.

Rao (1992) examined the emerging trends in the State of public finances at the States level and tried to identify the major problem areas to indicate the policy changes needed to tackle them. The researcher noticed that the distressing feature of the States' finances is the emergence of substantial and growing volume of revenue deficits in recent years. This problem of growing fiscal imbalances as the study noted has emerged in spite of the revenue increasing at the higher rates. The higher growth of revenue expenditure than that of revenue receipts has led to increased borrowings by the States creating an explosive cycle of expenditure growth on interest payment which is unsustainable. Further the study found that the emphasis of having large plans even when commensurate resources were not available, has led the States to take recourse to heavy borrowings. Since the borrowed funds were not directed to revenue yielding assets, they had led to an increase in the State indebtedness and consequently funds available for capital investment have been greatly reduced. The study also pointed out that even though tax revenue in the State have registered a fairly rapid growth, yet the prospects of improving them without adversely effecting the pace of economic development appears to be limited. In case of non-tax revenues, they researcher has noticed that their improvements can be effected only when the working of the State level enterprises has been substantially improved. The various policy measures suggested are: to compress States expenditures, to reduce budgetary support to public enterprises and to rationalize the tax system. These would in the long run restore the incentives and improve the productivity of the Government sector.

Bagchi and Sen (1992) analysed the budgetary trends in Indian States taking the decade of the 1980s. The study found that the total revenue receipts of the States grew at rate of 14.9 percent per annum and total tax receipts by 15.1 percent. Generally speaking own tax revenue grew at a little faster rate than the share in Centre taxes. They have also mentioned that growth rates of major taxes have shown variations across the States. Two groups of taxes, agricultural taxes (land revenue and agriculture income tax) and entertainment taxes (basic entertainment tax, show tax and betting tax), are losing their importance. The under taxation of agriculture has become an important subject for discussion. The most important tax from the revenue point of view for the States is Sales tax, it shows reasonably high rate of growth without much inter State variation. On the other side the researchers observed that,

rapid growth in current expenditures due to more spending on salaries and high costs, has created fiscal instability in the State. From the expenditure trends in the Indian States, based on economic and functional classification of the budgets, it seems that, capital expenditure failed to rise in the first half of the 1980s, when compared to faster growth of revenue expenditure. States have tendency to spend more under the heads where revenue expenditure predominates as compared to those which involve heavy capital expenditure.

Kumar (1994) examined the consolatory position of all States in India from 1986-87 to 1992-93. The study found that all the States showed surpluses on the revenue account in consolidated budgetary position during the sixth plan. It however, deteriorated subsequently during the 7th plan and the State budget have been experiencing deficit on revenue account persistently 1987 and surpluses in capital account since 1987-88. The study depicts that on the expenditure side, non- development expenditure is more than the development expenditure, which is on account of growing share of interest payments in the non-development expenditure . The researcher found that in comparison to State excise duty, stamps and registration fees , taxes on vehicles and electricity duty etc ., the sales tax was the most important source of tax revenue. On the other side, receipts from economic services was the most important source of States own non-tax revenue. The study suggested that improvement in revenue account can be brought about if more funds could be transferred from Centre to the States.

Sundaram (1998) studied the situation of State finances in India for the time period 1992-93 to 1997-98. The study tried to analyze the capital and revenue receipts of the States and statutory and non-statutory transfer of resources from the Centre to the States. The expenditure on development activity has come down, with the share of capital expenditure in the total disbursements of these States declining. The study examined that burden of subsidies, pay hike, commercial losses of State electricity boards loan repayments, and decline in the Central assistance to the States, revenue deficit etc. has led to the financial crisis in the State finances. The result of the study shows that there is a growing dependence of the States on the Centre to meet their expenditure needs. About fifty percent of the States total expenditure was met by the Centre.

Rao and Singh (1998) reviewed the problem of tax and expenditure assignments in a federal system during the period 1985-86 to 1995-96. The researchers note that centripetal bias of India's federal fiscal arrangements, which give the Centre indirect power over States' expenditure decisions, as well as creating a vertical fiscal imbalance that requires large Centre-State transfers. The researchers describe that the division of powers among different Governmental units, vertically between different levels of Government, and horizontally among different jurisdictions within each level, is the starting point for the examination of efficiency in the delivery of public services. The mapping of benefits across jurisdictions cannot be perfect; overlapping tax powers can create problems of fiscal disharmony and create incentives for free-riding; and there can not be a symmetry between the assignment of functions and sources of finance at each Governmental level. All these problems of fiscal spillovers, disharmony and imbalances have their roots in assignments. The study also highlights some of the distortions that arise in the federal aspects of the current Indian tax system. Internal trade barriers, inter-State tax exportation, and tax sharing arrangements are the suggested areas for reform.

Bajpai and Sachs (1999) examined the state wise major fiscal indicators for 1985-90, 1990-95, 1996-97 and 1997-98 and selected budgetary variables of State Government for the same period. Developmental expenditure, devolution of resources and transfer of resources from the Centre to the State Governments from 1995 to 1998 are also examined. The study found a persistent increase in the revenue deficit of the State Governments since 1997-98. Large and growing revenue deficits have implied the diversion of high cost borrowing for consumption purpose, leading to the declining share of investment expenditures. The State finances are facing stagnate gross domestic product ratio, rising sharing of non developmental outlay in the total expenditure and increasing financial losses of State enterprises. The interest payment burden and borrowing have shown a steady rise from 1985. Non-tax revenue registered a slow growth during the period under study. The researchers observed that the critical problem in State finances is not only one of the high levels of expenditure, but also of increasing distortions in the pattern of expenditure.

Kurian (1999) examined the State Government finances for the year 1996-97. The study attempts to reveal revenue receipts total expenditure of 15 non-special category States and finances of 10 special category States. The study pointed out that as against the average tax-NSDP ratio for the 15 States the ratio of tax-NSDP for Kerala, Tamil Nadu, Karnataka and Goa was highest and the remaining States registered tax-NSDP ratios below the average level for 15 States. The buoyancy of growth of tax revenue reduced considerably due to the tax concessions among the States to attract private investments. The study points to wide variation in the amount of own non-tax revenues among the States. On the other hand State wise grants from the Centre were distributed on an egalitarian basis. There is a steady increase in the share of development expenditure. In case of special category States findings revealed that receipts from own non-tax revenue are more as compared to own tax revenue. Central grants for these States have the major share in the total revenue receipts. On account of large quantum of plan assistance flows from the Centre the share of development expenditure is high in these States. The study concluded that there has been overall deterioration in the finances of almost all the major States.

Sekar (2000) examined the extent of fiscal imbalances faced by the State Governments in India for the time period from 1980-81 to 1997-98. In this study an attempt has been made to study the consolidated budgetary position, measures of deficit, developmental and non-developmental expenditure and outstanding liabilities of the State Government for the period 1980-81 to 1997-98. The researcher suggested that the State Government have to mobilise additional resources and reorient their expenditure portfolio in order to attain a realistic balance on revenue account. The study found that on revenue account the revenue expenditure has increased with a higher growth rate than the revenue receipts and this has led to the problem of increasing revenue deficit. Further it studied that growth of capital receipts was more than the capital disbursements and there was surpluses on capital account. By studying the expenditure of State Government the researcher found that the compound growth of non-development expenditure was higher than that of development expenditure due to higher interest payments, increasing capital receipts, increasing administrative costs and persistent loss by the State level public sector undertakings. The researcher stressed on

the proper financial management by the State Government to restructure finances to overcome all the above problems.

Prakash (2000), in his further study, reviewed the broad budgetary trends in Punjab during 1980-81 to 1999-2000 by taking data on receipts and expenditure on the revenue account as well as the capital account. The study analyzed the structure of the revenue receipts in Punjab, composition of non tax revenue, share of major components of the State own tax revenue, share of development and non development expenditure in the total expenditure and share of Punjab in the Central taxes as compared to the other high income States. According to the study there was a continuous growth in both revenue receipts and revenue expenditure of the State and there were revenue surplus in 1986-87 except 1984-85 and deficits on capital account till 1986-87 except 1985-86. The researcher found that the share of the Central transfers to Punjab and own tax revenues in total receipts declined, whereas the share of own non-tax revenue in total receipts increased. The average annual growth rate of own tax revenue of Punjab was lower. The researcher observed that on account of rising interest payments, administrative service cost and pension, there was an increase in non development expenditure and the share of development expenditure of Punjab in the total expenditure declined. The study concluded the overall budgetary position of the State as critical.

Bhargava (2000) examined the fiscal situation of the States during the period 1990-91 to 1998-99. The study found that the fiscal situation of the States have worsening over recent years. The quantum of fiscal deficit and revenue deficit has a tendency to increase at both the levels. The situation is likely to deteriorate further in view of the implementation of the recommendation of the fifth pay commission. The researcher found that total expenditure of the State Government became almost three times but the expenditure on revenue account has risen faster further, receipts on revenue account have not kept pace with the increased in the expenditure on revenue account. The receipts on revenue account have lagged much behind the expenditure on revenue account and thus the State Government has been faced to resort to increased borrowings from the union Governments as also from the market and other sources. The study further found that the increasing expenditure on administrative services bound to increase in view of the revision of pay and allowances of the employees that has

already been announced by some of the states. The study suggests that State Government have to think very seriously regarding mobilization of the resources. Taxes on land and agricultural income have witnessed a rapid decline in their contribution in the States tax system. However the matter should be discussed at the national development council to evolve a consensus so that at least the relatively rich farmers may be taxed. The State Governments should take steps to withdraw gradually from all loss-making public sectors undertaking and each State Government must address itself and identify the areas where the economy in expenditure can be practiced.

Rao (2000) analyzes fiscal decentralization in a three-tier federal framework in India and examines the roles of Union, State and urban and rural local Governments in raising revenues, in providing public services and the relative roles of the three levels of Government to get a comprehensive picture of deficits as it includes this part of contingent liabilities in the deficit calculation. The researcher found that the relative roles of Centre, State and local Governments in urban and rural areas in raising revenues and incurring expenditures bring out interesting features. First, the volume of aggregate fiscal deficit in 1997-98 works out to almost 15 per cent of GDP, which is about seven percentage points more than the deficit estimate when the Centre and States are considered. Second, it is seen that maximum deficits are incurred at the local Government level. While the fiscal deficit at the Central level was 4.4 per cent of GDP, the volume of deficit at State and local levels was estimated at 11.7 per cent of GDP.

The study found that decentralization is mainly in incurring expenditures and not in raising revenues. Thus, the Central Government could exercise control over one-third of the revenues, but its share in raising revenues is two-third. In contrast, State and local Governments raised only about one-third of revenues but the revenue accrual to them was about two-thirds. Each of the three levels incurred about one-third of the expenditures. At local level, urban local bodies incurred 28 per cent of total expenditures and the share of rural local bodies was less than 4 per cent. The study points out that the States raise 35 per cent of total revenues, which finances 51 per cent of their expenditures. The expenditure share of the State Governments after giving grants to local Governments is 35 per cent. In social

services, particularly in education and health sectors, the expenditure share of the States is more than 80 per cent and in economic services, it is about 50 per cent. Of course, the States still have to depend on Central transfers to finance a significant portion of their expenditures. Almost 37 per cent of States' revenues accrue from transfers the researcher brings out that the asymmetry in revenue and expenditure decentralization is particularly glaring at local Government level; total revenue raised by local bodies was just about 0.6 per cent of GDP or 2 per cent of total revenues. In fact, Panchayats raised a negligible amount of 0.05 per cent of GDP. They received 1.3 per cent of GDP as transfers. Their share in total expenditures was less than 4 per cent.

Thus, despite constitutional recognition local Governments in India do not raise significant revenues and have to depend on higher level Governments. Thus the type of decentralization at local levels seen in India may be characterized as de-concentration rather than decentralization despite the constitutional recognition of the local Governments. The researcher suggested that there is considerable need to rationalize the assignment system to enable the decentralized Governments to raise revenues and incur expenditures according to the preferences of their citizens.

Gill (2000) examined the acute problem of financial crisis faced by Punjab Government which started in 1985. The researcher found that expenditure on revenue account as the percentage of Gross State Domestic Product grew more than the revenue as the percentage of Gross State Domestic Product in the decade of 1990's as compared to 1980's decade. The Government expenditure grew at much faster rate than the growth of revenue collection. The researcher found that the excess of expenditure on revenue account is mainly due to unnecessary police budget and high interest and debt payment obligations and decline in capital outlay by the Government due to shifting of resources from capital account to revenue account. The major causes of fiscal crisis in the Punjab State are willful fiscal indiscipline by successive Government, inadequate tax collection, burden of irrational and unsustainable subsidies, pay revision of employees and lack of political will. The study suggested that to improve the financial condition of the State the State has to restore its losing capability

through proper management of finances and by improving the quality of human resources manning different departments

Ahluwalia (2000) studied the economic performance of Indian States in the post reform period. The study analyzed the problem of State finances in India for fourteen major States from 1980-81 to 1996-97. The balance from current revenues of several States turned negative after 1990-91, the State Governments borrowed to finance the negative balance from current revenue and then borrowed even more to finance their development plans. Total revenue of the State Governments is stagnant relative to State Domestic Products. Continuous resort to borrowing to meet expenditure needs has led to a steadily rising interest burden. This has squeezed the State's stability to finance developmental expenditure and is pushing the States into an ever increasing dependence on borrowed funds. The study further observed that trends of interest payments as a percentage of total revenues (tax plus non tax revenues) show the extent of fiscal stress in the States. There was a substantial increase in this percentage over seventeen years. Punjab has seen the largest increase in the interest payments as a percentage of the total revenue from 1980-81 to 1996-97. Burden of interest payments, subsidies, salaries, loss incurring State electricity boards and inefficient tax administration has aggravated the problem of State finance in the post reform period.

Rao (2001) examined the fiscal position of States in India during 1989 to 2000-01. The study points out that the divergences in the growth performances among the States in India have been increasing, particularly in the 1990s, after market based reforms were initiated. There has been a severe deterioration in fiscal health at the State level. Both revenue and fiscal deficits have increased sharply, particularly after 1997-98. Fiscal stress on the one hand has increased the States' indebtedness including contingent liabilities and on the other, caused severe cut back in infrastructure spending. The revenue, primary as well as primary deficit of the States have shown a sharp deterioration, particularly since 1998-99. Interestingly, the deteriorating trend in revenue deficit started right from the mid 1980s. In fact in the initial years of 1980s, the States generated a revenue surplus of one per cent of GDP. By 1987-88, however, the surplus had vanished. The fiscal adjustment during the early 1990s helped reduce the deficit from about 1 per cent in 1990-91 to 0.4 per cent in 1993-94.

In subsequent years until 1997-98, there was gradual increase in the deficit, but thereafter, it increased sharply to 2.5 per cent in 1998-99, following the impact of the pay revision. It is expected to be close to 3 per cent in 2000-01. The sharply deteriorating performance of State Electricity Boards (SEBs) is responsible for declining buoyancy of both tax and non-tax revenues in the 1990s. The persistence of large and growing fiscal deficits in the States over the years has led to steady accumulation of debt. Outstanding stock of debt as a ratio of GDP, States' indebtedness fell from 19.4 per cent in 1990-91 to 17.8 per cent in 1996-97 but increased thereafter to 23.1 per cent in 2000-01. The study suggested that States should focus on improving efficiency and improve revenue productivity of revenues and prioritization and compression of unproductive expenditures. And this requires a strong political will and administrative competence and involvement of the public in the reform process.

Eunice and Rider (2005) examined India's Intergovernmental Transfer System and the Fiscal Condition of the States during the period 1980-81 to 2002-03. The researcher contends that the lack of State fiscal discipline is due in large part to a flawed intergovernmental fiscal system that fosters fiscal profligacy at the State level. Specifically, the States are highly dependent on transfers from the Union Government. The researcher found that Shared taxes and grants from the Centre to the States represent over 4 per cent of GDP. The share of transfers in State total revenues is nearly 38 percent which is about the same since the 1990s. The share of transfers in State total expenditures represents about 31 percent, which is a decrease from the high 30s in the 1990s. Certainly, this decline in the share of transfers in State expenditures is attributable to State expenditures increasing at a much faster rate than State revenues. Centre also transfers close to 1 per cent of GDP in the form of loans to the States. These resources constitute over one-third of the aggregate fiscal resources available to the States. The study found that during the ten year period beginning in the mid-1980s, there was a slow but steady deterioration in the revenue deficits of the States. Starting in 1997-98, however, this steady decline turned into a sharp deterioration. The growth in State revenue deficits is attributable to the failure of revenue receipts to keep pace with the growth in revenue expenditures. The high transfer dependency of the States has weakened accountability and fiscal discipline. The transfer system is also very complex and lacks transparency and coordination among the institutions in charge of implementing transfers,

which together produce a cycle of distorting incentives. If the fiscal behavior of the States reflects the incentives created by the intergovernmental system, as we contend, then, absent structural reform of the intergovernmental fiscal system that addresses the perverse incentives of the current system, the fiscal trends described above are likely to persist.

Sahni (2005) examined the situation of fiscal crisis faced by Punjab Government in 1990s and evaluated the fiscal reforms initiated and implemented by the Government to overcome the fiscal crisis. The researcher studied the revenue, expenditure, guarantees debt ways and means advances and indicators of fiscal imbalances and overdrafts of the State Government from 1998-99 to 2002-03 to assess the fiscal situation in the State. The study found that revenue receipts were less than the expenditure. The growth rates of revenue receipts were very low in 2001-02, but it recovered significantly in the next year due to increase in tax as well as non tax revenue in 2002. Major share of revenue came from the Governments own recourses and the contribution of Central tax transfers and grants in aid declined during this period.

The researcher further observed that the share of non development expenditure is increasing and development expenditure is declining. Due to increase in expenditure on general education, pensions, State lotteries and interest payments the revenue expenditure of the State has increased. Revenue deficits and fiscal deficits of the State increased in absolute amount but as a percentage of Gross State Domestic Product, it decreased marginally in 2002-03. The amount of outstanding guarantees of Government increased, the State Government's dependence on Reserve Bank of India for cash management declined but the dependence on the ways and means advances increased during this period. The recommendation of various committees and commissions which are setup after the signing of MoU between the Government of India to overcome the problem of revenue mobilisation, expenditure management, public enterprises and power sector were not implemented. The main causes responsible for this are Government's unwillingness and political pressure against certain unpopular decisions for attaining fiscal stability. The study concluded that the success of fiscal reforms depends only on the proper financial management, administrative competence and political will of the Government to achieve fiscal consolidation in the State.

Rajmal (2006), provides a phase-wise analytical review of the fiscal situation of the Indian major States over the previous two and half decades and examines the effectiveness of the policy measures to strengthen the State finances. The researcher found that the fiscal position of major States except West Bengal reveals that they were generating surpluses in their revenue account in the first phase. The fiscal position of States, however, had started to show signs of stress in the second phase and fiscal imbalances deepened and persisted during the third phase. The degree of deterioration in the revenue account varied significantly across the States. States like Orissa and West Bengal showed substantial increase in their revenue deficit-GSDP ratio in the third phase as compared to the second phase. The deterioration in the revenue account led to significant increase in the overall resource gap. The revenue deficit of State Governments such as West Bengal, Punjab, Kerala and Uttar Pradesh showed substantial increase and accounted for over 70 per cent of GFD in the third phase. The significant deterioration in Revenue Account of States led them to use a substantial portion of the borrowed funds to finance their current expenditure in the third phase. The study points out that growing interest burden, increasing wages and salaries, pension liabilities, losses incurred by State Public Sector Undertakings, inadequate user charges/cost recoveries and deceleration in the Central transfers are responsible for fiscal imbalances. In the recent years, interest payments alone constitutes over one-fourth of the revenue expenditure and absorbs between 30-50 per cent of revenue receipts in many States (West Bengal, Orissa, Punjab, Rajasthan, Gujarat, Uttar Pradesh). Notably, during 2002-03 to 2003-04, interest payments and pensions outgo taken together absorbed as high as around 70 per cent of revenue receipts in case of West Bengal and nearly 50 per cent of revenue receipts in Kerala. Because of the share of debt swap scheme in financing GFD has declined significantly.

Overall States' fiscal position showed imbalances, *albeit* in a varied degree, since the mid-1980s which deepened in the second half of the 1990s. The effectiveness of policy measures has remained largely inadequate. Most of the Policy measures were exigency-driven rather than being structured. As the States face large resource gap, they require effective and time-bound policy measures to enhance revenues particularly non-taxes and shift in expenditure pattern towards economic infrastructure and social sectors to facilitate acceleration in growth.

Kishore (2007) examined the fiscal performance of the States during 1980-81 to 2006-07 and points out that fiscal imbalances were not just an aggregate phenomenon but had grown sharply across the States since the late 1980s, and the deterioration was reflected in all major fiscal indicators. Although there was some evidence of fiscal consolidation on the part of most States early 1990s, this improvement could not be sustained thereafter. The study further examined that the fiscal consolidation efforts attempted under a discretionary fiscal policy framework have not been durable, with a tendency to slip back into deficits and debt cycles. The situation started worsening after 1987-88, when the surplus on the revenue account turned negative, and this continues until 2006-07. State finances at the aggregate level have always been in revenue deficit.

Soni (2007) attempts to highlight the developments in States' finances since 1991. The Indian Constitution assigns important responsibilities to the States in many sectors but, the States' ability to undertake and perform these developmental functions effectively is critically determined by their fiscal position. The results of the study show that the departmental responsibilities of the States have increased manifold and there has not been sufficient devolution of funds to them. As a consequence, the States have been feeling alienated from the federal set up and demanding greater financial autonomy. The researcher observed that a large part of the unrest that we see in different parts of the country is undoubtedly related to the inability of the States to ensure quick economic growth within their respective areas due to paucity of funds. The study suggested that in order to augment the financial resources of the States, additional resources should be provided to the States.

Marina *et al* (2007) examine the links between public finances and growth in the post-1991 period. The researchers argue that the main factor in the deterioration of Government debt dynamics after the mid-1990s was a reform-induced loss in trade, customs, and financial repression taxes. Over time, these very factors plus lower entry barriers have contributed to stronger micro foundations for growth by increasing competition and hardening budget constraints for firms and financial sector institutions. The authors suggest that the impressive growth acceleration of the past few years, which is now lowering Government indebtedness, can be attributed to the lagged effects of these factors, which have taken time to attain a

critical mass in view of India's gradual reforms. Similarly, the worsening of public finances during the late 1990s can be attributed to the cumulative effects of tax losses, the negative growth effects of cuts in capital expenditure that were made to offset the tax losses, and a pullback in private investment (hence, growth and taxes), a situation which is now turning around. Insufficient capital expenditures have contributed to the infrastructure gap, which is seen as a constraint especially for rapid growth in manufacturing. The ongoing reforms in revenue mobilization and fiscal adjustment at the State level, if successfully implemented, will result in a better alignment of public finances with growth by generating further fiscal space for infrastructure and other development spending.

Observation based on the review

The analysis shows that the total expenditure of the State increased nearly 3.5 times in 15 years of planning.

State's own-tax revenue was strengthened when compared to State's own non-tax revenue.

Fiscal imbalances were not just an aggregate phenomenon but had grown sharply across the States since the late 1980s, and the deterioration was reflected in all major fiscal indicators.

The share of non-development expenditure is increasing and development expenditure is declining due to increase in expenditure on general education, pensions, State lotteries and interest payments the revenue expenditure of the State has increased.

Fiscal stress has increased the States' indebtedness including contingent liabilities and on the other, caused severe cut back in infrastructure spending.

Total revenue of the State Governments is stagnant relative to State Domestic Products. Continuous resort to borrowing to meet expenditure needs has led to a steadily rising interest burden. This has squeezed the State's stability to finance developmental expenditure and is pushing the States into an ever increasing dependence on borrowed funds.

CHAPTER III

STATE FINANCES IN INDIA

India, home to one billion people, is a federation of 28 States and seven Union Territories. In India, where we have democratic planning, fiscal policy plays a crucial role, as financial plan is as much important as physical plan in the development process. In the Indian federal set up, the States play an important role in accelerating and sustaining growth. They play increasingly important role in devising and implementing policies to accelerate development process. The Indian Constitution assigns important responsibilities to States in many sectors. State governments are assigned significant revenue raising power and receive financial assistance from the Centre to support a wide range of responsibilities for service provision in various economic and social sectors.

The process of economic reform, including widespread liberalization and reduction in protectionism, launched in 1991, and steadily pursued thereafter has yielded positive results by eliminating some longstanding structural rigidities, and created potential for higher growth. Over the last decade or so India has made the transition from an onerous trade regime to a market-friendly system encompassing both trade and current payments – IMF Article 8 compliance was, at last, achieved. There also was some liberalization of cross-border capital account transactions, although significant constraints remain in place on cross-border inter temporal trade and cross-border risk trading.

Although average annual real GDP growth over the post-reform period has only been modestly higher than in the previous decade (7.2 percent over 1992/93-2006/07 versus 5.7 percent over 1981/82-1990/91), India continues to be one of the fastest growing economies in the world. The most far-reaching change has been its integration with the global market place after four decades of inward looking policies. But still, the overall impact of the liberalisation of 1991 on the finances of Indian States has not been quite encouraging.

The financial condition of the state governments in India has been a cause for concern for sometime now. Over the years, the consolidated financial position of the state governments has shown a marked deterioration in some of their major deficit indicators. One of the fundamental weaknesses of state government finances in India can be attributed to the increases in non-developmental expenditure, particularly the revenue component of the non-developmental expenditure, and interest payments as a proportion of revenue receipts. Structural imbalances in the form of large revenue deficits, rising interest burden, increasing distortions in the pattern of expenditure, and very slow growing non-tax revenues are major problem areas for state finances. So as a part of federation, study of State finances assumes importance in view of the fact that the states in federation are at different levels of economic development with widely differing needs and revenue capacities. The pattern of resource mobilisation and spending of the states need a careful study.

An attempt has been made in this chapter examine the overall budgetary position of state finances in India. The revenue resources of the States' also examined in relation to Gross Domestic Product of India. The compound annual growth of various sources of States' has been calculated. Gross Domestic Product of India is taken at constant prices of 1999-2000.

For understanding the overall budgetary position of state finances in India, the performance of receipts and expenditure on revenue and capital account have been examined with the help of Tables 3.1 and 3.2.

Table 3.1 reveals the overall budgetary position of state finances in India. The table shows that on revenue account receipts and expenditure increased at compound growth rate of 15.42 percent per annum and 16.80 percent per annum respectively. Revenue receipts jumped from Rs. 16294 crore to Rs. 91090 crore during 1980-81 to 1992-93, with an increase of 5.9 times from the base figure 1980-81. The percent share of revenue receipts in Gross Domestic Product also grew from 2.54 percent in 1980-81 to 7.87 percent in 1992-93. On the other hand revenue expenditure grew at a much faster pace as compared to revenue receipts. Revenue expenditure escalated from Rs. 14808 crore in 1980-81 to Rs. 96205 crore in 1992-93 which is 6.49 times increase over the base figure of 1980-81. Its percent share in Gross

Domestic Product increased from 2.31 percent to 8.31 percent during 1980-81 to 1992-93 which is more as compared to the revenue receipts percent share in Gross Domestic Product. It is observed that revenue account witnessed surplus till 1986-87, except one deficit year of 1984-85, after that there are deficits on revenue account when expenditure surpassed the receipts.

Table 3.1: Overall Budgetary Position of State Finances in India (1980-81 to 1992-93)

Rs. in crores

| Year | Total Revenue Receipts | Revenue Expenditure | Revenue Account Surplus(+)/ Deficit(-) | Total Capital Receipts | Capital Expenditure | Capital Account Surplus(+) / Deficit(-) |
|------------------|------------------------|---------------------|--|------------------------|---------------------|---|
| 1980-81 | 16294 (2.54) | 14808 (2.31) | 1486 | 5473 (0.85) | 7856 (1.22) | -2383.00 |
| 1981-82 | 18455 (2.72) | 17075 (2.52) | 1380 | 5695 (0.84) | 8095 (1.19) | -2400.00 |
| 1982-83 | 21125 (3.03) | 20238 (2.90) | 887 | 6796 (0.97) | 8504 (1.22) | -1708.00 |
| 1983-84 | 24014 (3.19) | 23803 (3.16) | 211 | 8966 (1.19) | 8195 (1.09) | -771.00 |
| 1984-85 | 27425 (3.50) | 28349 (3.62) | (-)924 | 10993 (1.40) | 11508 (1.47) | -515.00 |
| 1985-86 | 33424 (4.10) | 32770 (4.02) | 654 | 13131 (1.61) | 12097 (1.48) | 1034.00 |
| 1986-87 | 38226 (4.50) | 38057 (4.48) | 169 | 12892 (1.52) | 13729 (1.61) | -837.00 |
| 1987-88 | 44001 (5.00) | 45088 (5.12) | (-)1088 | 15806 (1.80) | 14783 (1.68) | 1023.00 |
| 1988-89 | 50421 (5.20) | 52228 (5.39) | (-)1807 | 17037 (1.76) | 14850 (1.53) | 2187.00 |
| 1989-90 | 56535 (5.49) | 60217 (5.85) | (-)3682 | 20086 (1.95) | 16565 (1.61) | 3521.00 |
| 1990-91 | 66467 (6.13) | 71776 (6.62) | (-)5309 | 24693 (2.28) | 19312 (1.78) | 5381.00 |
| 1991-92 | 80536 (7.33) | 86186 (7.84) | (-)5650 | 27238 (2.48) | 21743 (1.98) | 5495.00 |
| 1992-93 | 91090 (7.87) | 96205 (8.31) | (-)5115 | 30073 (2.60) | 23129 (2.00) | 6944.00 |
| CARG % per annum | 15.42 | 16.88 | | 15.26 | 9.42 | |

Source: Budget Documents of the State Governments.

Note: Figures in Brackets Are Percentage Shares in Gross Domestic Product At Constant Prices of 1999-2000

On capital account receipts and expenditure also increased at compound growth rate of 15.26 percent and 9.42 percent per annum respectively which was lower as compared to the growth

rate of revenue account. In absolute terms the capital receipts ascended from Rs. 5473 crore in 1980-81 to Rs. 30073 crore in 1992-93, with an increase of 5.49 times over the base figure of 1980-81 and capital expenditure escalated from Rs. 7856 crore in 1980-81 to Rs 23129 crore in 1992-93. The increase was 2.94 times over the base figure of 1980-81. The growth in capital receipts was more than capital expenditure. The relative share of capital receipts in Gross Domestic Product was also more than capital expenditure. Capital account faced deficit till 1986-87 (except from 1985-86) whereas the revenue account witnessed surplus during these years except 1984-85. After 1986-87 onwards capital account experienced surpluses on account of more growth in capital receipts than capital expenditure during 1986-87 to 1992-93. The table depicts that annual compound growth rate of revenue account was more as compared to capital account during 1980-81 to 1992-93. And also in terms of percent share capital account grew at a lesser rate than revenue account.

Table 3.2 depicts that receipts and expenditure on revenue account increased at compound growth rate of 13.3 percent and 12.54 percent per annum respectively indicating greater growth in receipts as compared to expenditure. The growth rate in revenue receipts was higher than expenditure in 1990s than in 1980s. Revenue receipts rose from Rs. 104997 crore in 1993-94 to Rs. 532462 crore in 2006-07 with an increase of 5.07 times and percentage share of revenue receipts in Gross Domestic Product also went from 8.58 percent in 1993-94 to 18.59 percent in 2006-07. Revenue expenditure escalated from Rs. 108868 crore to Rs. 505699 crore from 1993-94 to 2006-07. Although share of expenditure in Gross Domestic Product increased from 8.90 percent to 17.66 percent during second period but its share in Gross Domestic Product was lesser than the revenue receipts. On the other hand in 1980s revenue expenditure share in Gross Domestic Product was more as compared to revenue receipts. On the whole, revenue account witnessed deficit except the year 2006-07 when there was surplus of Rs 24857 crore during the second period of analysis, i.e., the post liberalisation phase.

On capital account the situation reversed in 1990s, the growth rate of capital expenditure was more as compared to capital receipts. Receipts and expenditure on capital account increased at compound growth rate of 13.2 percent and 14.88 percent from 1993-94 to 2006-07

respectively reflecting a greater growth in capital expenditure than capital receipts. Capital receipts escalated from Rs. 28489 crore to Rs. 142802 crore registering an increase of 5.01 times during second period and its percentage share in Gross Domestic Product increased from 2.33 percent in 1993-94 to 4.99 percent in 2006-07.

Table 3.2: Overall Budgetary Position of State Finances in India (1993-94 to 2006-07)
Rs. in crores

| Year | Total Revenue Receipts | Revenue Expenditure | Revenue Account Surplus(+)/Deficit(-) | Total Capital Receipts | Capital Expenditure | Capital Account Surplus(+)/Deficit(-) |
|------------------|------------------------|---------------------|---------------------------------------|------------------------|---------------------|---------------------------------------|
| 1993-94 | 104997 (8.58) | 108868 (8.90) | -3871 | 28489 (2.33) | 24980 (2.04) | 3509 |
| 1994-95 | 120303 (9.24) | 127009 (9.75) | -6706 | 43190 (3.32) | 32138 (2.47) | 11052 |
| 1995-96 | 134507 (9.63) | 143127 (10.25) | -8620 | 42805 (3.06) | 31506 (2.26) | 11299 |
| 1996-97 | 150234 (9.96) | 166919 (11.07) | -16878 | 42011 (2.79) | 32335 (2.14) | 9676 |
| 1997-98 | 166820 (10.60) | 184312 (11.72) | -17492 | 58907 (3.74) | 39612 (2.52) | 19295 |
| 1998-99 | 173292 (10.32) | 217249 (12.94) | -44462 | 85363 (5.09) | 44169 (2.63) | 41194 |
| 1999-00 | 202927 (11.36) | 257475 (14.41) | -54548 | 101925 (5.71) | 50501 (2.83) | 51424 |
| 2000-01 | 232509 (12.47) | 287825 (15.44) | -55316 | 109705 (5.88) | 52010 (2.79) | 57695 |
| 2001-02 | 249422 (12.64) | 309819 (15.71) | -60397 | 115714 (5.57) | 58861 (2.98) | 56853 |
| 2002-03 | 273674 (13.36) | 330853 (16.15) | -57179 | 140866 (6.88) | 79396 (3.88) | 61470 |
| 2003-04 | 309187 (13.91) | 372594 (16.76) | -63407 | 205641 (9.25) | 141709 (6.38) | 63932 |
| 2004-05 | 363512 (15.22) | 402670 (16.86) | -39158 | 200148 (8.38) | 150758 (6.31) | 49390 |
| 2005-06 | 431030 (16.50) | 438034 (16.76) | -7013 | 164607 (6.30) | 123648 (4.73) | 40959 |
| 2006-07 | 532462 (18.59) | 505699 (17.66) | 24857 | 142802 (4.99) | 151582 (5.29) | -8780 |
| CARG % per annum | 13.3 | 12.54 | | 13.2 | 14.88 | |

Source: Budget Documents of the State Governments.

Note: Figures in Brackets Are Percentage Shares in Gross Domestic Product at Constant Prices of 1999-2000

It was highest, i.e., 9.25 percent in 2003-04 after that it started declining. On the other hand capital expenditure went up from Rs. 24980 crore in 1993-94 to Rs. 151582 crore in 2006-07 registering an increase of 6.06 times and its percentage share in Gross Domestic Product rose from 2.04 percent to 5.29 percent which was more as compared to capital receipts. On the whole, the capital account witnessed surpluses except the year 2006-07 when it was deficit of Rs. 8780 crore during the second period of analysis.

During the whole study period, i.e. from 1980-81 to 2006-07, revenue account started experiencing deficit from mid 1980s. The reason lies on both side, i.e., slow growth of revenue receipts and faster upsurge in revenue expenditure. One of the major reasons responsible for slow growth of revenue receipts are reduction in the financial assistance and transfers from the Centre to States, resource crunch at the Centre and stagnation in Centre tax revenues. State's own tax revenue and non-tax revenue have been experiencing downward trend. In the wake of economic reforms, several States competitively announced various tax concessions to attract private investments. Such tax wars resulted in significant revenue losses. Receipts from non-tax revenue lagged behind mainly due to the State government's inability to make proper cost recoveries from public services provided and generate adequate returns from public investments.

On the other hand, expenditure has increased manifold and that too on non-development activities. A major increase in revenue expenditure was due to interest payment burden and pays and pension revisions. With very little own funds and decelerating Central assistance, States have been depending more and more on high cost borrowings to meet revenue expenditure and financing of plans resulting in mounting interest burden. With the implementation of Central pay revision recommended by Fifth Pay Commission, phased in by the States starting in 1997-98 has seriously damaged the fiscal balance of State finances of India. This has led to crowding out of capital expenditure. Capital receipts are increasing on account of more and more borrowings by State to meet their expenditure needs. The overall scenario of State finances presents a dismal picture. The pattern of receipts on revenue account of state finances have been presented in tables 3.3 and 3.4.

Table 3.3 :Pattern of Revenue Receipts of State Finances in India (1980-81 to 1992-93)

| (Rs. in Crore) | | | | |
|------------------|-----------------|---------------------|------------------------|--------------------|
| Year | Own Tax Revenue | Own Non-tax Revenue | Share in Central Taxes | Grants from Center |
| 1980-81 | 6616 (1.03) | 3265 (0.51) | 3789 (0.59) | 2623 (0.41) |
| 1981-82 | 8234 (1.21) | 3235 (0.48) | 4260 (0.63) | 2726 (0.40) |
| 1982-83 | 9486 (1.36) | 3625 (0.52) | 4633 (0.66) | 3382 (0.48) |
| 1983-84 | 10753 (1.43) | 4160 (0.55) | 5008 (0.67) | 4093 (0.54) |
| 1984-85 | 12259 (1.57) | 4549 (0.58) | 5855 (0.75) | 4762 (0.61) |
| 1985-86 | 14551 (1.79) | 5290 (0.65) | 7260 (0.89) | 6323 (0.78) |
| 1986-87 | 16712 (1.97) | 6146 (0.72) | 8384 (0.99) | 6985 (0.82) |
| 1987-88 | 19322 (2.20) | 6744 (0.77) | 9660 (1.10) | 8275 (0.94) |
| 1988-89 | 22401 (2.31) | 7624 (0.79) | 10736 (1.11) | 9660 (1.00) |
| 1989-90 | 25996 (2.53) | 8937 (0.87) | 13097 (1.27) | 8505 (0.83) |
| 1990-91 | 30344 (2.80) | 9238 (0.85) | 14242 (1.31) | 12643 (1.17) |
| 1991-92 | 35756 (3.25) | 12706 (1.16) | 16848 (1.53) | 15226 (1.39) |
| 1992-93 | 39868 (3.44) | 12884 (1.11) | 20580 (1.78) | 17759 (1.53) |
| CARG % per annum | 16.15 | 12.12 | 15.14 | 17.28 |

Source : Budget Documents of the State Governments

Note: Figures in Brackets Are Percentage Shares in Gross Domestic Product at Constant Prices of 1999-2000

Table 3.3 highlights that own tax revenue and non-tax revenue of the States', share in central taxes and grants from the Centre increased at a compound growth rate of 16.15 percent, 12.12 percent, 15.14 percent and 17.28 percent per annum respectively. Receipts from the

grants from Centre to the States' registered the highest compound growth rate per annum followed by the growth rate of States' own tax revenue and States' share in Central taxes. Own non-tax revenue grew at the lowest rate of 12.12 percent per annum. Revenue receipts of the state increased both in absolute terms and percent share in Gross Domestic Product. Own tax revenue grew from Rs. 6616 crore in 1980-81 to Rs. 39868 crore in 1992-93 with an increase of 6.02 times and its percent share in Gross Domestic Product grew from 1.03 percent to 3.44 percent during the same period. Own non-tax revenue of the state escalated from Rs. 3265 crore to Rs. 12884 crore with 0.51 percent to 1.11 percent share in Gross Domestic Product during 1980-81 to 1992-93. Own non-tax revenue of the state depicted a continuously low growth during 1980-81 to 1992-93. On the other hand receipts from Central taxes which was Rs. 3789 crore in 1980-81, went up to Rs. 20580 crore in 1992-93 and grants from Centre valuing around Rs. 2623 crore in 1980-81 increased to Rs. 17759 crore in 1992-93. The increase in receipts from share in Centre taxes was 5.43 times and grants from the Centre were 6.77 times over their respective base figures of 1980-81. The percentage share of States' share in Centre taxes with respect to Gross Domestic Product was 0.59 percent in 1980-81 and it increased to 1.78 percent in 1992-93, whereas the relative share of grants from the Centre to States' in Gross Domestic Product grew from 0.41 percent in 1980-81 to 1.53 percent in 1992-93. This trend points out to a higher dependence of the States' on Central devolution than its own resources.

Table 3.4 shows that own tax revenue grew from Rs. 45874 crore to Rs. 252548 crore with compound growth rate of 14.02 percent during 1993-94 to 2006-07. Its percentage share in Gross Domestic Product also went up from 3.75 percent in 1993-94 to 8.82 percent in 2006-07. This growth was lower as compared to its growth (16.15 percent) in the first period. State's own non-tax revenue also increased from Rs. 15552 crore to Rs. 63263 crore with annual compound growth rate of 11.4 percent. It is observed that the percentage share of own non-tax revenue in Gross Domestic Product grew at a lesser rate. It grew from 1.27 percent in 1993-94 to 2.21 percent in 2006-07. States' share in Central taxes and grants from the Centre increased with a compound growth rate of 13.18 percent and 12.11 percent per annum respectively. Although compound growth rate declined over the previous decade but the

percentage share of Central taxes and grants from the Centre in Gross Domestic Product increased.

Table 3.4 : Pattern of Revenue Receipts of State Finances in India (1993-94 to 2006-07)

(Rs. in Crore)

| Year | Own Tax Revenue | Own Non-tax Revenue | Share in Central Taxes | Grants from Center |
|------------------|-----------------|---------------------|------------------------|--------------------|
| 1993-94 | 45874 (3.75) | 15552 (1.27) | 22395 (1.83) | 21176 (1.73) |
| 1994-95 | 53947 (4.14) | 21561 (1.66) | 24885 (1.91) | 19911 (1.53) |
| 1995-96 | 61754 (4.42) | 22831 (1.63) | 29048 (2.08) | 20874 (1.49) |
| 1996-97 | 68566 (4.55) | 23487 (1.56) | 35038 (2.32) | 22949 (1.52) |
| 1997-98 | 78288 (4.98) | 24268 (1.54) | 40411 (2.57) | 23853 (1.52) |
| 1998-99 | 85907 (5.12) | 23980 (1.43) | 39421 (2.35) | 23480 (1.40) |
| 1999-00 | 99151 (5.55) | 29478 (1.65) | 44121 (2.47) | 30177 (1.69) |
| 2000-01 | 113580 (6.09) | 30906 (1.66) | 50734 (2.72) | 37289 (2.00) |
| 2001-02 | 123200 (6.25) | 31405 (1.59) | 52215 (2.65) | 42602 (2.16) |
| 2002-03 | 136819 (6.68) | 35030 (1.71) | 56655 (2.77) | 45170 (2.21) |
| 2003-04 | 154037 (6.93) | 37238 (1.68) | 67080 (3.02) | 50836 (2.29) |
| 2004-05 | 182027 (7.62) | 46613 (1.95) | 78550 (3.29) | 56322 (2.36) |
| 2005-06 | 212308 (8.13) | 47940 (1.83) | 94024 (3.60) | 76750 (2.94) |
| 2006-07 | 252548 (8.82) | 63263 (2.21) | 120293 (4.20) | 94451 (3.30) |
| CARG % per annum | 14.02 | 11.4 | 13.8 | 12.19 |

Source: Budget Documents of the State Governments.

Note: Figures in Brackets Are Percentage Shares in Gross Domestic Product at Constant Prices of 1999-2000

The States' share in Central taxes escalated from Rs. 22395 crore to Rs. 120293 crore and relative share in Gross Domestic Product also grew from 1.83 percent to 4.20 percent during 1993-94 to 2006-07. Grants from the Centre grew from Rs. 21176 crore to Rs. 94451 crore

and its relative share in Gross Domestic Product grew from 1.73 percent to 3.30 percent during 1993-94 to 2006-07. It shows that States' are significantly dependent on the Center although the share has increased but it is lower as compared to its growth in first period. When compared with the growth rates of these components of revenue receipts to the previous period 1980-81 to 1992-93. It is observed that there is a decline in the growth rate of every component in the second period (1993-94 to 2006-07) showing slower growth of revenue receipts in the post liberalised scenario.

The overall due of revenue receipts shows that there is deceleration in the growth of all components in the nineties onwards era. Growth rate of Sales tax revenue declined in 1990s as over the 1980s. The principle source of States' own tax revenue is Sales tax, other major components include state excise, registration and stamp duty, motor vehicle and passenger tax, electricity duty, land revenue, profession tax, entertainment tax and other sundry taxes. With the motive to attract private investment several States reduced tax rates. This step result in considerable reduction in the buoyancy of growth of tax revenue of the States without commensurate gains in terms of private investment. The base of States' tax is rendered narrow because of large scale exemptions, evasion and avoidance of taxes.

On the own non-tax revenue side, the major reason for the low and declining growth of this component of revenue receipts is the States' inability to recover reasonable returns from the large investments. Poor financial performance of State Electricity Board has been a major cause of drain in States' exchequers. Finances of State Road Transport Corporation have shown steady deterioration over the years. In many States' State level public enterprises have accumulated losses amounting to several times the value of their fixed asset. Poor fiscal consolidation of the States is also attributed to the poor cost recoveries from public services. All these cause have led to decline in the growth of States' own non-tax revenue.

The downward trends in the growth rate of States' share in the Central taxes and grants from the Centre are mainly because of the stagnate tax - gross domestic product ratio at the center, recommendations of Finance Commissions and the fiscal adjustment programmes undertaken

by the government at Central level. All these factors have collectively led to the deterioration in the revenue receipts.

The key fiscal indicators of State governments have been presented in Table 3.5 and Table 3.6. The fiscal indicators examined to understand the financial situation of the State are: Gross Fiscal deficit that represents the total borrowings of the government and its total resource gap, Revenue Deficit, which is the excess of revenue expenditure over revenue receipts of the government and Primary Deficit that is obtained by excluding interest payment and non-tax revenue receipts from interest from the gross fiscal deficit.

Table 3.5: Key Fiscal Indicators of State Finances in India (1980-81 to 1992-93)

| (Rs. in crore) | | | | | | |
|----------------|----------------------|----------------------|-----------------|--|---------------------------------------|-----------------------------|
| Year | Gross Fiscal Deficit | Revenue Deficit | Primary Deficit | Revenue Account Surplus(+) Or Deficit(-) | Capital Account Surplus(+) Deficit(-) | Overall Surplus Deficit (-) |
| 1980-81 | 3713 (0.57) | (-)1486 (-)(0.23) | 2488 (0.39) | 1486 | -2383.00 | (-)897 |
| 1981-82 | 4063 (0.60) | (-)1379 (-)(0.20) | 2623 (0.39) | 1380 | -2400.00 | (-)1020 |
| 1982-83 | 4986 (0.71) | (-)888 (-)(0.13) | 3281 (0.47) | 887 | -1708.00 | (-)820 |
| 1983-84 | 6359 (0.84) | (-)210 (-)(0.03) | 4396 (0.58) | 211 | -771.00 | (-)561 |
| 1984-85 | 8199 (1.04) | 923 (.011) | 5733 (0.73) | (-)924 | -515.00 | (-)1438 |
| 1985-86 | 7521 (0.92) | (-)654 (-)(0.08) | 4581 (0.56) | 654 | 1034.00 | 1688 |
| 1986-87 | 9269 (1.09) | (-)170 (-)(0.01) | 5168 (0.61) | 169 | -837.00 | (-)667 |
| 1987-88 | 11219 (1.27) | 1088 (0.12) | 6321 (0.72) | (-)1088 | 1023.00 | (-)66 |
| 1988-89 | 11672 (1.20) | 1807 (0.19) | 5737 (0.59) | (-)1807 | 2187.00 | 380 |
| 1989-90 | 15433 (1.5) | 3682 (0.36) | 8247 (0.80) | (-)3682 | 3521.00 | (-)161 |
| 1990-91 | 18787 (1.73) | 5309 (0.49) | 10132 (0.94) | (-)5309 | 5381.00 | 72 |
| 1991-92 | 18900 (1.72) | 5651 (0.51) | 7956 (0.72) | (-)5650 | 5495.00 | (-)156 |
| 1992-93 | 20891 (1.80) | 5114 (0.44) | 7681 (0.66) | (-)5115 | 6944.00 | 1829 |

Source: Budget Documents of the State Governments.

Note: Figures in Brackets Are Percentage Shares in Gross Domestic Product at Constant Prices of 1999-2000

(-) Indicates Surplus

Table 3.5 shows the increasing quantum of gross fiscal deficits as also of the receipts deficit and primary deficit of the states' during 1980-81 to 1992-93. Gross fiscal deficit increased from Rs. 3713 crore in 1980-81 to Rs. 20891 crore in 1992-93 and it gathered momentum in 1987-88. Its relative share in Gross Domestic Product increased from 0.57 percent to 1.80 percent during 1980-81 to 1992-93. The State also had a primary deficit of Rs. 2488 crore in 1980-81 which grew to Rs. 7681 crore in 1992-93 and its relative share in Gross Domestic Product grew from 0.39 percent in 1980-81 to 0.66 percent in 1992-93. On the other hand revenue account experienced surpluses in the initial years till 1986-87 except the year 1984-85, but from 1987-88 it faced deficit which grew from Rs. 1088 crore in 1987-88 to Rs. 5115 crore in 1992-93. As a percentage of Gross Domestic Product, revenue-deficit increased from 0.12 percent in 1987-88 to 0.44 percent in 1992-93. Capital account faced deficit till 1986-87 (except for 1985-86) whereas the revenue account witnessed surplus during these years except 1984-85. After 1986-87 onwards capital account experienced surpluses on account of more growth in capital receipts than capital expenditure during 1986-87 to 1992-93. The table depicts that annual compound growth rate of revenue account was more as compared to capital account during 1980-81 to 1992-93. The percentage share of capital account grew at a lesser rate than that of revenue account. The overall budgetary position of the states also experienced deficit except for the year 1987-88, 1988-89, 1990-91 and 1992-93.

Table 3.6 shows the poor financial position of states during 1993-94 to 2006-07. During this period, the quantum of fiscal deficit became 6 times from Rs. 20364 crore in 1993-94 to Rs. 120631 crore in 2003-04. After 2003-04, there is marginal improvement in the gross fiscal deficit. It declined from Rs. 107774 crore in 2004-05 to Rs. 77509 crore in 2006-07. This marginal improvement occurred on account of decrease in the amount of revenue deficit on revenue account. Its percentage share in Gross Domestic Product increased from 1.66 percent in 1993-94 to 5.4 percent in 2003-04 and it declined in the subsequent years. It was 2.71 percent in 2006-07. There is rapid increase in the revenue deficit up to 2003-04 and then it began to decline. The revenue deficit was Rs. 3872 crore in 1993-1993-94, lower as compared to Rs. 5114 crore in 1992-93, jumped to a high rise of Rs. 63407 crore in 2003-04 with its percentage share in Gross Domestic Product increased from 0.32 percent to 2.85 percent during the same period. But after 2003-04 there was improvement in revenue deficit

and in 2006-07 there was revenue surplus of Rs. 24857 crore and its percentage share in Gross Domestic Product was negative. Primary deficit also experienced all deficits except on surplus during post-liberalised period. It increased from Rs. 4564 crore in 1993-94 to Rs. 6060 crore in 2005-06 registering fluctuations during this time period. It was surplus of Rs. 15654 crore in 2006-07. The primary deficit as the percentage of Gross Domestic Product varied in between 0.23 percent to 2.25 percent. In 2006-07 its percentage share in Gross Domestic Product was negative.

Table 3.6: Key Fiscal Indicators of State Finances in India 1993-94 to 2006-07

(Rs. in crore)

| Year | Gross Fiscal Deficit | Revenue Deficit | Primary Deficit | Revenue Account Surplus(+) or Deficit(-) | Capital Account Surplus(+) / Deficit(-) | Overall Surplus (+)/ Deficit (-) |
|---------|----------------------|----------------------|----------------------|--|---|----------------------------------|
| 1993-94 | 20364 (1.66) | 3872 (0.32) | 4564 (0.37) | -3871 | 3509 | (-)363 |
| 1994-95 | 27308 (2.09) | 6706 (0.51) | 7895 (0.61) | -6706 | 11052 | 4346 |
| 1995-96 | 30870 (2.21) | 8620 (0.61) | 9031 (0.65) | -8620 | 11299 | 2680 |
| 1996-97 | 36561 (2.42) | 16878 (1.12) | 11175 (0.74) | -16878 | 9676 | (-)7202 |
| 1997-98 | 43474 (2.76) | 17492 (1.11) | 13675 (0.87) | -17492 | 19295 | 1803 |
| 1998-99 | 73295 (4.37) | 44462 (2.65) | 37854 (2.25) | -44462 | 41194 | (-)3268 |
| 1999-00 | 90099 (5.04) | 54549 (3.05) | 45458 (2.54) | -54548 | 51424 | (-)3125 |
| 2000-01 | 87923 (4.72) | 55316 (2.97) | 36937 (1.98) | -55316 | 57695 | 2378 |
| 2001-02 | 94260 (4.78) | 60398 (3.06) | 32665 (1.66) | -60397 | 56853 | (-)3545 |
| 2002-03 | 99726 (4.87) | 57179 (2.79) | 30699 (1.49) | -57179 | 61470 | 4291 |
| 2003-04 | 120631 (5.43) | 63407 (2.85) | 40235 (1.81) | -63407 | 63932 | 526 |
| 2004-05 | 107774 (4.51) | 39158 (1.64) | 21353 (0.89) | -39158 | 49390 | 10232 |
| 2005-06 | 90084 (3.45) | 7013 (0.27) | 6060 (0.23) | -7013 | 40959 | 33947 |
| 2006-07 | 77509 (2.71) | (-)24857 (-)0.87) | (-)15654 (-)0.55) | 24857 | -8780 | 16078 |

Source: Handbook of statistics on State Government Finances Reserve Bank of India, 2007

Note: Figures in Brackets Are Percentage Shares in Gross Domestic Product at Constant Prices of 1999-2000

(-) Indicates Surplus

To conclude, the study of State finances in India reveals the poor financial health of the States. The finances of State Governments had deteriorated sharply during the 1990s on account of structural infirmities as reflected in persistent expansion in RD and GFD, rising share of committed but non-developmental expenditure, declining share of social sector expenditure, and low and declining non-tax revenues. Growth rate of receipts and expenditure on revenue as well as on capital account have fallen in 1990 as compared to their performance in 1980s. . Revenue expenditure as a percentage of Gross Domestic Product is higher than the percentage of capital expenditure in relation to Gross Domestic Product exhibiting more spending on non-development activities than the development one. Deficits are rising and growth in the components of revenue receipts is sluggish. These unfavorable trends need to be checked by the bold and effective measures initiated by government at Central as well as at the State level. Against this backdrop, the State Governments undertook fiscal reforms aimed at fiscal correction and consolidation, including progressive implementation of FRLs backed by incentive mechanism provided by the TFC and institutional reforms. The finances of the State Governments have shown noticeable improvement since 2003-04 supported by strong growth in their revenues. The States undertook tax reforms aimed at simplification and rationalisation of both direct and indirect taxes and removing anomalies in the tax structure drawing mainly from the recommendations of various tax reform committees constituted at the State level. The positive impact of the tax reform process was reflected in the gradual improvement of the revenue collections from own tax revenues at the State level. On the non-tax front, the progress in reforms has been comparatively slower.

CHAPTER IV

REVENUE SOURCES OF PUNJAB GOVERNMENT

Public revenue occupies an important place in the study of finance. Just as production is the means of consumption, revenue is the means of public expenditure. It includes all incomes and receipts which the Government obtains during any given period of time (Dalton). The modern government has to perform several functions for the welfare of the people. Therefore, it raises funds through public revenue.

The Constitution of India has made elaborate provisions for both States and the Union, relating to the distribution of taxes and non-taxes and the power of borrowing. The arrangement of distribution of financial resources, is generally perceived to be not equitable due to the imbalances between revenue raising powers and expenditure responsibilities. Most of the buoyant sources of revenue, such as, customs duty, corporation tax etc. are in the purview of central government for the Stated reason of administrative efficiency and the desire to make the centre strong vis-à-vis the States. This has culminated in centre government having the comparative advantage over the States in raising revenues. But the fiscal responsibilities in meeting huge expenditure remained with the State governments. Even the control transfers in the form of grants and shares in central taxes could not entirely put a lid on the growing deficits of State budgets, as is evidenced prominently in recent times. Performance of the States in terms of mobilization of resources from their own sources has not been satisfactory due to many reasons-economic and non-economic. These factor have created acute problems for the fiscal adjustment in the States.

In the above context, an attempt is made in this chapter to examine the structure and trends in the revenue resources of the government of Punjab. In this chapter first we examine the overall budgetary position of Punjab State Finances then examine the total budget receipts of the Government of Punjab and finally we deal with the revenue receipts of Punjab.

Section- A

4.1) Overall Budgetary Position of Punjab State Finances

In this section an attempt is made to examine the overall budgetary position of the State of Punjab, taking into consideration only consolidated funds during 1980-81 to 1992-93 and 1993-94 to 2006-07. The annual compound growth rates for receipts and expenditure on revenue account and capital account have been calculated. The percentage share of receipts and expenditure on revenue account in NSDP has been calculated.

For developing countries like India, budget has become an important instrument for promoting economic growth. It has multiplicity of goals like allocation of resources, economic growth, distribution of income and wealth, stabilization of prices and promoting full employment and securing balance of payments position (Ojha,1980).

The budget is just like a mirror in which the fiscal face of the State is clearly reflected. It is a financial Statement which relates to the estimated receipts and expenditures for the coming year beginning with the 1st of April and ending with 31st March. The budget of the State of Punjab is divided into (1) Revenue budget and (2) Capital Budget. The revenue budget covers the current revenue receipts and expenditure which are in the nature of recurring and non-recurring items. The capital budget covers the acquisition and disposal of capital assets and liabilities like loans, investments and properties etc.

The receipts on revenue account consist of two parts- (a) tax revenue and (b) non-tax revenue. Tax revenue comprises of revenue from taxes collected and retained by the State such as Sale tax, land revenue, excise duties, registration fees and other taxes like electricity duties, entertainment tax etc as well as the revenue from taxes shared with the Centre government such as income tax, Central excise duties, and State duties, etc.

The non-tax revenue comprises of non- tax revenues of the State itself and the non tax revenue receipts from the Centre by means of Grant-in- aid. The non tax revenue of the State

consist of interest receipts, dividends and receipts from general services, social and community services and economic services.

The expenditure on revenue account consists of

- (a) Development expenditure and
- (b) Non-development expenditure.

Development expenditure is divided into

- (1) Expenditure on social and community services like education, art and culture, medical and public health and natural calamities and others, etc. and
- (2) Expenditure on economic services like agriculture, cooperation, power projects, irrigation, industries, etc. Non development expenditure on revenue account covers general services like debt servicing and interest payment, administrative services, maintenance of State organs, cost of collection of taxes and duties etc.

The receipts on capital account consists of loans from the Central government, market loans and loans from other institutions like LIC, SBI, RBI etc., recovery of loans and advances which the State government has advanced earlier to various parties, deposit transactions etc. The disbursements on capital account consist of capital outlay or capital expenditure net, internal debt, repayment of loans to the Centre, loans and advances by the State government and appropriation to contingency fund etc. In the above context the overall budgetary position of the Punjab State Finances given in Table 4.1 and 4.2

Table 4.1 reveals the overall budgetary position of Punjab State finances. The table shows that the State experienced overall budgetary deficit for seven years out of thirteen years. The overall budgetary deficit was higher in the fiscal year of 1984-85. It was Rs. 134.61 crore. The State witnessed highest overall budgetary surplus in 1981-82, i.e., Rs. 150.81 crore. On revenue account there was surplus in revenue account from 1980-81 to 1983-84. The year 1984-85 was the year, when Punjab became a revenue deficit State from revenue surplus State for the first time. And for the remaining years the State experienced revenue deficit except for the year 1985-86 and 1986-87.

Table 4.1 : Overall Budgetary Position of Punjab State (1980-81 to 1992-93)**Rs. In Crore**

| Years | Revenue Receipts | Revenue Expenditure | Revenue Account Surplus(+) Or Deficit (-) | Capital Receipts | Capital Expenditure | Capital Account Surplus(+) Or Deficit (-) | Budgetary Surplus(+) Or Deficit(-) | Budgetary Surplus(+) Or Deficit (-)As Percent Of NSDP |
|-------------------------|------------------|---------------------|---|------------------|---------------------|---|------------------------------------|---|
| 1980-81 | 567.66 | 549.53 | 18.13 | 767.06 | 782.74 | (-)19.76 | (-)1.63 | (-)0.01 |
| 1981-82 | 682.61 | 619.98 | 62.63 | 1014.49 | 1026.29 | (-)11.82 | 150.81 | 0.57 |
| 1982-83 | 786.04 | 683.56 | 102.48 | 1042.72 | 1495.4 | (-)152.68 | (-)50.20 | (-)0.18 |
| 1983-84 | 879.13 | 819.86 | 59.27 | 1410.11 | 1509.79 | 0.31 | 59.58 | 0.21 |
| 1984-85 | 931.99 | 941.34 | (-)9.35 | 1627.24 | 1752.5 | (-)125.26 | (-)134.61 | (-)0.45 |
| 1985-86 | 1170.24 | 1162.9 | 7.34 | 1941.73 | 1888.81 | 52.92 | 60.26 | 0.19 |
| 1986-87 | 1292.5 | 1202.09 | 90.41 | 706.54 | 856.55 | (-)150.02 | (-)59.61 | (-)0.18 |
| 1987-88 | 1404.53 | 1633.54 | (-)229.01 | 1520.03 | 1264.4 | 255.62 | 26.61 | 0.08 |
| 1988-89 | 1623.4 | 1867.4 | (-)244.08 | 1186.95 | 957.78 | 229.16 | (-)14.92 | (-)0.04 |
| 1989-90 | 1799.97 | 2021.01 | (-)220.04 | 1078.52 | 865.59 | 212.92 | (-)8.12 | (-)0.02 |
| 1990-91 | 1975.69 | 2519.91 | (-)544.22 | 1445.47 | 879.61 | 565.85 | 21.63 | 0.05 |
| 1991-92 | 3715.84 | 4196.71 | (-)480.87 | 1377.02 | 815.68 | 561.34 | 80.47 | 0.19 |
| 1992-93 | 2786.93 | 3422.52 | (-)635.59 | 1777.09 | 863.4 | 567.72 | (-)67.87 | (-)0.15 |
| CARG percent per annum) | 14.18 | 16.47 | | 7.25 | 0.82 | | | |

Source Annual Financial Statement and Explanatory Memorandum on the Punjab Budget. Chandigarh: Department of Finance. Net State Domestic Product at constant prices of 1999-2000

On the other hand capital account the State faced deficit in the year 1980-81, 1981-82, 1982-83, 1984-85 and 1986-87 , where as the revenue account witnessed surplus during these years. The percentage of budgetary deficit to Net State Domestic Product for the year 1984-85 was 2.46 percent and it was highest during Period I, i.e., the post- liberalisation period 1980-81 to 1992-93. The table also depicts that there was substantial growth in both the

revenue receipts and revenue expenditure of Punjab State during the period 1980-81 to 1992-93. Revenue expenditure increased at a much faster rate than the revenue receipts during the same period. In absolute terms revenue receipts increased from Rs. 567.66 crore in 1980-81 to Rs. 2786.93 crore in 1992-93 and revenue expenditure grew from Rs. 549.53 crore to Rs. 3422.52 crore during 1980-81 to 1992-93. The striking feature of the revenue budget of the State government was that till 1983-84 there was revenue surplus, i.e., revenue receipts exceeded revenue expenditure but the State experienced a revenue deficit from 1984-85 when revenue expenditure crossed revenue receipts except for the years 1985-86 and 1986-87. It is cleared from the table that from 1987-88 onwards there was a continuous trend of deficit on revenue account when revenue deficit escalated from Rs. 220.04 crore in 1987-88 to Rs. 635.59 crore in 1992-93. The above table shows that the critical fiscal situation of the State started from 1987-88. The compound annual growth rates of revenue receipts and revenue expenditure were 14.18 percent and 16.47 per annum respectively. The annual compound growth rate of revenue expenditure was more than that of the revenue receipts.

On the other hand capital receipts increased at a compound growth rate of 7.25 percent per annum whereas capital disbursement grew at a very slow compound growth rate of 0.82 percent per annum for this period. Capital receipts in absolute terms rose from Rs. 767006 lakh in 1980-81 to Rs. 177709 lakh in 1992-93. Disbursement initially, increased from Rs. 78274 lakh in 1980-81 to Rs. 188881 lakh in 1985-86 and declined to Rs. 86340 lakh in 1992-93. So, the capital account witnessed deficits up to 1986-87 excluding the year 1985-86. These deficits turned into surpluses after 1986-87. Table 4.2 depicts the critical financial position of the State government. The revenue account witnessed deficits during 1993-94 to 2006-07. On the other hand there were surpluses on capital account except for the year 2006-07 when it witnessed a deficit of Rs. 1657.41 crore. There was a substantial growth in revenue deficit and capital surpluses during 1993-94 to 2004-05. After 2004-05 the revenue account showed some improvement, it declined to deficit of Rs. 1240.25 crore in 2005-06 but again it increased to deficit of Rs. 1748.64 crore in 2006-07. On the other hand the position of capital account got worsened. Overall budgetary deficit was highest in 1997-98, i.e., Rs. 199.26 crore and it was also high as the percentage of Net State Domestic Product, i.e., 0.63 percent.

Table 4.2 : Overall Budgetary Position of Punjab State (1993-94 To 2006-07)**Rs. In Crore**

| Years | Revenue Receipts | Revenue Expenditure | Revenue Account Surplus(+) Or Deficit (-) | Capital Receipts | Capital Expenditure | Capital Account Surplus(+) Or Deficit (-) | Budgetary Surplus(+) Or Deficit(-) | Budgetary Surplus(+) Or Deficit (-) As Percent Of NSDP |
|---------|------------------|---------------------|---|------------------|---------------------|---|------------------------------------|--|
| 1993-94 | 3276.63 | 4043.56 | (-766.93) | 2256.67 | 1571.98 | 684.96 | (-82.24) | (-)0.18 |
| 1994-95 | 5300.92 | 6042.76 | (-741.84) | 2704.94 | 2035.72 | 669.23 | (-72.61) | (-)0.15 |
| 1995-96 | 5184.75 | 5635 | (-450.25) | 3163.62 | 3109.56 | 696.36 | 246.11 | 0.49 |
| 1996-97 | 5568.61 | 6925.67 | (-1357.06) | 4769.53 | 3311.68 | 1457.86 | 100.8 | 0.19 |
| 1997-98 | 6315.3 | 7835.2 | (-1483.90) | 5325.99 | 3943.05 | 1284.64 | (-199.26) | (-)0.36 |
| 1998-99 | 5755.96 | 8384.29 | (-2628.34) | 9925.49 | 7166.55 | 2756.93 | 128.59 | 0.22 |
| 1999-00 | 7467.86 | 10195.28 | (-2727.42) | 8809.15 | 6175.92 | 2632.93 | (-94.19) | (-)0.15 |
| 2000-01 | 9376.86 | 11712.83 | (-2335.97) | 9455.83 | 6925.73 | 2530.1 | 194.13 | 0.31 |
| 2001-02 | 8928.62 | 12709.81 | (-3781.19) | 13774.94 | 10283.11 | 3700.4 | (-80.79) | (-)0.13 |
| 2002-03 | 11071.18 | 14825.12 | (-3753.94) | 10714.96 | 6972.49 | 3742.46 | (-11.48) | (-)0.02 |
| 2003-04 | 12138.96 | 15701.92 | (-3562.96) | 12461.08 | 8976.75 | 3484.33 | (-78.63) | (-)0.11 |
| 2004-05 | 13807.46 | 17198.03 | (-3390.55) | 11917.04 | 8429.77 | 3487.27 | 96.72 | 0.13 |
| 2005-06 | 16966.38 | 18206.73 | (-1240.25) | 4245.1 | 3214.19 | 1030.91 | 209.34 | 0.27 |
| 2006-07 | 16795.14 | 18543.78 | (-1748.64) | 6307.46 | 7964.87 | (-1657.41) | (-3406.05) | (-)0.11 |
| | 13.4 | 12.43 | | 8.23 | 13.29 | | | |

Source: Annual Financial Statement and Explanatory Memorandum on the Punjab Budget. Chandigarh: Department of Finance.

It was due to fall in capital surplus against the revenue deficit during this year. The overall budgetary position witnessed deficit during 1993-94 to 2006-07 except six years when there was surplus. The major reason for the overall budgetary deficit in the State during both the period under study was attributed to shortfalls in the revenue accounts. The situation depicts that the Punjab State much worse in the post-liberalised period. The table also shows the worsening position of revenue account of the State with all deficits and no surpluses. It is observed from the table that the revenue receipts increased from Rs. 3276.63 crore in 1993-94 to Rs. 16795.14 crore in 2006-07. On the other hand revenue expenditure increased to Rs. 18543.78 crore in 2006-07 from Rs. 4043.56 crore in 1993-94. Revenue receipts and revenue expenditure increased with annual compound growth rates of 12.43 percent and

13.40 percent per annum during 1993-94 to 2006-07. It may further be observed from the table that for the entire period of post-liberalised era the State suffered from revenue deficit. The revenue deficit which was Rs. 766.93 crore in 1993-94 increased to Rs. 1748.64 crore in 2006-07. It is noticed that up to 2002-03 revenue deficit increased very fast and from 2003-04 there was a decline in revenue deficit. In 2005-06 it came down drastically with Rs. 1240.25 crore and in 2006-07 it again escalated. In other words, revenue expenditure outpaced its revenue receipts during the period under study.

On the other hand capital receipts and capital disbursement increased at compound rate of 8.23 percent 13.29 percent from 1993-94 to 2006-07. In absolute terms the capital receipts grew from Rs. 225667 lakh to Rs. 630746 lakh during second period. The amount from capital receipts, i.e., Rs. 1377494 lakh was highest in 2001-02. On the other hand capital disbursement grew from Rs. 157198 lakh in 1993-94 to Rs. 796481 lakh in 2006-07. The growth rate of capital disbursement was higher in post-liberalised scenario. The overall capital account witnessed surpluses except the deficit of Rs. 165741 lakh in 2006-07.

Now, we examine the percentage share of revenue receipts and revenue expenditure in relation to Net State Domestic Product.

Table 4.3 shows that in the early half of 1980's, the receipts as a percentage of Net State Domestic Product was more as compare to expenditure but the trend was reversed from 1987-88, which was all because of the fast growth of expenditure than receipts. Receipts as a percentage of Net State Domestic Product grew from 2.34 percent in 1980-81 to 6.21 percent in 1992-93 and expenditure as the percentage of Net State Domestic Product increased from 2.26 percent to 7.63 percent.

Table 4.3: Receipts and Expenditure on Revenue Account in Relation to Net State Domestic Product of Punjab Government (1980-81 to 1992-93)

(Rs. in Crore)

| Year | Net State Domestic Product | Receipts As Percentage of Net State Domestic Product | Expenditure as Percentage Of Net State Domestic Product |
|---------|----------------------------|--|---|
| 1980-81 | 24290 | 2.34 | 2.26 |
| 1981-82 | 26599 | 2.41 | 2.33 |
| 1982-83 | 27380 | 2.87 | 2.50 |
| 1983-84 | 27871 | 3.15 | 2.94 |
| 1984-85 | 30039 | 3.10 | 3.13 |
| 1985-86 | 32343 | 3.62 | 3.60 |
| 1986-87 | 33473 | 3.86 | 3.59 |
| 1987-88 | 35215 | 3.99 | 5.74 |
| 1988-89 | 37082 | 4.38 | 5.04 |
| 1989-90 | 40210 | 4.48 | 5.02 |
| 1990-91 | 40975 | 4.82 | 6.15 |
| 1991-92 | 42831 | 8.68 | 9.80 |
| 1992-93 | 44851 | 6.21 | 7.63 |

SOURCE: Annual financial Statements and Explanatory Memorandum Of the Punjab Budget Chandigarh: Department of Finance

NOTE: Net State Domestic Product at constant prices of 1999-2000

Table 4.4: Receipts and Expenditure on Revenue Account in Relation to Net State Domestic Product of Punjab (1993-94 to 2006-07)

(Rs. in Crores)

| Year | Net State Domestic Product (Rs in crore) | Receipts as Percentage of Net State Domestic Product | Expenditure as Percentage of Net State Domestic Product |
|---------|--|--|---|
| 1993-94 | 46811 | 7.00 | 8.64 |
| 1994-95 | 47984 | 11.05 | 12.59 |
| 1995-96 | 49756 | 10.42 | 11.33 |
| 1996-97 | 53421 | 10.42 | 12.96 |
| 1997-98 | 54866 | 11.51 | 14.28 |
| 1998-99 | 58024 | 9.92 | 14.45 |
| 1999-00 | 61094 | 12.22 | 16.69 |
| 2000-01 | 63182 | 14.84 | 18.54 |
| 2001-02 | 64000 | 13.95 | 19.86 |
| 2002-03 | 65360 | 16.94 | 22.68 |
| 2003-04 | 68842 | 17.63 | 22.81 |
| 2004-05 | 72446 | 19.06 | 23.74 |
| 2005-06 | 76491 | 22.18 | 23.80 |
| 2006-07 | 81376 | 20.64 | 22.79 |

Source Annual Financial Statements and Explanatory Memorandum on the Punjab Budgets. Chandigarh: Department of Finance.

Note: Net State Domestic Product at Constant Prices 1999-2000

Table 4.4 depicts that revenue receipts as percentage of Net State Domestic Product increased from 7 percent to 20.64 percent in 1993-94 and 2006-07 respectively, whereas the percentage of revenue expenditure against state income was higher, i.e. , from 8.64 percent to 22.79 percent during 1993-94 to 2006-07. It shows that revenue receipts as a percentage of Net State Domestic Product grew at a lesser rate than revenue expenditure.

Section- B

4.2) Total Budget Receipts of Government of Punjab

The total budget receipts of government of Punjab are broadly divided into two types namely:

1. Revenue receipts
2. Capital receipts

The entire expenditure on account of the current consumption by the government is met out of the revenue receipts. Revenue receipts comprise the revenue raised by the State government through various tax and non tax resources and through central transfers in the form of shared taxes and Grants-in-Aid.

Capital receipts consist of loans from the government of India, open market loans, floating debts, Deposit transactions, Recovery of loans and advances, Inter-State settlement and contingency funds etc. The total budget receipts of the State of Punjab are exhibited in Tables 4.5 and 4.6.

Table 4.5 shows that the total budget receipts of Punjab during 1980-81 to 1992-93 increased by 3.41 times. The amount of total budget receipts increased from Rs1334.72 crore in 1980-81 to Rs 4564.02 crore in 2006-07. It increased at the compound growth rate of 10.79 percent per annum. The table also shows that the share of revenue receipts in the total budget receipts of Punjab was 42.53 percent in 1980-81 and it increased to 61.06 percent in 1993-94. In absolute terms it grew from Rs. 567.66 crore in 1980-81 to Rs 2786.93 crore in 1992-93 with compound growth rate of 14.18 percent per annum. On the other hand capital receipts grew from Rs 767.06 crore in 1980-81 to Rs. 1777.09 crore in 1992-93. It increased at compound growth rate of 7.21 percent per annum and its percentage share in total budget receipts declined from 57.47 percent in 1980-81 to 38.94 percent in 2006-07.

Table 4.5 : Total Budget Receipts of the Government of Punjab (1980-81 to 1992-93)

| Rs in Crore | | | |
|-------------------------|-------------------|-------------------|-----------------|
| Year | Revenue Receipts | Capital Receipts | Total Receipts |
| 1980-81 | 567.66 (42.53) | 767.06 (57.47) | 1334.72 (100) |
| 1981-82 | 682.61 (40.22) | 1014.49 (59.78) | 1697.1 (100) |
| 1982-83 | 786.04 (42.98) | 1042.72 (57.02) | 1828.76 (100) |
| 1983-84 | 879.13 (38.4) | 1410.11 (61.6) | 2289.24 (100) |
| 1984-85 | 931.99 (36.42) | 1627.24 (63.58) | 2559.23 (100) |
| 1985-86 | 1170.24 (37.6) | 1941.73 (62.4) | 3111.97 (100) |
| 1986-87 | 1292.5 (64.66) | 706.54 (35.34) | 1999.04 (100) |
| 1987-88 | 1404.53 (48.03) | 1520.03 (51.97) | 2924.56 (100) |
| 1988-89 | 1623.4 (57.77) | 1186.95 (42.23) | 2810.35 (100) |
| 1989-90 | 1799.97 (62.53) | 1078.52 (37.47) | 2878.49 (100) |
| 1990-91 | 1975.69 (57.75) | 1445.47 (42.25) | 3421.16 (100) |
| 1991-92 | 3715.84 (72.96) | 1377.02 (27.04) | 5092.86 (100) |
| 1992-93 | 2786.93 (61.06) | 1777.09 (38.94) | 4564.02 (100) |
| CARG(percent per annum) | 14.18 | 7.25 | 10.79 |

Source: Annual Financial Statement and Explanatory Memorandum on the Punjab Budget Chandigarh: Department of Finance.

Note: Figures in brackets are percentage of Total

Table 4.6 shows that the total budget receipts increased from Rs 5533.3 crore in 1980-81 to Rs 23102.6 crore in 2006-07 with compound growth rate of 11.62 percent per annum. The revenue receipts increased at the compound growth rate of 13.4 percent per annum during post-liberalised period. In absolute terms it grew from Rs 3276.63 crore in 1993-94 to Rs. 16795.14 crore in 2006-07. The share of revenue receipts in total budget receipts increased from 59.22 percent to 72.70 percent during second period which was more as compared to first period. But on the other hand, the share of capital receipts in total budget receipts declined from 14.78 percent in 1993-94 to 27.30 percent in 2006-07. Its share was highest of 63.29 percent in 1998-99. In absolute terms it increased from Rs 2256.67 crore in 1980-81 to Rs. 6307.46 crore in 2006-07. The compound growth rate of capital receipts was 8.23 percent

per annum during second period which was more as compared to first period. The table shows that the share of revenue receipts in total budget receipts was more as compared to capital receipts during post-liberalised period.

Table 4.6: Total Budget Receipts of the Government of Punjab (1993-94 to 2006-07)

(Rs in Crore)

| Year | Revenue Receipts | Capital Receipts | Total Receipts |
|------------------------|------------------|------------------|----------------|
| 1993-94 | 3276.63 (59.22) | 2256.67 (40.78) | 5533.3 (100) |
| 1994-95 | 5300.92 (66.21) | 2704.94 (33.79) | 8005.86 (100) |
| 1995-96 | 5184.75 (62.1) | 3163.62 (37.9) | 8348.37 (100) |
| 1996-97 | 5568.61 (53.86) | 4769.53 (46.14) | 10338.14 (100) |
| 1997-98 | 6315.3 (54.25) | 5325.99 (45.75) | 11641.29 (100) |
| 1998-99 | 5755.96 (36.71) | 9925.49 (63.29) | 15681.45 (100) |
| 1999-00 | 7467.86 (45.88) | 8809.15 (54.12) | 16277.01 (100) |
| 2000-01 | 9376.86 (49.79) | 9455.83 (50.21) | 18832.69 (100) |
| 2001-02 | 8928.62 (39.33) | 13774.94 (60.67) | 22703.56 (100) |
| 2002-03 | 11071.18 (50.82) | 10714.96 (49.18) | 21786.14 (100) |
| 2003-04 | 12138.96 (49.35) | 12461.08 (50.65) | 24600.04 (100) |
| 2004-05 | 13807.46 (53.67) | 11917.04 (46.33) | 25724.5 (100) |
| 2005-06 | 16966.38 (79.99) | 4245.1 (20.01) | 21211.48 (100) |
| 2006-07 | 16795.14 (72.7) | 6307.46 (27.3) | 23102.6 (100) |
| CARG(percentper annum) | 13.4 | 8.23 | 11.62 |

Source: Annual Financial Statement and Explanatory Memorandum on the Punjab Budget.
Chandigarh: Department of Finance.

Note: Figures in brackets are percentage of Total

The phenomenal increase in revenue receipts of the State is due to increase in State's own tax revenue. The development economist argues that in the process of economic development, the share of capital receipts must increase. But this is not observed in case of Punjab as well

in central budget also. Therefore the central and State governments should make efforts to raise the share of capital receipts in the total budget receipts.

Section- C

4.3) Receipts of Government of Punjab

4.3.1) Sources of State Revenue Receipts

States revenue receipts comprise of tax and non-tax revenues and transfers from the Centre. Taxes belonging exclusively to the State by and large are the following (1) taxes on commodities and services which includes, sales tax, State excise duty, taxes on passengers and goods, electricity duty and taxes on vehicles. (2) Taxes on property and capital transaction, which includes land revenue and stamps and registration fees. Remaining items of taxes are included under the category of other taxes and duties. Non- tax revenue consists of interest receipts and dividends, public works, irrigation, forests, administrative services, social and developmental services etc.

Share in central taxes as determined by the successive Finance Commissions for every five years include mostly shares of income tax and excise duties. In addition to Finance Commission's devolution, States receive plan transfers from the Planning Commission, earlier under The Gadgil formula and now under the modified Gadgil formula [Mukharjee formula]. States also receive certain grants under the centrally sponsored schemes from the individual ministries. Even after such central transfers, the resources of the States are often found to be far from adequate to meet their expenditure needs.

At the outset, trends of various sources of revenues have been analyzed and the compound annual rate of growth for the tax revenue, non-tax revenue and transfers from the centre to Punjab has calculated. The percentage share of different revenue sources in NSDP also examined. Later buoyancy of own taxes have been estimated. . The receipts of the State have been analyzed for two periods viz, 1980- 81 to 1992-93 and 1993 -94 to 2006-07.

4.3.2) State's Tax Revenue

State's tax revenue is the most important, though not the only source of public revenue.

State's tax revenue includes all kinds of taxes, which are imposed by the state government like Land Revenue, State Excise, Stamps and Registration, Taxes on Vehicles etc. We now study the pattern of tax revenue of Punjab government. Tables 4.7 and 4.8 reveal the pattern of tax revenue of Punjab government for two time periods under study.

4.3.2.1) Land Revenue:

Land Revenue is universal and oldest tax in almost all the countries of the world. It is the most important source of the States. Entry 45 in List (ii) of Schedule (vii) of the Constitution of India, land revenue is one of the biggest sources of the income since long time. With the advancements of living standard of public and flourishing business, the excise duty and sales tax are getting dominance over land revenue. To get political benefit, the political parties promise for the reduction in the land revenue rates and even abolition of land revenue. From Table 4.7 and Table 4.8, it observed that the collection of land revenue has been very discouraging during 1980-81 to 1992-93. Land revenue yielded Rs. 242 lakh in 1980-81 which increased only to Rs. 365 lakh in 1992-93 giving an increase of 1.5 times, but it shows improvement during 1993-94 to 2006-07. The yield from land revenue increased from Rs. 290 lakh in 1993-94 to Rs. 1527 lakh in 2006-07 giving an increase of 5.6 times, but its share in total own tax revenue declined as compared to the 1980-81 to 1992-93. Its share in total own tax revenue increased from 0.7 percent in 1980-81 to 0.21 percent in 1992-93 and thereafter it increased from 0.13 percent in 1993-94 to 0.17 percent in 2006-07. The growth rate of land revenue went up from 3.48 percent in the first period to 13.63 percent in second period. The higher growth rate and more responsiveness of land revenue was due to the sudden and big increase in the absolute amount of land revenue in 2005-06, i.e., 1629 lakh and Rs. 1527 lakh in 2006-07. The land revenue does not seem to be buoyant with respect to State income in the first period, but its buoyancy coefficient works out to be 3.61 in the second period.

Table 4.7 Pattern of Tax Revenue of Punjab Government (1980-81 to 1992-93)

(Rs. in lakh)

| Year | Land Revenue | Stamps And Registration | State Excise | Sales Tax | Taxes On Vehicles | Taxes On Goods And Passengers | Taxes And Duties On Electricity | Other Taxes And Duties | Total |
|-----------------------------|---------------|-------------------------|------------------|------------------|-------------------|-------------------------------|---------------------------------|------------------------|-----------------|
| 1980-81 | 242 (0.7) | 3583 (10.3) | 9312 (26.7) | 15593 (44.7) | 1078 (3.1) | 2635 (7.5) | 1503 (4.3) | 939 (2.7) | 34885 (100) |
| 1981-82 | 319 (0.74) | 4775 (11.02) | 11603 (26.78) | 19182 (44.28) | 1627 (3.75) | 3255 (7.51) | 1537 (3.55) | 1020 (2.35) | 43318 (100) |
| 1982-83 | 337 (0.68) | 5012 (10.22) | 13658 (27.85) | 21993 (44.84) | 1705 (3.48) | 3556 (7.25) | 1669 (3.4) | 1118 (2.28) | 49048 (100) |
| 1983-84 | 253 (0.46) | 4500 (8.27) | 14959 (27.5) | 25533 (46.92) | 2100 (3.86) | 3623 (6.66) | 2468 (4.54) | 976 (1.79) | 54412 (100) |
| 1984-85 | 355 (0.62) | 3926 (6.93) | 18123 (32) | 26356 (46.52) | 1987 (3.51) | 3423 (6.04) | 1703 (3.01) | 778 (1.37) | 56651 (100) |
| 1985-86 | 323 (0.48) | 5171 (7.72) | 19586 (24.22) | 31319 (46.73) | 2126 (3.17) | 3506 (5.23) | 4078 (6.08) | 914 (1.36) | 67023 (100) |
| 1986-87 | 303 (0.38) | 5833 (7.26) | 24518 (30.53) | 37713 (46.95) | 2324 (2.89) | 4238 (5.28) | 4561 (5.68) | 826 (1.03) | 80316 (100) |
| 1987-88 | 297 (0.32) | 6928 (7.56) | 27205 (30.03) | 43082 (47.04) | 2828 (3.09) | 5560 (6.07) | 4898 (5.35) | 792 (0.86) | 91590 (100) |
| 1988-89 | 321 (0.31) | 8194 (7.87) | 32894 (31.6) | 47374 (45.51) | 3237 (3.11) | 6079 (5.84) | 5362 (5.14) | 644 (0.62) | 104105 (100) |
| 1989-90 | 315 (0.26) | 10881 (8.86) | 40657 (33.12) | 53718 (43.76) | 3935 (3.21) | 6451 (5.26) | 6177 (5.03) | 617 (0.50) | 122751 (100) |
| 1990-91 | 263 (0.20) | 11039 (8.55) | 43578 (33.75) | 56972 (44.12) | 3743 (2.9) | 6995 (5.41) | 5964 (4.62) | 587 (0.45) | 129141 (100) |
| 1991-92 | 350 (0.23) | 11947 (7.74) | 47964 (31.08) | 75271 (48.78) | 4050 (3.63) | 8064 (5.23) | 6055 (3.92) | 595 (0.39) | 154296 (100) |
| 1992-93 | 365 (0.21) | 14350 (8.16) | 59278 (33.70) | 80767 (45.92) | 4843 (2.78) | 8948 (5.09) | 6634 (3.77) | 650 (0.37) | 175875 (100) |
| Buoyancy (In Rs.) | 0.26 | 1.99 | 2.99 | 2.64 | 2.17 | 1.95 | 2.86 | -1.02 | 2.67 |
| CARG (Percent per annum) | 3.48 | 7.34 | 16.68 | 14.69 | 13.34 | 10.72 | 13.17 | -3.02 | 14.43 |

Source Annual Financial Statements and Explanatory Memorandum on the Punjab Budgets.

Chandigarh: Department of finance.

Note Figures in brackets are percentage of total

Note: Figures in the brackets represents percentage of the total

Table 4.8: Pattern of Tax Revenue of Punjab Government (1993 - 94 to 2006-07)

| Year | Rs. in lakh | | | | | | | Total |
|--------------------------|----------------|-------------------------|-------------------|-------------------|-----------------|---------------------------------|------------------------|------------------|
| | Land Revenue | Stamps and Registration | State Excise | Sales Tax | Tax on Vehicle | Taxes and Duties on Electricity | Other Taxes and Duties | |
| 1993 - 94 | 290 (0.13) | 17363 (8.1) | 76613 (35.64) | 96119 (44.71) | 14128 (6.57) | 7304 (3.4) | 640 (0.29) | 214964 (100) |
| 1994 - 95 | 387 (0.15) | 24557 (9.45) | 88341 (33.99) | 119559 (46) | 17810 (6.85) | 8727 (3.36) | 525 (0.20) | 259906 (100) |
| 1995 - 96 | 320 (0.12) | 22752 (8.58) | 94361 (35.6) | 118340 (44.64) | 19065 (7.19) | 9287 (3.50) | 973 (0.37) | 265098 (100) |
| 1996 - 97 | 302 (0.11) | 18244 (6.67) | 100072 (36.59) | 126450 (46.24) | 19523 (7.14) | 7992 (2.42) | 882 (0.32) | 273465 (100) |
| 1997 - 98 | 357 (0.12) | 23384 (7.68) | 114370 (37.56) | 140114 (46.02) | 21568 (7.08) | 3779 (1.24) | 896 (0.29) | 3044468 (100) |
| 1998 - 99 | 290 (0.09) | 25812 (7.91) | 120427 (36.91) | 148966 (45.66) | 26672 (8.18) | 3190 (0.98) | 890 (0.27) | 326247 (100) |
| 1999 - 00 | 484 (0.12) | 32565 (8.25) | 123157 (31.2) | 197728 (50.1) | 32137 (8.14) | 7647 (1.94) | 1029 (0.26) | 494747 (100) |
| 2000 - 01 | 717 (0.15) | 42406 (8.66) | 132467 (27.06) | 264441 (54.0) | 33832 (6.91) | 14508 (2.96) | 1151 (0.24) | 489522 (100) |
| 2001 - 02 | 858 (0.18) | 44431 (9.22) | 135006 (28.01) | 268433 (55.69) | 31844 (6.6) | 280 (0.06) | 1171 (0.24) | 482023 (100) |
| 2002 - 03 | 877 (0.15) | 55894 (11.59) | 142821 (25.02) | 307244 (53.79) | 44388 (7.8) | 18764 (3.28) | 1043 (0.18) | 571101 (100) |
| 2003 - 04 | 1324 (0.22) | 72907 (11.86) | 146279 (23.80) | 330794 (53.82) | 38879 (6.33) | 23491 (3.82) | 919 (0.15) | 614593 (100) |
| 2004-05 | 1372 (0.19) | 96589 (13.91) | 148661 (21.41) | 381638 (54.95) | 40393 (5.81) | 25165 (3.62) | 643 (0.09) | 694461 (100) |
| 2005-06 | 1629 (0.18) | 167050 (18.58) | 156816 (17.44) | 462688 (51.47) | 43119 (4.79) | 66941 (7.45) | 685 (0.07) | 898928 (100) |
| 2006-07 | 1527 (0.17) | 180394 (20.01) | 136778 (15.17) | 482902 (53.55) | 46805 (5.19) | 52758 (5.85) | 562 (0.06) | 901726 (100) |
| Buoyancy (in Rs.) | 3.61 | 4.25 | 1.17 | 3.13 | 2.18 | 3.49 | -0.01 | 2.10 |
| Carg (percent per annum) | 13.63 | 19.73 | 4.56 | 13.22 | 9.65 | 16.43 | -0.99 | 11.66 |

Source: Annual Financial Statements and Explanatory Memorandum on the Punjab Budgets . Chandigarh: Department of Finance.

Note: Figures in the brackets represents percentage of the total .

2.2) Stamps and Registration:

The stamps and registration fee is collected by the State government and it is linked with legal purpose. There are two types of stamps which are sold by the State government (i)

Court Stamps, (ii) Revenue Stamps. Stamp duty is levied on several documents like sale deeds, bonds, affidavits, lease and mortgages, deeds of partition, adoption, divorce, marriage, gift, etc.

It is clear from the Table 4.7 and Table 4.8 that the share of stamps and registration fee was 10.3 percent in own tax revenue of the State in 1980-81, which came down to 8.16 percent in 1992-93 but it showed improvement in 1993-94 to 2006-07. It increased from 8.1 percent in 1993-94 to 20.01 percent in 2006-07. Stamps and registration fee achieved a higher growth rate of 19.73 percent in the second period compared to 7.34 percent in 1980s which made it possible for increase to more than 20 percent in own tax revenue of the State during the period 1993-94 to 2006-07. In absolute terms it escalated from Rs. 3583 lakh in 1980-81 to Rs. 14350 lakh in 1992-93 but it grew at a faster rate in post liberalised period from Rs. 17363 lakh to Rs. 180394 giving an increase of 10.3 times which was higher as compared to 1980s. Stamps and Registration fees is buoyant source of revenue. Its buoyancy coefficient with respect to State income stood at 1.99 during the period 1980-1980-81 to 1992-93 and increased to 4.25 during the period 1993-94 to 2006-07.

4.3.2.3) State Excise:

Excise duties refer to taxes on commodities produced within the country with the view to restrict their consumption. The excise duty has been divided into two groups, one called Central excise duty levied by the government of India and other called State Excise Duty. According to the Indian Constitution, the State excise duty is levied on alcohol liquids, and narcotics. The State government levied excise duty on Ganja, Bhang, Charas, Opium and country made liquor.

Table 4.7 and Table 4.8 indicates that State excise duty increased from Rs. 9312 lakh in 1980-81 to Rs. 59278 lakh in 1992-93 with compound growth rate of 16.68 percent per annum which declined during 1993-94 to 2006-07. The percentage share of State excise in own tax revenue increased from 26.71 percent in 1980-81 to 33.73 percent in 1992-93. Although in absolute terms the State excise duty increased from Rs. 76613 lakh to Rs. 136778 lakh during

second period but its compound growth rate and percentage share in own tax revenue declined. Its rate of growth was 4.56 percent per annum and share in own tax revenue declined from 35.64 percent in 1993-94 to 15.17 percent in 2006-07 which is quite low as compared to the first period. The buoyancy coefficient of State excise was low in the second period as compared to first period. It was 2.99 in pre liberalised period and it declined to 1.17 in the post liberalised period.

4.3.2.4) Sales Tax:

Sales tax constitutes a major source of income for the States. With increased production and internal trade, sales tax will continue to be the most important source of revenue. Quantitatively speaking, it is the most productive source also. Sales tax is a tax on the sale of the property and goods at the retail or wholesale or manufacturing stage. The Constitution of India in 1950 empowered the States to impose and collect taxes on the sales and purchase of goods other than newspaper. The States, however, have no jurisdiction over taxing the services.

Sales tax constitutes the loin's share in the State government's revenue because of its flexible and elastic nature. Sales tax can be demarcated as a single point tax, two-point tax and multiple point tax system. However there is one point sales tax system in States of Punjab, Orissa, Rajasthan, West Bengal, etc. while Maharashtra and Gujarat have two point sales tax system. The States of Kerala, Bihar, Karnataka, Tamil Naidu and Andhra Pradesh have multiple point sales tax system. Single point tax is a specific amount of tax added to the price at which the article is sold to the consumer. It is collected at the one point of sale.

Table 4.7 and Table 4.8 highlight that among State's own tax revenue Sales tax is the major source of revenue earning. Sales tax revenue increase substantially from Rs. 15593 lakh in 1980-81 to Rs. 80767 lakh in 1992-93 and grew from Rs. 96119 lakh in 1993-94 to Rs. 48290 lakh in 2006-07. Share of sales tax in State's own tax revenue went up from 44.7 percent to 45.92 percent during 1980-81 to 1992-93 but its share increased from 44.73 percent in 1993-94 to 53.55 percent in 2006-07. On the other hand compound growth rate of

sales tax declined in second period as compared to earlier period. Its growth rate came down from 14.69 percent in 1980-81 to 1992-93 to 13.22 percent in 1993-94 to 2006-07. In the post liberalization period Punjab provided a lot of tax concession to attract private investment in the wake of economic reforms of 1991. Sales tax as a major source of revenue, was buoyant throughout the period covered by study. Its buoyancy coefficient with respect to State income stood at 2.64 during the period 1980-1980-81 to 1992-93 and increased to 3.13 during the period 1993-94 to 2006-07.

4.3.2.5) Taxes on Vehicles:

This is an important source of the tax revenue of the State. This tax deals with the regulation and control of motor traffic. Different fees are levied for registration, permits, driving licenses etc. Some States have their own acts to levy the taxes on motor vehicles, whereas, some States follow the rules laid down by the Indian Motor Vehicle Tax Act. The vehicles on which the taxes are levied include scooters, motor cycles, auto rickshaws, buses, private cars, taxis and trucks.

Revenue from taxes on vehicles increased from Rs. 1078 lakh in 1980-81 to Rs. 4843 in 1992-93 with compound growth rate of 13.34 percent per annum. In absolute terms taxes on vehicles increased to Rs. 14128 lakh in 1993-94 to Rs. 46805 lakh in 2006-07 (Table 4.7 and Table 4.8). The compound growth rate of taxes on vehicles was 13.34 percent during 1980-81 to 1992-93 but it declined to 9.65 percent during 1993-94 to 2006-07 but its share in State own tax revenue increased in the second period as compared to the first period. It accounted for 2.5 percent to 3.5 percent in the first period and 5 percent to 6.5 percent in the second period of the State own tax revenue. Buoyancy coefficient of Taxes on Vehicles with respect to State income was 2.17 in first period and 2.18 in second period, showing the income elastic nature of this tax.

4.3.2.6) Taxes and Duties on Electricity:

Duty levied on the use of electricity is also an important source of tax revenue. The constitution of India has empowered the State government to levy tax on the consumption of electricity under the Indian Electricity Rules (1937). However, electricity consumed by any department of Union government is exempted from such duty. In Punjab, electricity duty was first levied with effect from 1st April 1958 under Punjab Electricity Duty Act, 1958. The rate of electricity duty is different for different purposes i.e. commercial or domestic purpose. The revenue from electricity duty depends upon the consumption of electricity. Because along with electricity rates, consumers are charged a duty. The duty brings revenue to the coffers of the government, whereas rates are charged for the use of electricity sold by the Punjab State Electricity Board and hence retained by it.

Table 4.7 and Table 4.8 reveals that taxes and duties on electricity escalated from Rs. 1503 lakh in 1980-81 to Rs. 6634 lakh in 1992-93 with compound growth rate of 13.17 percent per annum. It increased substantially from Rs. 7304 lakh to Rs. 52758 lakh during 1993-94 to 2006-07. Share of taxes and duties on electricity in State's own tax revenue went up from 3.77 percent in 1992-93 to 5.85 percent in 2006-07. The growth rate increased in the second period as compared to first period, its growth rate increased from 13.17 percent per annum in 1980-81 to 1992-93 to 16.43 percent in 1993-94 to 2006-07. Taxes and Duties on Electricity were buoyant throughout the period covered by study. Its buoyancy coefficient with respect to State income stood at 2.89 during the period 1980-1980-81 to 1992-93 and increased to 3.49 during the period 1993-94 to 2006-07 showing the income elastic nature of this tax.

4.3.2.7) Other Taxes and Duties:

Other taxes in this study include receipts under sugarcane (Regulation and Purchase Control Act), Entertainment tax and other receipts. Table 4.7 and Table 4.8 highlight that revenue from other taxes and duties registered a decrease from Rs. 939 lakh in 1980-81 to Rs. 650 lakh in 1992-93. The percentage share of State own tax revenue also declined from 2.7 percent in 1980-81 to 0.37 percent in 1992-93. The absolute amount of this source escalated

from Rs. 640 lakh in 1993-94 to Rs. 1151 lakh in 2000-01 and then again fell to Rs. 562 lakh in 2006-07. The share of this source in State's own tax revenue varied between 0.37 percent to 2.7 percent during first period but its share declined in the second period. The compound growth rate for the both periods was negative. The compound growth rate for the first time was -3.42 percent and for the second period was -0.99 percent. Buoyancy coefficient Other Taxes and Duties with respect to State income was negative for both the two periods. It means that the Other Taxes and Duties do not seem buoyant the two periods. It was -1.02 in first period and -0.01 in second period, indicating less elastic nature of this tax.

4.3.3) State's Non-Tax Revenue

Non-tax revenue is also a major source of revenue to the state government. Non-tax receipts are different from tax receipts in the sense that they are received by government because they perform some services for the welfare of people and to run the administration. Non-tax receipts mainly accrue from fees and charges collected by various departments of government on account of different type of services rendered to the people. So, the public income receipts through the administration, commercial enterprises, gifts and grants are the source of non-tax revenue of the government. The non-tax receipts of the state are made up of various items which have been grouped under six main heads, viz., Interest Receipts, Dividends, Other Fiscal Services, General Services, Social Services and Economic Services. They have been presented in the tables 4.9 and 4.10.

Table 4.9 : Pattern of Non-Tax Revenue of Punjab Government(1980-81 To 1992-93)**(Rs. in Lakh)**

| Year | Interest Receipts | Dividends | Other Fiscal Services | General Services | Social Services | Economic Services | Total |
|-----------------------------------|-------------------|----------------|-----------------------|------------------|-----------------|-------------------|-----------------|
| 1980 - 81 | 1979 (21.38) | 138 (1.40) | | 856 (9.25) | 1068 (11.54) | 5215 (56.34) | 9256 (100) |
| 1981 - 82 | 2369 (20.63) | 233 (2.03) | | 1151 (10.02) | 1156 (10.06) | 6577 (57.26) | 11486 (100) |
| 1982 - 83 | 3785 (25.74) | 1960 (1.09) | | 2210 (15.03) | 1386 (9.42) | 7165 (48.72) | 14706 (100) |
| 1983 - 84 | 4148 (26.52) | 124 (0.8) | | 2962 (18.92) | 1308 (8.36) | 7095 (45.38) | 15637 (100) |
| 1984 - 85 | 5107 (30.88) | 32 (0.19) | | 3130 (18.92) | 1102 (6.67) | 7168 (43.34) | 16539 (100) |
| 1985 - 86 | 6154 (31.81) | 100 (0.52) | | 4653 (24.05) | 1276 (6.59) | 7162 (37.03) | 193456 (100) |
| 1986 - 87 | 6072 (30.11) | 99 (0.49) | | 4518 (22.40) | 1612 (8.0) | 7863 (39.0) | 20164 (100) |
| 1987 - 88 | 7144 (33.43) | 92 (0.43) | | 3175 (14.86) | 1685 (7.88) | 9271 (43.39) | 21367 (100) |
| 1988 - 89 | 6898 (31.37) | 77 (0.35) | | 3195 (14.53) | 2178 (9.91) | 9641 (43.84) | 21989 (100) |
| 1989 - 90 | 7401 (30.44) | 87 (0.36) | 12 (0.05) | 3834 (15.77) | 2450 (10.07) | 10531 (43.31) | 24315 (100) |
| 1990 - 91 | 6806 (26.69) | 81 (0.32) | 4 (0.02) | 4469 (17.53) | 3247 (12.74) | 10885 (42.69) | 25492 (100) |
| 1991 - 92 | 44384 (87.63) | 54 (0.30) | 7 (0.01) | 4481 (2.72) | 3325 (20.2) | 12321 (7.49) | 164572 (100) |
| 1992 - 93 | 7130 (21.69) | 559 (1.70) | 4 (0.01) | 5673 (17.28) | 3549 (10.79) | 15960 (48.55) | 32875 (100) |
| CARG (percent per annum) | 11.27 | 12.36 | | 17.07 | 10.53 | 9.77 | 11.14 |

Source Annual Financial Statements and Explanatory Memorandum on the Punjab Budgets. Chandigarh: Department of Finance.

Note: Figures in the brackets represents percentage of the total.

4.3.3.1) Interest Receipts:

The amount of revenue from this head accrues from the interest on loans and advances by the government to departmental and commercial undertakings including Punjab State Electricity Board. Table 4.9 and Table 4.10 shows that the absolute amount of revenue from interest receipts was Rs. 1979 lakh for the year 1980-81 and Rs. 7130 lakh for the year 1992-93 shown an increasing trend with compound growth rate of 11.27 percent per annum. Its share in States own non-tax revenue varied between 20 percent to 32 percent for the year 1991-92

its share was 87.73 percent which was highest during 1980-81 to 1992-93 and thereafter this it declined. During 1993-94 to 2006-07 its share in States own non-tax revenue was very fluctuating and it was highest in 1996-97. It was 75.28 percent in 1996-97. From 1996-97 onwards its share declined except for the year 2004-05. In absolute terms it escalated from Rs. 7400 lakh in 1993-94 to Rs. 65857 lakh in 2006-07 with a compound growth rate of 18.31 percent per annum which was more as compared to first period. The sudden jump in interest receipts for the year 1991-92 and 1996-97 was because of the sharp increase in lottery related collections.

Table 4.10: Pattern of Non-Tax Revenue of the Punjab Government (1993-94 TO 2006-07)

(Rs. in lakhs)

| Year | Interest Receipts | Dividends | General Services | Social Services | Economic Services | Total |
|--------------------|-------------------|-----------------|-------------------|-----------------|-------------------|-----------------|
| 1993-94 | 7400 (17.87) | 314 (0.76) | 6754 (16.31) | 4564 (11.02) | 22374 (54.04) | 41406 (100) |
| 1994-95 | 8154 (4.07) | 785 (0.39) | 160766 (80.24) | 5008 (2.5) | 25649 (12.80) | 200362 (100) |
| 1995-96 | 8705 (4.89) | 465 (0.26) | 13945 (78.46) | 3919 (2.2) | 25196 (14.18) | 177742 (100) |
| 1996-97 | 146414 (75.28) | 543 (0.28) | 16717 (8.56) | 5225 (2.69) | 25581 (13.15) | 194480 (100) |
| 1997-98 | 98284 (41.70) | 299 (0.13) | 105276 (44.08) | 5237 (2.22) | 26546 (11.26) | 235653 (100) |
| 1998-99 | 10486 (6.96) | 149 (0.09) | 106928 (70.95) | 5103 (3.38) | 28069 (18.62) | 150735 (100) |
| 1999-00 | 53502 (22.66) | 915 (0.39) | 146366 (61.98) | 6999 (2.97) | 28363 (12.01) | 236146 (100) |
| 2000-01 | 70611 (24.06) | 233 (0.08) | 183242 (62.43) | 7327 (2.49) | 32110 (10.94) | 293523 (100) |
| 2001-02 | 55198 (18.65) | 108 (0.04) | 202764 (68.40) | 7727 (2.61) | 30248 (10.21) | 293523 (100) |
| 2002-03 | 91337 (22.63) | 91 (0.08) | 272355 (67.49) | 9561 (2.37) | 30212 (7.49) | 403556 (100) |
| 2003-04 | 146405 (31.38) | 182 (0.04) | 259324 (55.58) | 10598 (2.27) | 50044 (10.72) | 466553 (100) |
| 2004-05 | 189029 (35.28) | 60 (0.01) | 296610 (55.36) | 12157 (2.27) | 37947 (7.08) | 535803 (100) |
| 2005-06 | 64408 (14.19) | 10197 (2.25) | 334963 (73.84) | 13543 (2.98) | 30522 (6.73) | 453633 (100) |
| 2006-07 | 65857 (16.57) | 196 (0.05) | 272317 (68.55) | 19519 (4.91) | 39369 (9.91) | 397258 (100) |
| CARG (% PER ANNUM) | 18.31 | -3.56 | 32.89 | 11.83 | 4.44 | 19.00 |

Source: Annual Financial Statements and Explanatory Memorandum on the Punjab Budgets. Chandigarh : Department of Finance.

Note: Figures in the brackets represents percentage of the total.

4.3.3.2) Dividends:

The amount of revenue received in the form of dividends and profits of State and other commercial and industrial undertakings has a smaller percentage share in total non-tax revenue receipts. Table 4.9 and Table 4.10 indicate that in absolute terms the dividend grew from Rs. 138 lakh in 1980-81 to Rs. 559 lakh in 1992-93, but it has a smaller percentage share in State own non-tax revenue. There were fluctuations in between this period in amount of receipts. The percentage share of dividend in State own non-tax revenue varied in between 0.21 percent to 2.1 percent during 1980-81 to 1992-93. During 1993-94 to 2006-07 the amount of receipts registered a declining trend except the year 2005-06. From Rs. 314 lakh in 1993-94 it fell to Rs. 696 lakh in 2006-07 with the percentage share in State own non-tax revenue decreasing from 0.76 percent to 0.05 percent during this period.

4.3.3.3) General Services:

General services include administrative services of various kinds. These includes receipts from Public Service Commission, Police, Jails, Supplies and Disposals, Stationary and Printing , Public Works, Other Administrative Services, Contribution and Recoveries towards Pension and Retirements and Miscellaneous General Services Table 4.9 and Table 4.10, it is observed that the revenue collected from general services increased at compound growth rate of 17.07 percent per annum during 1980-81 to 1992-93. In absolute terms it grew from Rs. 856 lakh in 1980-81 to Rs. 5673 lakh in 2006-07 showing an increasing trend. It varied between 9.25 to 17.26 percent from 1980-81 to 1992-93 but its share in State own non-tax revenue during 1990s was more than 1980s. It varied between 8.46 to 73.83 percent during 1993-94 to 2006-07. The absolute amount grew from Rs. 6754 lakh in 1993-94 to Rs. 272317 lakh in 2006-07 with compound growth rate of 32.89 percent per annum. The compound growth rate of general services was more in second period than first period. This was because of expansion of various public services in the State.

4.3.3.4) Social Services:

Income from other social services includes receipts from Education, Art and Culture, Medical, Family Welfare, Public Health, Sanitation and Water Supply, Housing and Urban Development, Information and Publicity, Labour and Employment, Social Security and Welfare and Other Social and Community Services. Table 4.9 and Table 4.10 depicts that the absolute amount went up from Rs. 1068 lakh in 1980-81 to Rs. 3549 lakh in 1992-93 with an increase of 3.32 times and at compound growth rate of 10.53 percent per annum. The share of social services varied between 7 to 12.5 percent. In the second time period the revenue from social services escalated from Rs. 4564 lakh in 1993-94 to Rs 19519 lakh in 2006-07 but its percentage share in State own non tax revenue declined from 11.02 percent in 1993-94 to 4.91 percent in 2006-07. The compound growth rate of social services for the second time period was slightly more as compared to the first period. The falling share of this head was mainly because of inefficiency on the part of government to recover cost incurred on these services.

4.3.3.5) Economic Services:

Economic Services includes receipts from General Economic Services, Agriculture and Allie Services, Industries, Minerals, Water and Power Development, Transportation and Communication, Multipurpose River Projects, Flood Control Projects, etc. Table 4.9 and Table 4.10 reveal that there has been steady increase in the amount of revenue accruing from these economic services. The absolute amount went up from Rs. 5215 lakh in 1980-81 to Rs.15960 lakh in 1992-93 with an increase of 3.06 times and at a compound growth rate of 9.77 percent per annum. The share of economic services in State own non-tax revenue varied in between 37 percent to 57 percent, except for the year 1991-92, when the share was only 7.49 percent. In the post liberalised period although in the absolute terms the revenue from economic services increased from Rs.22374 lakh in 1993-94 to Rs. 50044 lakh in 2003-04. It then started decreasing. It was Rs. 39369 lakh in 2006-07. The percentage share of this source also declined from 54.04 percent to 9.91 percent from 1993-94 to 2006-07. The

compound growth rate calculated for this time period recorded a low growth of 4.44 percent per annum as compared to 9.77 percent per annum of the first period.

4.3.4) Transfers from the Centre to Punjab

Center transfers sources to the states in the form of tax sharing and grants. Relative to their heavy expenditure responsibilities, Indian states are unusually dependent on Central transfers. At present, the recommendations of the twelfth Finance commission are governing the sharing of funds between the Centre and the states.

Table 4.11 Pattern of Revenue Transferred from Centre to Punjab Government (1980-81 to 1992-93)

| (Rs. in Crore) | | | |
|-------------------------|-----------------------------------|-------------------------------|--------------|
| Year | Share of Central Taxes and Duties | Grants-in-Aid from the Center | Total |
| 1980-81 | 82.20 (65.11) | 44.05 (34.89) | 126.25 (100) |
| 1981-82 | 91.7 (67.91) | 43.33 (32.09) | 135.03 (100) |
| 1982-83 | 99.23 (66.82) | 49.28 (33.18) | 148.51 (100) |
| 1983-84 | 111.66 (62.50) | 66.98 (37.5) | 178.64 (100) |
| 1984-85 | 121.62 (60.78) | 78.46 (30.21) | 200.08 (100) |
| 1985-86 | 114.01 (37.14) | 198.75 (62.81) | 306.58 (100) |
| 1986-87 | 147.1 (51.13) | 140.59 (48.87) | 287.69 (100) |
| 1987-88 | 155.63 (56.6) | 119.34 (43.4) | 274.97 (100) |
| 1988-89 | 170.65 (47.08) | 191.82 (52.92) | 362.47 (100) |
| 1989-90 | 207.64 (63.05) | 121.67 (36.95) | 329.31 (100) |
| 1990-91 | 248.24 (57.82) | 181.12 (42.18) | 429.36 (100) |
| 1991-92 | 293.27 (55.63) | 233.90 (44.37) | 527.17 (100) |
| 1992-93 | 349.01 (49.9) | 350.41 (50.1) | 699.42 (100) |
| CARG(percent per annum) | 12.81 | 18.86 | 15.33 |

SOURCE: Annual Financial Statements And Explanatory Memorandum On The Punjab Budgets. Chandigarh: Department Of Finance

NOTE: Figures In Brackets Represents Percentage Of The Total

Table 4.11 depicts that State's share in Centre taxes has shown a growth of 4.42 times and grants from the Centre showed a rise of 7.95 times during 1980-81 to 1992-93. In absolute terms the share of Central taxes and duties grew from Rs. 82.20 crore in 1980-81 to Rs. 349.01 crore in 1992-93 with compound growth rate of 12.81 percent but its percentage share in the total amount of revenue transferred from the Centre declined from a high of 65.11 percent to 49.9 percent during 1980-81 to 1992-1993-94. On the other hand grants in aid from the Centre to Punjab observed an increasing trend both in absolute terms and as a percentage share of total revenue transferred from the Centre to Punjab with compound growth rate of 18.86 percent per annum. It escalated from Rs. 44.05 crore in 1980-81 to Rs. 350.41 crore in 1992-93 and its percentage share in total transfer from the Centre increased from 34.89 percent to 50.1 percent during 1980-81 to 1992-93. The total revenue transferred from the Centre to Punjab showed an increasing trend with an absolute amount arising from Rs. 126.25 crore in 1980-81 to Rs. 699.42 crore in 1992-93.

Table 4.12 Pattern of Revenue Transferred from Centre to Punjab Government (1993-94 To 2006-07)

| Rs. In Crore | | | |
|--------------------------|-----------------------------------|-------------------------------|---------------|
| Year | Share of Central Taxes and Duties | Grants-in-aid from the Centre | Total |
| 1993-94 | 378.80 (53.15) | 334.13 (46.87) | 712.93 (100) |
| 1994-95 | 424.33 (60.77) | 273.91 (39.23) | 698.24 (100) |
| 1995-96 | 441.77 (58.41) | 314.60 (41.59) | 756.37 (100) |
| 1996-97 | 528.35 (59.42) | 360.80 (40.58) | 889.15 (100) |
| 1997-98 | 656.68 (69.14) | 293.12 (30.86) | 949.80 (100) |
| 1998-99 | 587.16 (59.56) | 398.65 (40.44) | 985.81 (100) |
| 1999-00 | 638.54 (55.10) | 520.34 (44.9) | 1158.93 (100) |
| 2000-01 | 716.62 (46.42) | 827.08 (53.58) | 1543.70 (100) |
| 2001-02 | 608.18 (47.37) | 675.60 (52.63) | 1283.78 (100) |
| 2002-03 | 645.79 (52.98) | 573.10 (47.02) | 1218.89 (100) |
| 2003-04 | 751.79 (31.98) | 1599.12 (68.02) | 2350.91 (100) |
| 2004-05 | 902.35 (59.96) | 602.47 (40.03) | 1504.82 |
| 2005-06 | 1227.45 (35.67) | 2213.32 (64.32) | 3440.77 |
| 2006-07 | 1565.65 (41.14) | 2239.65 (58.85) | 3805.3 |
| CARG (percent per annum) | 11.53 | 15.76 | 13.75 |

Source Annual Financial Statements And Explanatory On The Punjab Budgets.

Chandigarh: Department Of Finance

Note: Figures In Brackets Represents Percentages of the Total

Table 4.12 shows a declining trend in the growth rate of financial transfers from the Centre to Punjab. It is cleared from the table that compound growth rate of total transfers declined from 15.33 percent per annum to 13.75 percent per annum in the 1980s to the 1990s. The share of Central taxes and duties and grants in aid from the Centre escalated in absolute terms but the compound growth rate declined over the previous decade. Share of Central taxes and duties fell and that of grants in aid has risen in the total revenue flows from the Centre. Share of Central taxes and duties went up from Rs. 378.80 crore to Rs. 1565.65 crore in 1993-94 and 2006-07 respectively and its relative share came down from 53.13 percent to 41.14 percent during 1993-94 to 2006-07. On the other hand grants in aid showed an increasing trend both in absolute terms and relative share in total transfers from the Centre to Punjab. It grew from Rs.334.13 crore to Rs. 2239.65 crore and its percentage share in total revenue transferred from the Centre increased from 46.87 percent to 58.85 percent during 1993-94 to 06. The

results of both the period indicate that grants in aid increased over time and its percentage share registered an increase in the pre-liberalised as well as post-liberalised period.

Punjab's share in transfers from the Centre has been going down due to recommendations of successive Finance Commissions. Another reason for fall in share of Central taxes and duties is the stagnant Tax-Gross Domestic Product ratio of Centre. The fiscal crunch at the Central level is also responsible for the declining transfers from the Centre to Punjab. Now, we examine the relative importance of these three sources in relation to total revenue receipts.

The results highlight that most important item in revenue receipts is the State tax revenue. State tax revenue increased from Rs. 348.85 crore in 1980-81 to Rs. 1750.75 crore in 1992-93 with annual compound growth rate of 14.43 percent per annum.(Table 4.13) State tax revenue accounts for 50-60 percent of the total receipts on revenue account. On the other hand, transfer from Centre to Punjab showed a growth of 5.5 times from the base figure which is highest among the other revenue receipts of the State during 1981-82 to 1992-93. Financial transfer from Centre to Punjab has increased from Rs. 126.5 crore to Rs. 699.42 crore from 1980-81 to 1992-93 with annual compound growth rate of 15.33 percent per annum. The share of transfer has increased from 22.24 percent to 25.1 percent during the same period. The share of States' non-tax revenue escalated from an absolute amount of Rs. 92.56 crore in 1980-81 to Rs328.75 crore in 1992-93 but there is declining trend in the percentage share of this item in the total revenue receipts, it fell from 16.31 percent to 11.8 percent during the same period, only in 1991-92 its share was 44.3 percent and was the highest among the three items.

Table 4.13 :Pattern of Receipts on Revenue Account of Punjab) Government (1980-81 to 1992-93)

(Rs. in Crore)

| Year | Transfer from the Centre to Punjab | State's Tax Revenue | State's Non-Tax Revenue | Total Revenue |
|---------------------------------|------------------------------------|---------------------|-------------------------|---------------|
| 1980-81 | 126.25 (22.24) | 348.85 (61.45) | 92.56 (16.31) | 567.66 (100) |
| 1981-82 | 135.03 (19.8) | 432.18 (63.40) | 114.86 (16.80) | 682.07 (100) |
| 1982-83 | 148.51 (18.89) | 490.48 (62.40) | 147.06 (18.71) | 786.04 (100) |
| 1983-84 | 178.64 (20.32) | 544.12 (61.89) | 156.37 (17.78) | 879.13 (100) |
| 1984-85 | 200.08 (21.47) | 566.51 (60.78) | 165.39 (17.75) | 931.99 (100) |
| 1985-86 | 306.58 (26.20) | 670.23 (57.27) | 193.45 (16.53) | 1170.24 (100) |
| 1986-87 | 287.69 (22.25) | 803.16 (62.14) | 201.64 (15.60) | 1292.50 (100) |
| 1987-88 | 274.97 (19.57) | 915.90 (65.21) | 213.67 (15.21) | 1404.53 (100) |
| 1988-89 | 362.47 (22.33) | 1041.05 (64.13) | 219.89 (13.54) | 1623.41 (100) |
| 1989-90 | 329.31 (18.30) | 1227.51 (68.20) | 243.15 (13.50) | 1799.97 (100) |
| 1990-91 | 429.36 (21.73) | 1291.41 (65.37) | 254.92 (12.90) | 1975.69 (100) |
| 1991-92 | 527.17 (14.18) | 1542.96 (41.52) | 1645.72 (44.30) | 3715.84 (100) |
| 1992-93 | 699.42 (25.1) | 1758.75 (63.10) | 328.75 (11.80) | 2786.93 (100) |
| CARG (percent per annum) | 15.33 | 14.43 | 14.03 | 14.18 |

Source: Annual Financial Statements and Explanatory Memorandum on the Punjab Budget. Chandigarh: Department of Finance.

Note:- Figures in brackets are percentage of total

Table 4.14 depicts the revenue receipts on revenue account of Punjab State after liberalisation. It is evident from the table that the major share of revenue receipts came from States' tax revenue but the States' non-tax revenue escalated from Rs 414.06 crore to Rs. 3972.58 crore during 1993-94 to 2006-07 and only this items share in the total revenue receipts surged up from 12.64 percent to 23.65 percent during the period II. The percentage share of non-tax revenue in the total revenue receipts was highest in 2004-05 which was 38.80 percent but in the subsequent years it declined. There is also declining trend in the

Table 4.14 :Pattern of Receipts on Revenue Account of Punjab Government (1993-94 to 2006-07)

| (Rs. In crores) | | | | |
|---------------------------------|------------------------------------|---------------------|-------------------------|----------------|
| Year | Transfer from the Centre to Punjab | State's Tax Revenue | State's Non-Tax Revenue | Total Revenue |
| 1993-94 | 712.93 (21.76) | 2149.64 (65.60) | 414.06 (12.64) | 3276.63 (100) |
| 1994-95 | 698.24 (13.17) | 2599.06 (49.03) | 2003.62 (37.18) | 5300.92 (100) |
| 1995-96 | 756.37 (14.59) | 2650.98 (51.13) | 1777.42 (34.28) | 5184.75 (100) |
| 1996-97 | 889.15 (15.97) | 2734.65 (49.11) | 1944.80 (34.92) | 5568.60 (100) |
| 1997-98 | 949.80 (14.96) | 3044.68 (47.94) | 2356.53 (37.10) | 6351.30 (100) |
| 1998-99 | 985.81 (17.12) | 3262.47 (56.68) | 1507.35 (26.20) | 5755.96 (100) |
| 1999-00 | 1158.93 (15.52) | 3947.47 (52.86) | 2361.46 (31.62) | 7467.86 (100) |
| 2000-01 | 1543.70 (16.47) | 4895.22 (52.22) | 2935.23 (31.31) | 9374.15 (100) |
| 2001-02 | 1283.68 (14.16) | 4820.23 (53.18) | 2460.45 (32.66) | 9064.46 (100) |
| 2002-03 | 1218.89 (11.12) | 5711.01 (52.08) | 4035.56 (36.80) | 10965.46 (100) |
| 2003-04 | 2350.91 (17.86) | 6145.93 (46.69) | 4665.53 (35.45) | 13162.37 (100) |
| 2004-05 | 1504.82 (10.89) | 6944.61 (50.29) | 5358.03 (38.80) | 13807.46 (100) |
| 2005-06 | 3440.77 (20.27) | 8989.28 (52.98) | 4536.33 (26.73) | 16966.38 (100) |
| 2006-07 | 3805.3 (22.65) | 9017.26 (53.69) | 3972.58 (23.65) | 16795.14 (100) |
| CARG (percent per annum) | 13.75 | 11.66 | 19.00 | 13.4 |

Source: Annual Financial Statements and Explanatory Memorandum on the Punjab Chandigarh: Department of Finance
Note:- Figures in brackets are percentage of total

transfer from Centre to Punjab although the financial transfer from the Centre to State increased in absolute terms from Rs. 712.93 crore to 3805.30 crore during 1993-94 to 2006-07 with an annual compound growth rate of 13.75 percent per annum but its share in total revenue receipts declined from 21.76 percent in 1993-94 to 10.89 percent in 2004-05 but it shows improvement in the subsequent year. The results reveal that the financial transfer from Centre to Punjab, States' own tax revenue and States' non-tax revenue increased at compound growth rate of 13.75 percent, 11.63 percent and 19 percent per annum respectively. States' non-tax revenue grew with highest annual compound growth rate but annual compound growth rate of other components of State revenue declined in the 1990's as

compared to 1980's. The overall annual compound growth rate of total revenue receipts of Punjab declined from the previous decade.

Having discussed various components of non-tax revenue and their growth pattern for the two time period under study, we may now take a look at the percentage shares of the three major sources of the revenue of the government, i.e., transfers from the Center to Punjab, tax revenue and non-tax revenue, in the Net State Domestic Product, at constant prices of 1999 - 2000 for both the two periods.

Table 4.15 Percentage Share of Revenue Components in Net State Domestic Product of Punjab Government (1980-81 to 1992-93)

| Years | Transfer from the Centre to Punjab | Tax Revenue | Non- Tax Revenue | Total Revenue |
|---------|------------------------------------|-------------|------------------|---------------|
| 1980-81 | 0.52 | 1.44 | 0.38 | 2.34 |
| 1981-82 | 0.51 | 1.62 | 0.43 | 2.56 |
| 1982-83 | 0.54 | 1.79 | 0.54 | 2.87 |
| 1983-84 | 0.64 | 1.95 | 0.56 | 3.15 |
| 1984-85 | 0.67 | 1.89 | 0.55 | 3.10 |
| 1985-86 | 0.95 | 2.07 | 0.60 | 3.62 |
| 1986-87 | 0.86 | 2.40 | 0.60 | 3.86 |
| 1987-88 | 0.78 | 2.60 | 0.61 | 3.99 |
| 1988-89 | 0.98 | 2.81 | 0.59 | 4.38 |
| 1989-90 | 0.82 | 3.05 | 0.60 | 4.48 |
| 1990-91 | 1.05 | 3.15 | 0.62 | 4.82 |
| 1991-92 | 1.23 | 3.60 | 3.84 | 8.68 |
| 1992-93 | 1.56 | 3.92 | 0.73 | 6.21 |

Source: Annual Financial Statements and Explanatory Memorandum of the Punjab Budgets. Chandigarh: Department of Finance.

Note: Net State Domestic Product is at Constant Prices of 1999-2000.

Table 4.15 indicates that share of transfers from the Centre to Punjab as a percentage of Net State Domestic Product registered an increase from 0.52 percent in 1980-81 to 1.56 percent in 1992-93, share of non-tax revenue as a percentage of Net State Domestic Product

increased from 0.38 percent in 1980-81 to 0.73 percent in 1992-93. This was low as compared to the increase in share of transfer from Centre to Punjab. In the year 1991-92, non-tax revenue as a percentage of Net State Domestic Product was 3.84 percent. Tax revenue share in State income was greater than non-tax revenue and transfers from the Centre. It registered an increase from 1.44 percent in 1980-81 to 3.92 percent in 1992-93. Total revenue as a percentage of Net State Domestic Product listed a rise from 2.34 percent in 1980-81 to 6.21 percent in 1992-93.

Table 4.16: Percentage Share of Revenue Components in Net State Domestic Product of Punjab Government (1993-94 to 2006-07)

| Years | Transfer from the Centre to Punjab | Tax Revenue | Non- tax Revenue | Total Revenue |
|---------|------------------------------------|-------------|------------------|---------------|
| 1993-94 | 1.52 | 4.59 | 0.88 | 7.00 |
| 1994-95 | 1.46 | 5.42 | 4.18 | 11.05 |
| 1995-96 | 1.52 | 5.33 | 3.57 | 10.42 |
| 1996-97 | 1.66 | 5.12 | 3.64 | 10.42 |
| 1997-98 | 1.73 | 5.55 | 4.30 | 11.58 |
| 1998-99 | 1.70 | 5.62 | 2.60 | 9.92 |
| 1999-00 | 1.90 | 6.46 | 3.87 | 12.22 |
| 2000-01 | 2.44 | 7.75 | 4.65 | 14.84 |
| 2001-02 | 2.01 | 7.53 | 3.84 | 14.16 |
| 2002-03 | 1.86 | 8.74 | 6.17 | 16.78 |
| 2003-04 | 3.41 | 8.93 | 6.78 | 19.12 |
| 2004-05 | 2.08 | 9.59 | 7.40 | 19.06 |
| 2005-06 | 4.50 | 11.75 | 5.93 | 22.18 |
| 2006-07 | 4.68 | 11.08 | 4.88 | 20.64 |

Source: Annual Financial Statements and Explanatory Memorandum of the Punjab Budgets. Chandigarh: Department of Finance.

Note: Net State Domestic Product is at Constant Prices of 1999-2000

Table 4.16 reveals that from 1993-94 to 2006-07 transfer from the Center to Punjab as a percentage of Net State Domestic Product experienced a slow upward trend, i.e., 1.52 percent in 1993-94 and 4.68 percent in 2006-07 and this was low as compared to the increase in percentage share of this source in the State income in the first period. This means that the

flow of financial resources from the Centre to Punjab declined after the economic reforms. Non-tax revenue as a percentage share of Net State Domestic Product increased from 0.88 percent in 1993-94 to 4.88 percent in 2006-07 and improved upon its previous period's percentage. Tax revenue as a percentage share of Net State Domestic Product also registered an increase of 4.59 percent in 1993-94 to 11.08 percent in 2006-07, but this was not satisfactory, as it did not improve upon its previous performance. The percentage share of total revenue in the Net State Domestic Product also rose from 7 percent in 1993-94 to 20.64 percent in 2006-07.

4.3.5) Major Findings

From the above analysis of revenue sources of Punjab, some important observations are made. The present study has been divided into two periods, viz, 1980-81 to 1992-93 and 1993-94 to 2006-07, so as to observe the trends of revenues from various sources. Whether Punjab has succeeded in exploiting its own resources has been given importance while studying various sources of the State.

The total budget receipts in the State have shown an increasing trend during the period covered by the study. Two phases of receipts trend has been observed; one for the years 1980-81 to 1992-93 and second, for 1993-94 to 2006-07. Growth rates of total budget Receipts in the second period are higher than the earlier period. During the eighties Government receipts has grown at a faster rate. The growth rate of total budget receipts has increased from 10.29 percent during 1980-81 to 1992-93 to 11.62 percent during 1993-94 to 2006-07. The compound growth rate of revenue receipts in the State is higher than that of capital receipts for both the periods. The share of revenue receipts in the total budget receipts was also more than the capital receipts for both the two periods.

From the growth rates of the revenue sources of the State, it is observed that in most cases, the growth rate has slowed down in the second period. Total own tax revenue has shown a decline in growth rate in the second period. It has gone down from 14.43 percent to 12.61 percent over the same periods. But State's non-tax revenue has shown improvement in

growth rate during the second period. It increased from 14.03 percent to 19.00 percent during the same periods. On the other side, transfers from the centre which includes grants in aid and share in central taxes and duties have shown sharp decline in their growth rates. It declined from 15.33 to 13.75 over the same periods.

It is observed that in the total revenue receipts the growth rate of transfers from the centre to Punjab and State's tax revenue declined during the first period, but the growth rate of State's non-tax revenue increased during the same period. But still the major share of total revenue receipts come from State's tax revenue.

From the shares of various sources of revenue in the NSDP of Punjab an increasing trend has been observed. However, the shares of revenues in the NSDP, has not shown much improvement in the period starting from 1993-94. Lower growth rate of tax and non-tax revenue in the second period confirms this result. The share of own tax revenue in the NSDP (own tax ratio), has gone up from 1.44 percent in 1980-81 to 3.92 percent in 1992-93 and 4.59 in 1993-94 to 11.08 percent in 2006-07. But this tax ratio remained around 6 percent throughout the second period. From this trend of tax revenue, it could be concluded that the growth of tax revenue in Punjab has been modest.

Among the individual own tax revenues of the State, the growth rate sales tax has come down from 14.69 percent in the first period to 13.22 percent in the second period. The declining growth rate of sales tax starting from 1993-94 causes serious concern as 60 percent own taxes of the state has been generated through this tax only. Other individual State taxes like land revenue, and stamps and registration duty, Electricity duty have shown higher growth rate in the second period. Taxes on motor vehicles, State excise and entertainment tax have shown lower growth rate in the second period. Fall in the growth rates of sales tax during 1990s was on account of tax concession provided by the Punjab to attract private investment in the wake of economic reforms of 1991.

From the regression analysis to estimate the degree of responsiveness of the tax structure to the Net State Domestic Product of the State it is seen that, the State taxes are buoyant over

the period covered by study. The buoyancy of total own tax revenue of the State has come down from 2.67 in the first period to 2.10 in the second period due to decline in the buoyancy of State excise. In all most all the cases the buoyancy coefficients are more except the State excise in the second period than that of the first period. The low growth rate of State excise duty in the second period has reflected in its buoyancy. Stamps and registration duty show a higher buoyancy coefficient of 4.25 in the second period compared to the earlier period.

Regarding own non-taxes of the State: its share in total revenues has increased substantially in the second period starting from 1994-95 to 2004-05. But in the subsequent two years it declined. The growth rate of own non-tax revenue of the State has went up from 14.03 percent during the period 1980-81 to 1992-93 to 19.00 percent during 1993-94 to 2006-07. The scope for mobilizing revenue from non tax revenue source are still quite high in the case of Punjab. The low non-tax revenue of the State calls for immediate attention to reinforce this importance sources of revenue. The slow growth of non-tax revenue could be traced to the loss making public sector enterprises and low rate of returns from the government investments in economic social and new general service. Road Transport Corporation of the State has continued to incur losses unlike the performance of the electricity board. The recovery rates in social services, economic services, and public enterprises have been very low in the case of Punjab.

An exogenous factor contributing to smaller resource availability with the State government is the decline in the Punjab's share in the transfers from the Government of India according to the recommendations of successive Finance Commissions. It was 1.712 percent under the Ninth Finance Commission and came down to 1.461 percent under the Tenth Finance Commission. The Eleventh Finance Commission also heavily penalised the relatively developed States. This resulted in further reduction in Punjab's share to 1.147 percent. It is estimated that reduction in Punjab's share by the Eleventh Finance Commission has resulted in decreasing the transfers from GOI by Rs.1550 crore during 2000-05. But the Twelfth Finance Commission raised the share of Population and reduces the weightage of income distance. This increased Punjab's share to 1.70 percent during Twelfth Finance Commission period as against 1.14 percent in Eleventh Finance Commission period. The transfers from

the centre to Punjab showed a declining trend. The growth rate of this source has come down from 15.33percent during the first period to 13.75 percent during the second period.

CHAPTER V

EXPENDITURE OF PUNJAB GOVERNMENT

The aim of the Present chapter is to highlight contribution of pattern of expenditure in finances of State government in Punjab. The prevision chapter has mentioned micro view of revenue expenditure, where as here an attempt is made to review each head wise pattern of the type of expenditure in Punjab. The present chapter is divided into three sections. Section– A deals with the total expenditure of Punjab government Section– B deals with the revenue expenditure and Section– C analyzed the fiscal indicators of Punjab Government.

The role of Government expenditure (public expenditure) has always been given importance in budgetary transaction of the States in India. The expense, which the government incurred for its own maintenance and also for the society and the economy as the whole, is referred to as public expenditure.

It is the end of all economic activities of the State. The course of economy development as well as the administrative skill of the government can be measured by public expenditure. In a planned economy, public expenditure places an important role to achieve the welfare and developmental objectives of State policy. The main objective of government expenditure is to dues economy inequality and also to accelerate economy growth.

The traditional economist was of the view that the State should not interfered in the economic activities and it should only act as the agent for the people to keep political origination intact. They said that government expenditure was merely a waste. But contrary to this the modern economist have developed and attached more importance to concept of public expenditure. (Wagner, 1890), public expenditure increases both intensively and extensively. There is functional relationship between the growth of the economy and the growth of the government activities, so that the government sector grows faster than the economy. Today Wagner’s Law is considered universally true because public expenditure has a positive effect upon production and distribution and economic and social environment

in a country is profoundly effected by public expending so that it maximizes the economic and social welfare of the country as a whole.

Thus the concept of public expenditure has attained great importance in the process of economic development which cannot be achieved without adequate public expenditure because public expenditure helps in the transformation of the backward agriculture State to a modern industrial power. This has affected changes in finance pattern in the developing economies.

A careful analysis of government expenditure in India clearly indicates that the current expenditure on revenue account has grown as higher rate then that of the capital expenditure and fiscal deficit went on increasing which later creates fiscal imbalances in the economy (Rao *et al.*1995). The States in India are entrusted with very important areas like public health and education etc., for which there expenditure need is much higher then there revenue sources. It is observed that even the surplus from that capital account (i.e., borrowings) has been used to meet the current account expenditure. The deficit in the States have grown at a higher rate and more so after 1980-81. Consequently the debt burden has created severe fiscal problem in recent times for the States (Bajaj *et al.*1992). The expenditure of Centre and State governments has been increasing rapidly since the advent of planning era in the country. In case of Punjab, the increase in the expenditure has been almost 30 times in between 1980-81 to 2006-07.

In the above context, an attempt is made in this chapter to examine the structure and trends in the revenue expenditure of the government of Punjab. In this chapter we examine the total budget expenditure of the Government of Punjab and finally we deal with the revenue expenditure. At the outset, trends of various heads of expenditure have been analyzed and the compound annual rate of growth for the development expenditure and non-development expenditure has been calculated. The percentage share development expenditure and non-development expenditure in NSDP also examined. Later buoyancy of development expenditure has been estimated. . The expenditure of the State have been analyzed for two periods viz, 1980- 81 to 1992-93 and 1993 -94 to 2006-07

SECTION-A

5.1) TOTAL EXPENDITURE OF THE GOVERNMENT OF PUNJAB

The total expenditure of the Punjab is divided into two categories

1. Expenditure on revenue account
2. Expenditure on capital account

Revenue expenditure includes all current expenditure of the government and it is met out of current revenues. Capital expenditure consist of capital outlay, discharge of internal debt, repayment of loans to the central, loan and advances to local bodies, appropriation to contingency fund etc. It is usually met out of capital receipts and also from the surplus from revenue account. Tables 5.1 and 5.2 explain the pattern of total expenditure of Punjab Government.

Table 5.1 : Total Budget Expenditure of Government of Punjab (1980-81 to 1992-93)
(Rs in Crore)

| Year | Revenue Expenditure | Capital Expenditure | Total Expenditure |
|-------------------------|---------------------|---------------------|-------------------|
| 1980-81 | 549.53 (41.25) | 782.74 (58.75) | 1332.27 (100) |
| 1981-82 | 619.98 (37.66) | 1026.29 (62.34) | 1646.27 (100) |
| 1982-83 | 683.56 (31.37) | 1495.4 (68.63) | 2178.96 (100) |
| 1983-84 | 819.86 (35.19) | 1509.79 (64.81) | 2329.65 (100) |
| 1984-85 | 941.34 (34.94) | 1752.5 (65.06) | 2693.84 (100) |
| 1985-86 | 1162.9 (38.11) | 1888.81 (61.89) | 3051.71 (100) |
| 1986-87 | 1202.09 (58.39) | 856.55 (41.61) | 2058.64 (100) |
| 1987-88 | 1633.54 (56.37) | 1264.4 (43.63) | 2897.94 (100) |
| 1988-89 | 1867.4 (66.1) | 957.78 (33.9) | 2825.18 (100) |
| 1989-90 | 2021.01 (70.01) | 865.59 (29.99) | 2886.6 (100) |
| 1990-91 | 2519.91 (74.13) | 879.61 (25.87) | 3399.52 (100) |
| 1991-92 | 4196.71 (83.73) | 815.68 (16.27) | 5012.39 (100) |
| 1992-93 | 3422.52 (79.85) | 863.4 (20.15) | 4285.92 (100) |
| CARG(percent per annum) | 16.47 | 0.82 | 10.23 |

Source: Annual Financial Statement and Explanatory Memorandum on the Punjab Budget. Chandigarh: Department of Finance.

Note: Figures in brackets are percentage of Total

Table 5.1 depicts that during 1980-81 to 1992-93 total budget expenditure has increased 3.21 times which amounted to Rs 1332.27 crore in 1980-81 increased to Rs 4285.92 crore in 1992-93 with compound growth rate of 10.23 percent per annum. In absolute terms the revenue ex increased from Rs 549.53 crore in 1980-81 to Rs. 3422.52 crore in 1992-93 with compound growth rate of 16.47 percent per annum. The share of revenue expenditure in total expenditure was 41.25 percent in 1980-81 and it increased to 79.85 percent in 1992-93. On the other hand share of capital expenditure decreased from 58.75 percent in 1980-81 to 20.15 percent in 1992-93. In absolute terms it increased from Rs. 782.54 crore to Rs. 863.4 crore, the compound growth rate of cap expenditure was very low of 0.82 percent during first period.

Table 5.2 : Total Budget Expenditure of Government of Punjab (1993-94 to 2006-07)
(Rs in Crore)

| Year | Revenue Expenditure | Capital Expenditure | Total Expenditure |
|-------------------------|---------------------|---------------------|-------------------|
| 1993-94 | 4043.56 (72.01) | 1571.98 (27.99) | 5615.54 (100) |
| 1994-95 | 6042.76 (74.8) | 2035.72 (25.2) | 8078.48 (100) |
| 1995-96 | 5635 (64.44) | 3109.56 (35.56) | 8744.56 (100) |
| 1996-97 | 6925.67 (67.65) | 3311.68 (32.35) | 10237.35 (100) |
| 1997-98 | 7835.2 (66.52) | 3943.05 (33.48) | 11778.25 (100) |
| 1998-99 | 8384.29 (53.92) | 7166.55 (46.08) | 15550.84 (100) |
| 1999-00 | 10195.28 (62.28) | 6175.92 (37.72) | 16371.2 (100) |
| 2000-01 | 11712.83 (62.84) | 6925.73 (37.16) | 18638.56 (100) |
| 2001-02 | 12709.81 (55.28) | 10283.11 (44.72) | 22992.92 (100) |
| 2002-03 | 14825.12 (68.01) | 6972.49 (31.99) | 21797.61 (100) |
| 2003-04 | 15701.92 (63.63) | 8976.75 (36.37) | 24678.67 (100) |
| 2004-05 | 17198.03 (67.11) | 8429.77 (32.89) | 25627.8 (100) |
| 2005-06 | 18206.73 (85.00) | 3214.19 (15.00) | 21420.92 (100) |
| 2006-07 | 18543.78 (69.95) | 7964.87 (30.05) | 26508.65 (100) |
| CARG(percent per annum) | 12.43 | 13.29 | 12.68 |

Source: Annual Financial Statement and Explanatory Memorandum on the Punjab Budget. Chandigrah: Department of Finance.

Note: Figures in brackets are percentage of Total

The table 5.2 depicts that there was substantial growth in both the revenue expenditure and capital expenditure during post-liberalised period. The total expenditure increased from Rs 5615.54 crore in 1993-94 to Rs. 26508.65 crore in 2006-07 with compound growth rate of 12.68 percent per annum. The compound growth rate of total budget expenditure during post-liberalised period was more as compared to pre-liberalised period. During the post-liberalised period, the capital expenditure was more than revenue expenditure. In absolute terms the revenue expenditure grew from Rs 4043.56 crore in 1993-94 to Rs 18543.78 crore in 2006-07 with compound growth rate of 12.43 percent per annum. On the other hand capital expenditure grew at compound growth rate of 13.29 percent per annum during second period. It increased from Rs 1571.98 crore in 1993-94 to Rs. 7964.87 crore in 2006-07. The table also shows that during the post-liberalised period, the share of revenue expenditure in total budget expenditure declined but the share of capital expenditure increased. The share of revenue expenditure decreased from 72.01 percent in 1993-94 to 69.95 percent in 2006-07 but the share of capital expenditure in total budget expenditure increased from 27.99 percent to 30.05 percent during the same period. Its share was more than 30 percent during 1994-95 to 2004-05.

The growth of revenue expenditure in State seems to be higher than that of capital expenditure in the both periods and the gap has widened in the second period. The share of revenue expenditure in total expenditure has increased by nearly 75 percent over the time period.

SECTION-B

5.2) REVENUE EXPENDITURE OF GOVERNMENT OF PUNJAB

The revenue expenditure on revenue account of government of Punjab is broadly divided into the following categories.

1. Development Expenditure, which includes
 - (a) Social and Community Services
 - (b) Economic services and
2. Non-Development expenditure, which includes

- (a) General Services
- (b) Grants-in-Aid and other Contributions

The revenue expenditure on development programmes for the purpose of promoting social welfare and for accelerating the tempo of economic development stands for development revenue expenditure. It means the expenditure incurred on social and community services and also economic services on revenue account is treated as development revenue expenditure. It is directly related to the pace of economic development. It consists of expenditure on social service like health education, employment ,housing , social security etc. and economic services like agriculture, industry , transport, energy etc. The expenditure on social service may be viewed as an investment on human development whereas the expenditure on economic service is viewed as the physical capital development by the government.

On the other hand, revenue expenditure incurred on general service example of, post of collection of taxes, administrative services, debt services etc, which will help to per mote economic development indirectly, stands for non development revenue expenditure.

Thus, Development expenditure relates to economic determinants of economic development, whereas non development revenue expenditure relates to non economic determinants of economic development. However, efforts have to be made in the backward countries like India to reduce the proportion of non development expenditure in the total revenue expenditure. The curtailment of non development expenditure results in an increase in development expenditure which in turn leads to rapid economic development.

The pattern of expenditure on revenue account is given in Tables 5.3 and 5.4 respectively.

Table 5.3 : Pattern of Expenditure on Revenue Account of Punjab Government (1980-81 TO 1992-93)

Rs in Lakhs

| Year | Development Expenditure (Rs. In Lakh) | Non-Development Expenditure (Rs. In Lakh) | Total Expenditure (Rs. In Lakh) | Development Expenditure As Percentage Of Net State Domestic Product | Non-Development Expenditure As Percentage Of Net State Domestic Product | Total Expenditure As Percentage Of Net State Domestic Product |
|--------------------------|---------------------------------------|---|---------------------------------|---|---|---|
| 1980-81 | 39524 (71.92) | 15428 (28.08) | 54952 (100) | 1.63 | 0.64 | 2.26 |
| 1981-82 | 43323 (69.78) | 18736 (30.22) | 62059 (100) | 1.63 | 0.70 | 2.33 |
| 1982-83 | 46641 (68.23) | 21715 (31.77) | 68356 (100) | 1.70 | 0.79 | 2.50 |
| 1983-84 | 58305 (71.12) | 23681 (28.88) | 81986 (100) | 2.09 | 0.85 | 2.94 |
| 1984-85 | 61517 (65.35) | 32617 (34.65) | 94134 (100) | 2.05 | 1.09 | 3.13 |
| 1985-86 | 77319 (66.49) | 38971 (33.51) | 116290 (100) | 2.39 | 1.20 | 3.60 |
| 1986-87 | 77244 (64.31) | 42865 (35.68) | 120109 (100) | 2.31 | 1.28 | 3.59 |
| 1987-88 | 157786 (78.07) | 44297 (21.92) | 202083 (100) | 4.48 | 1.26 | 5.74 |
| 1988-89 | 130220 (69.73) | 56527 (30.27) | 186747 (100) | 3.51 | 1.52 | 5.04 |
| 1989-90 | 131274 (64.98) | 70772 (35.02) | 202046 (100) | 3.26 | 1.76 | 5.02 |
| 1990-91 | 163597 (64.92) | 88393 (35.08) | 251990 (100) | 3.99 | 2.16 | 6.15 |
| 1991-92 | 318345 (75.86) | 101326 (24.14) | 419671 (100) | 7.43 | 2.37 | 9.80 |
| 1992-93 | 193672 (56.59) | 148580 (43.41) | 342252 (100) | 4.32 | 3.31 | 7.63 |
| CARG (percent per annum) | 14.16 | 20.77 | 16.47 | | | |

Source: Annual Financial Statement and Explanatory Memorandum on the Punjab Budget. Chandigarh: department of finance

Note: Net state domestic product at constant prices of 1999-2000.

Table 5.3 indicates that total expenditure on revenue account has shown a substantial increase over the year's total expenditure as a percentage of Net State Domestic Product grew from 12.27 percent to 41.66 percent during 1980-81 to 1992-93. Development expenditure grew from 39524 lakh in 1980-81 to Rs193672 lakh in 1992-93 with annual compound growth rate of 14.16 percent. Its percent share is more in total expenditure but declined from 71.92 percent in 1980-81 to 56.59 percent 1992-93, but as a percentage of Net State Domestic Product it grew from 1.63 percent to 4.32 percent during the same period. Non development expenditure also observed an increasing trend in both absolute terms and

as a percentage share in the total expenditure and as the percentage of the Net State Domestic Product also. It increased from Rs. 15428 lakh in 1980-81 to 148580 lakh in 1992-93 with compound growth rate of 20.77 percent per annum which was higher than the development expenditure. But its percentage in Net State Domestic Product was less as compared to development expenditure.

Table 5.4 depicts that the total expenditure increased in absolute terms but the compound growth rate of total expenditure declined from 16.47 in 1980's to 12.043 in 1990's. The major share in total expenditure is that of non development expenditure one and the share of development expenditure in total expenditure declined during 1993-94 to 2006-07. The non development expenditure increased at an annual compound growth rate of 14.04 percent per annum where as the development expenditure grew with an annual compound growth rate of 10.66 percent which was lower as compared to the non development expenditure growth rate. Although the development expenditure escalated from Rs. 211108 lakh in 1993-94 to Rs. 787859 lakh in 2006-07, its share in total expenditure declined from 52.21 percent in 1993-94 to 42.47 percent in 2006-07. It observed an increase as a percentage of Net State Domestic Product from 4.51 percent to 9.68 percent during the same period. Non development expenditure grew from 193247 lakh to 1066719 lakh during 1993-94 to 2006-07. As the percentage of Net State Domestic Product it increased from 4.13 percent to 13.11 percent during 1993-94 to 2006-07, which was more as compared to the increase in development expenditure as the percentage of Net State Domestic Product. Total expenditure as a percentage of Net State Domestic Product also rose from 8.64 percent to 22.79 percent for the post-liberalised period.

The rise in expenditure that too on non-development items was the result of rapid growth in committed expenditure, which consisted of wages and salaries, pensions and interest payments. This resulted in a reduction in the share of development expenditure. The revision of salaries and wages by the fifth pay commission, with effect from January 1, 1996, dealt a severe blow to the already deteriorating fiscal position of the Punjab Government.

Table 5.4: Pattern of Expenditure on Revenue Account of Punjab Government (1993-94 to 2006-07)

Rs. in Lakhs

| Year | Development Expenditure (Rs. In Lakh) | Non-Development Expenditure (Rs. In Lakh) | Total Expenditure (Rs. In Lakh) | Development Expenditure As Percentage Of Net State Domestic Product | Non-Development Expenditure As Percentage Of Net State Domestic Product | Total Expenditure As Percentage Of Net State Domestic Product |
|--------------------------|---------------------------------------|---|---------------------------------|---|---|---|
| 1993-94 | 211108 (52.21) | 193247 (47.79) | 404355 (100) | 4.51 | 4.13 | 8.64 |
| 1994-95 | 219320 (36.29) | 385006 (63.71) | 604326 (100) | 4.57 | 8.02 | 12.59 |
| 1995-96 | 255377 (45.31) | 308205 (54.69) | 563582 (100) | 5.13 | 6.19 | 11.33 |
| 1996-97 | 394715 (56.99) | 297852 (43.01) | 692567 (100) | 7.39 | 5.58 | 12.96 |
| 1997-98 | 412183 (52.61) | 371337 (47.39) | 783520 (100) | 7.51 | 6.77 | 14.28 |
| 1998-99 | 391936 (46.75) | 446466 (53.25) | 838429 (100) | 6.75 | 7.69 | 14.45 |
| 1999-00 | 456267 (44.75) | 563261 (55.25) | 1019528 (100) | 7.47 | 9.22 | 16.69 |
| 2000-01 | 509322 (43.48) | 661961 (56.52) | 1171283 (100) | 8.06 | 10.48 | 18.54 |
| 2001-02 | 497628 (39.15) | 773353 (60.85) | 1270981 (100) | 7.78 | 12.08 | 19.86 |
| 2002-03 | 553159 (37.31) | 929353 (62.69) | 1482512 (100) | 8.46 | 14.22 | 22.68 |
| 2003-04 | 630709 (40.17) | 939483 (59.83) | 1570192 (100) | 9.16 | 13.65 | 22.81 |
| 2004-05 | 727346 (42.29) | 992457 (57.70) | 1719803 (100) | 10.04 | 13.70 | 23.74 |
| 2005-06 | 731646 (40.18) | 1089027 (59.81) | 1820673 (100) | 9.57 | 14.24 | 23.80 |
| 2006-07 | 787659 (42.47) | 1066719 (57.52) | 1854378 (100) | 9.68 | 13.11 | 22.79 |
| CARG (percent per annum) | 10.66 | 14.04 | 12.43 | | | |

Source: Annual Financial Statement And Explanatory Memorandum on The Punjab Budget. Chandigarh: Department Of Finance

Note: Net State Domestic Product At Constant Prices Of1999-2000

5.2.1) Functional Categories of Revenue Expenditure

Most of the items of Government expenditure, whether at Union or State level and whether classified as revenue or capital expenditure, fall under one or other of the two broad headings-developmental and non-developmental. This categorization is based on the distinction between Government's optional services (e.g. agriculture, health, education, social welfare, etc) and essential services (e.g. civil administration, law and order, administration of justice, etc). Development expenditure in its turn subdivided into (a) Social

and Community Services and (b) Economic Services. Non-development expenditure includes expenditure in lieu of fiscal services, interest payments on loans and administrative services.

Within the category of development expenditure different States have different priorities depending upon their policy framework. It also depends upon the economic standard of the people of the State and availability of services in non-government sector. In general, in the development expenditure of the State expenditure on social and community services exceeds the expenditure on economic and social services. This is due to the responsibility on the part of the States to provide basic services such as education, health, and other social security facilities to the people.

Expenditure on social and community services may be further classified into following categories:

1. Education, art and culture, scientific services and research
2. Medical, family planning, public health, sanitation and water supply
3. Housing
4. Labour and employment
5. Social security and welfare
6. Relief expenditure on natural calamities
7. Others

The expenditure on economic services contains the following categories:

1. General economic services
2. Agriculture and allied services
3. Industry and minerals
4. Water and Power development
5. Transport and Communication

Having examined the pattern of expenditure on revenue account we now examine the functional categories of development expenditure on revenue account. The pattern of

functional categories of development expenditure on revenue account given in Tables 5.5 and 5.6 respectively.

5.2.1.1) Social and Community Services:

The expenditure on the social and community services is significant from the State's point of view as it is aimed at improving the standard of living of the population. Basic education, health facilities, sanitation and social security are important components of State's expenditure program which enhance the quality of life of the people and help in economic development.

The share of expenditure on social and community services in revenue development expenditure of Punjab, constituted 57.89 percent in 1980-81 and it increased to 97.81 percent in 1989-90 and later declined to 53.16 percent in 1992-93 (Table 5.5). Its percentage share in development expenditure was a low of 30.03 percent in 1991-92. The share has remained more than 60 percent during first period. Social services on revenue account show the growth rate of 13.35 percent per annum during the period 1980-81 to 1992-93 which is lower than economic services (15.18 percent). The growth rate of social services in pre-liberalised period was higher than that of post-liberalised period. In absolute amount it grew from Rs. 114687 lakh in 1993-94 to Rs. 410372 lakh in 2006-07 with annual compound growth rate of 10.03 percent and its percentage share in development expenditure varied between 41.53 percent to 62.51 percent during period II (Table 5.6). The buoyancy coefficient of social and community services was low in the second period as compared to first period. It was 2.82 in pre liberalised period and it declined to 2.34 in the post liberalised period

Major portion of expenditure on social sector has gone to education and health sector. Education includes education, art and culture and sports. Expenditure under this head cover 60 percent of the expenditure on social services and 35 to 40 percent of development expenditure during 1980-81 to 1992-93 (Table 5.5). In absolute terms it increased from Rs. 13767 lakh in 1980-81 to Rs. 60245 in 1992-93 with an increase of 4.37 times. It increased with compound growth rate of 14.67 percent per annum, but the compound growth rate of

education declined to 9.8 percent during the second period although it increased in absolute terms from Rs.68768 lakh in 1993-94 to Rs. 231826 in 2006-07 (Table 5.6). Its percentage share in social services increased but in development expenditure it showed a decrease. Its buoyancy coefficient also declined in the second period. It declined from 2.73 in first period to 2.32 in second periods.

Next in importance comes the health sector which includes medical, family planning, public health, sanitation and water supply. Expenditure on this head constituted 21.38 percent of social services in 1980-81; it increased to 25.86 percent in 1992-93 (Table 5.5). So far its percentage share in development expenditure is concerned it varied between 7 to 15 percent during first period. It grew at the growth rate of 15.69 percent per annum during pre-liberalised period but the growth rate of this head declined to 9.59 percent during post-liberalised era. The percentage share of health in social services increased and its percentage share in development expenditure varied between 11.67 percent 19.74 percent during second period (Table 5.6).With a rupee change in State income, expenditure on this head changed by 2.37 in period II as compared to 2.52 in the first period.

Expenditure on social security and welfare constituted 10.13 percent of social services in 1980-81 which declined drastically to 5.82 percent in 1988-89 and during the subsequent years it increased (Table 5.5). The percentage share of this head in development expenditure varied between 2.73 percent to 5.86 percent during second period (Table 5.6). It increased with annual compound growth rate of 14.14 percent during first period but it declined to 12.42 percent during 1993-94 to 2006-07. Its percentage share in social services varied in between 5.16 percent to 7.25 percent and percentage share in development expenditure is around 4 percent during second time period. Social security and welfare is a buoyant source of expenditure in both periods but its buoyancy coefficient declined sharply from 6.64 in first period to 2.30 in second period of analysis.

Other heads of expenditure like housing and urban development, labour and employment natural calamities and others constituted a very limited amount. Buoyancy coefficient of

other heads of expenditure like housing and urban development, labour and employment natural calamities and others are very low for both periods.

5.2.1.2) Economic services:

Economic services on revenue account contain expenditure on general economic services, agriculture, industry, water and power development and transport. Share of expenditure on economic services in development expenditure has remained more than 40 percent except the year 1985-86, 1987-88, 1988-89 and 1989-90. In absolute terms it increased from Rs. 16643 lakh in 1980-81 to Rs. 90719 lakh in 1992-93 with compound growth rate of 15.18 percent per annum (Table 5.5). The growth rate of economic services was low of 11.06 percent during second period. During the post liberalised period it increased from Rs. 96421 lakh in 1993-94 to Rs. 377287 lakh in 2006-07 (Table 5.6). Its growth rate is found higher than that of social services for both the two periods, but its percentage share in development expenditure is lower than that of social services. Economic services was buoyant throughout the period cover by the study, its buoyancy coefficient with respect to State income stood at 3.34 during the period 1980-81 to 1992-93 and declined to 2.62 during the period 1993-94 to 2006-07.

Among the various functional categories of economic services, expenditure on agriculture, water and power development and transport has been significant. The expenditure on agriculture increased from Rs. 5442 lakh in 1980-81 to Rs. 24023 lakh in 1992-93 with compound growth rate of 10.86 percent per annum (Table 5.5). The share of agriculture in economic services was 32.70 percent in 1980-81 which declined to 26.48 percent in 1992-93. The growth rate of agriculture during second period was very low. It was 6.05 percent during 1993-94 to 2006-07 (Table 5.6). Its percentage share in economic services declined from 22.81 percent in 1993-94 to 12.55 percent in 2006-07 and in development expenditure it varied in between 5.45 percent to 10.46 percent during the same period. The buoyancy coefficient of agriculture and allied activities declined in the second period, it declined from 2.01 in first period to 2.63 in second period.

Table 5.5 Pattern of Development Expenditure on Revenue Account of the Punjab Government (1980-81 to 1992-93)

Rs. in Lakhs

| Years | Educational, Sports and culture | Medical, Public Health, Family Welfare, Water Supply and | Housing and Urban Development | Labour and Employment | Social Security and Welfare | Natural calamities Relief | Others | Total Social Service | Agriculture and Allied Activities | Rural Development | Water and Power Development | Industry and Minerals | Transport | General Economic Services | Others | Total Economic Services | Total Development Expenditure |
|--------------------|---------------------------------|--|-------------------------------|--------------------------|-----------------------------|-----------------------------|--------------------------|----------------------|-----------------------------------|---------------------------|------------------------------|-----------------------|--------------------------|---------------------------|------------------------|-------------------------|-------------------------------|
| 1980-81 | 13767 [34.83] (60.17) | 4891 [12.37] (21.38) | 295 [0.75] (1.29) | 668 [1.69] (2.92) | 2318 [5.86] (10.13) | 731 [1.85] (3.19) | 211 [0.53] (0.92) | 22881 [57.83] | 5442 [13.77] (32.70) | | 3532 [8.94] (21.22) | 495 [1.25] (2.37) | 6483 [16.42] (38.39) | 685 [1.73] (4.12) | | 16643 [42.11] | 39524 [100] |
| 1981-82 | 14422 [35.29] (59.08) | 5464 [13.03] (23.13) | 368 [0.85] (1.51) | 636 [1.47] (2.61) | 2468 [5.70] (10.11) | 618 [1.43] (2.53) | 254 [0.53] (1.04) | 24412 [56.35] | 6076 [14.03] (32.13) | | 4220 [9.74] (22.32) | 562 [1.29] (2.37) | 7450 [17.19] (39.40) | 603 [1.39] (3.19) | | 18911 [45.65] | 43023 [100] |
| 1982-83 | 16347 [35.05] (62.39) | 5898 [12.65] (22.51) | 677 [1.45] (2.58) | 675 [1.45] (2.58) | 2110 [4.52] (8.05) | 229 [0.43] (0.87) | 267 [0.57] (1.02) | 26203 [56.18] | 6521 [13.38] (31.91) | | 4452 [9.55] (21.78) | 679 [1.45] (3.32) | 80838 [17.23] (39.33) | 784 [1.60] (3.68) | | 20438 [43.82] | 46641 [100] |
| 1983-84 | 18863 [32.35] (57.38) | 7859 [13.48] (23.92) | 659 [1.13] (2.00) | 775 [1.33] (2.36) | 2901 [4.37] (8.82) | 1454 [2.49] (4.42) | 364 [0.63] (1.11) | 32875 [56.38] | 9365 [16.06] (36.83) | | 5106 [8.76] (20.08) | 938 [1.61] (3.69) | 9172 [15.73] (36.07) | 849 [1.46] (3.34) | | 25430 [43.62] | 58305 [100] |
| 1984-85 | 21391 [34.77] (60.39) | 8802 [14.31] (24.85) | 438 [0.71] (1.24) | 876 [1.42] (2.47) | 3079 [5.01] (8.63) | 487 [0.79] (1.37) | 347 [0.57] (0.98) | 35420 [57.58] | 9709 [15.78] (38.69) | | 5559 [9.04] (22.15) | 118 [1.82] (0.47) | 8676 [14.10] (34.57) | 1035 [1.68] (4.12) | | 25091 [40.80] | 61517 [100] |
| 1985-86 | 23635 [30.57] (48.62) | 10974 [14.19] (22.58) | 308 [0.40] (0.63) | 937 [1.21] (1.93) | 3441 [4.45] (7.08) | 8932 [11.55] (18.38) | 381 [0.50] (0.78) | 48608 [62.87] | 6957 [9.01] (24.23) | 3003 [3.88] (10.46) | 7998 [10.34] (27.86) | 1082 [1.40] (3.77) | 9205 [11.90] (32.06) | 453 [0.59] (1.58) | 13 [0.02] (0.05) | 28711 [37.13] | 77319 [100] |
| 1986-87 | 25060 [32.44] (55.14) | 12020 [15.56] (26.45) | 277 [0.36] (0.61) | 1046 [1.35] (2.30) | 4078 [5.28] (8.97) | 2553 [3.31] (5.62) | 411 [0.53] (0.90) | 45445 [58.83] | 7584 [9.28] (23.85) | 3455 [4.47] (10.87) | 8398 [10.87] (26.41) | 1530 [1.98] (4.81) | 10343 [13.39] (32.53) | 473 [0.61] (1.49) | 16 [0.02] (0.05) | 31799 [41.17] | 77244 [100] |
| 1987-88 | 33179 [21.03] (46.30) | 14071 [8.92] (19.89) | 341 [0.22] (0.48) | 1355 [0.86] (1.92) | 4303 [2.73] (6.08) | 16741 [10.61] (23.66) | 755 [0.48] (1.07) | 70745 [44.84] | 9158 [5.80] (18.96) | 3084 [1.95] (6.38) | 23247 [14.73] (48.12) | 1285 [0.82] (2.68) | 10893 [6.30] (22.55) | 619 [0.39] (1.28) | 17 [0.01] (0.04) | 48313 [30.62] | 157786 [100] |
| 1988-89 | 38800 [29.79] (43.34) | 15391 [12.28] (18.11) | 7441 [5.71] (8.43) | 1637 [1.26] (1.85) | 5138 [3.95] (5.82) | 18396 [14.19] (20.83) | 894 [0.69] (1.01) | 88297 [67.81] | 10195 [7.83] (24.32) | 4042 [3.10] (9.64) | 13052 [10.02] (31.13) | 1708 [1.31] (4.07) | 11563 [8.88] (27.58) | 1345 [1.03] (3.21) | 18 [0.01] (0.04) | 41923 [32.19] | 130220 [100] |
| 1989-90 | 53223 [40.54] (61.89) | 20437 [15.57] (23.76) | 699 [0.53] (0.81) | 1950 [1.50] (2.27) | 5289 [4.03] (6.15) | 3379 [2.57] (3.33) | 1020 [0.78] (1.19) | 85997 [65.51] | 12845 [9.78] (28.37) | 3248 [2.47] (7.17) | 11722 [8.93] (25.89) | 1255 [0.36] (2.77) | 13809 [10.52] (30.50) | 2379 [1.81] (5.25) | 19 [0.01] (0.04) | 45277 [34.49] | 131274 [100] |
| 1990-91 | 51247 [31.33] (57.59) | 20521 [12.54] (23.03) | 1035 [0.63] (1.16) | 1890 [1.16] (2.12) | 10453 [6.39] (11.73) | 2984 [1.82] (3.35) | 979 [0.60] (1.10) | 89109 [54.47] | 15221 [9.30] (20.43) | 3242 [1.98] (4.35) | 12612 [7.71] (16.93) | 1363 [0.83] (1.83) | 15393 [9.41] (20.67) | 26544 [16.22] (35.64) | 113 [0.07] (0.15) | 74488 [45.53] | 163597 [100] |
| 1991-92 | 56857 [17.86] (59.48) | 23199 [7.30] (24.27) | 739 [0.23] (0.77) | 2044 [0.64] (2.14) | 9029 [2.84] (9.45) | 2899 [0.91] (3.03) | 820 [0.26] (0.86) | 95587 [30.03] | 17015 [5.34] (17.64) | 3437 [1.08] (1.54) | 151064 [47.45] (67.82) | 1302 [0.41] (0.58) | 17234 [5.41] (7.74) | 32569 [10.23] (14.62) | 137 [0.04] (0.06) | 222758 [63.97] | 318345 [100] |
| 1992-93 | 60245 [31.11] (58.52) | 26619 [13.74] (25.86) | 921 [0.48] (0.89) | 2358 [1.22] (2.29) | 8993 [4.64] (8.74) | 2896 [1.49] (2.81) | 921 [0.48] (0.89) | 102953 [53.16] | 24023 [12.40] (26.48) | 3871 [1.99] (4.27) | 14899 [7.70] (16.42) | 1568 [0.81] (1.73) | 18998 [10.33] (22.04) | 26210 [13.53] (28.89) | 150 [0.08] (0.17) | 90719 [46.84] | 193672 [100] |
| Buoyancy [in %] | 2.73 | 2.92 | 1.94 | 2.4 | 6.64 | 4.1 | 2.81 | 2.82 | 2.01 | 0.38 | 3.91 | 2.23 | 0.71 | 6.38 | 8.1 | 3.34 | 3.16 |
| CAGR [% per annum] | 13.09 | 15.16 | 9.95 | 11.08 | 11.96 | 12.16 | 13.07 | 13.35 | 13.17 | 3.69 | 12.74 | 10.09 | 9.83 | 35.49 | 41.82 | 15.18 | 14.16 |

Source : Annual Financial Statements and Explanatory Memorandum on the Punjab Budgets, Chandigarh : Dept. of Finance

Note : Figures in the brackets [], () & { } represents the percentage of the Total, Social Services & Economics Services Respectively

Table 5.6 Pattern of Development Expenditure on the Revenue Account of Punjab Government (1993-94 to 2006-07)

Rs. in Lakhs

| Years | Educational, Sports and Culture | Medical, Public Health, Family Welfare | Housing and Urban Development | Labour and Employment | Social Security and Welfare | Natural calamities Relief | Others | Total Social Services | Agriculture and Allied Activities | Rural Development | Water and Power Development | Industry and Minerals | Transport | General Economic Services | Others | Total Economic Service | Total Development Expenditure |
|-------------------|---------------------------------|--|-------------------------------|--------------------------|-----------------------------|---------------------------|--------------------------|-----------------------|-----------------------------------|--------------------------|------------------------------|---------------------------|-----------------------------|-----------------------------|--------------------------|------------------------|-------------------------------|
| 1993-94 | 68768 [32.57] (53.36) | 27951 [18.24] (24.37) | 1199 [0.57] (1.05) | 2410 [1.14] (2.10) | 8315 [3.94] (7.25) | 5069 [2.40] (4.42) | 975 [0.46] (0.85) | 114687 [54.33] | 22077 [10.46] (22.83) | 4117 [1.95] (4.26) | 15690 [7.43] (16.27) | 5352 [2.54] (5.55) | 25257 [11.96] (26.90) | 23849 [11.30] (24.73) | 79 [0.04] (0.08) | 96421 [45.67] | 21110 [100] |
| 1994-95 | 76566 [34.91] (62.17) | 29283 [13.35] (2378) | 1180 [0.54] (0.96) | 2659 [1.21] (2.16) | 9118 [4.17] (7.40) | 3243 [1.50] (2.64) | 1034 [0.45] (0.89) | 123155 [56.15] | 19046 [8.68] (19.80) | 2558 [1.17] (2.67) | 16870 [7.70] (17.54) | 4102 [1.88] (4.26) | 27275 [12.44] (28.36) | 26221 [11.96] (27.26) | 93 [0.04] (0.09) | 96165 [43.85] | 21932 [100] |
| 1995-96 | 89548 [35.06] (56.29) | 35233 [13.79] (23.15) | 1394 [0.55] (0.88) | 3016 [1.18] (1.90) | 13479 [5.28] (8.47) | 1514 [5.93] (3.53) | 1267 [0.5] (0.80) | 159091 [62.30] | 26466 [10.37] (27.48) | 4738 [1.85] (4.92) | 18873 [7.40] (19.60) | 3570 [1.40] (3.70) | 30493 [11.94] (31.66) | 12041 [4.71] (12.50) | 105 [0.04] (0.10) | 96286 [37.70] | 25537 [100] |
| 1996-97 | 104291 [26.42] (63.62) | 41202 [10.44] (25.14) | 1535 [0.39] (0.94) | 3654 [0.92] (2.23) | 10195 [2.59] (6.22) | 1500 [0.38] (0.92) | 1545 [0.40] (0.94) | 163922 [41.53] | 21896 [5.55] (9.48) | 3252 [0.82] (1.40) | 155655 [39.43] (67.44) | 2431 [0.61] (1.05) | 32108 [8.13] (13.91) | 15428 [3.91] (6.68) | 23 [0.01] (0.01) | 230793 [58.47] | 39471 [100] |
| 1997-98 | 130236 [31.60] (63.16) | 48570 [11.79] (23.55) | 1605 [0.40] (0.78) | 4346 [1.05] (2.11) | 15543 [3.78] (7.54) | 4222 [1.02] (2.05) | 1634 [0.41] (0.82) | 206216 [50.03] | 27931 [6.77] (13.56) | 5526 [1.34] (2.68) | 113090 [27.44] (54.90) | 5206 [1.26] (2.52) | 37112 [3.00] (18.01) | 17044 [4.13] (8.27) | 58 [0.01] (0.02) | 205967 [49.37] | 41218 [100] |
| 1998-99 | 171537 [43.78] (65.01) | 63872 [16.29] (24.20) | 2159 [0.55] (0.82) | 6110 [1.56] (2.21) | 15143 [3.86] (5.74) | 3115 [0.80] (1.18) | 1958 [0.50] (0.74) | 263954 [67.34] | 34719 [8.87] (27.12) | 6292 [1.60] (4.91) | 29097 [7.42] (22.73) | 3802 [0.97] (2.97) | 41740 [10.65] (32.60) | 12263 [3.13] (9.57) | 96 [0.02] (0.07) | 128009 [32.66] | 39196 [100] |
| 1999-00 | 180530 [39.58] (66.46) | 66081 [14.49] (24.33) | 1844 [0.40] (0.68) | 4989 [1.09] (1.84) | 16403 [3.60] (6.04) | 23 [0.01] (0.01) | 1763 [0.40] (0.65) | 271633 [59.33] | 33937 [7.45] (18.38) | 4669 [1.02] (2.52) | 69817 [15.30] (37.81) | 3816 [0.84] (2.06) | 45810 [10.00] (24.81) | 25621 [5.61] (13.87) | 964 [0.21] (0.52) | 184634 [40.47] | 45626 [100] |
| 2000-01 | 185896 [36.51] (62.12) | 79009 [18.59] (26.40) | 1504 [0.29] (0.50) | 5269 [1.03] (1.76) | 17985 [3.53] (6.01) | 7859 [1.54] (2.63) | 1749 [0.34] (0.58) | 299271 [58.76] | 44810 [8.80] (21.33) | 6725 [1.32] (3.20) | 92078 [18.08] (43.83) | 2855 [0.56] (1.35) | 44744 [8.79] (21.30) | 17360 [3.41] (8.26) | 1479 [0.30] (0.70) | 210051 [41.24] | 50932 [100] |
| 2001-02 | 183229 [36.82] (58.30) | 80300 [16.14] (25.81) | 1505 [0.30] (0.48) | 5114 [1.03] (1.64) | 16056 [3.23] (5.16) | 22617 [4.54] (7.27) | 2239 [0.45] (0.72) | 311060 [62.51] | 42041 [8.45] (22.53) | 6142 [1.23] (3.29) | 77649 [15.60] (41.61) | 2287 [0.47] (1.22) | 40481 [8.13] (21.63) | 16201 [3.26] (8.68) | 1767 [0.36] (0.94) | 186568 [37.49] | 43762 [100] |
| 2002-03 | 209184 [37.82] (64.33) | 83600 [15.11] (25.95) | 1534 [0.28] (0.48) | 5361 [1.00] (1.66) | 19264 [3.48] (5.98) | 1094 [0.19] (0.34) | 2127 [0.38] (0.66) | 322164 [68.24] | 43026 [7.77] (18.62) | 3924 [0.71] (1.63) | 111177 [20.1] (48.12) | 2261 [0.41] (0.93) | 48199 [8.71] (21.86) | 22367 [4.04] (9.68) | 41 [0.01] (0.01) | 230995 [41.76] | 55315 [100] |
| 2003-04 | 208038 [32.99] (61.77) | 86666 [19.74] (25.73) | 1724 [0.27] (0.51) | 5940 [0.94] (1.76) | 19038 [3.02] (5.65) | 13530 [2.15] (4.02) | 1833 [0.30] (0.54) | 336769 [53.40] | 43372 [6.87] (14.75) | 5634 [0.89] (1.91) | 184278 [29.22] (62.63) | 2135 [0.34] (0.72) | 35839 [5.68] (12.19) | 22610 [3.58] (7.69) | 72 [0.01] (0.02) | 293940 [46.60] | 63070 [100] |
| 2004-05 | 211324 [29.05] (59.77) | 87721 [12.06] (24.81) | 1581 [0.22] (0.45) | 5404 [0.74] (1.53) | 16364 [2.25] (4.63) | 29123 [4.00] (8.23) | 2062 [0.28] (0.58) | 353579 [48.68] | 47168 [6.48] (12.61) | 2699 [0.37] (0.72) | 264382 [36.35] (70.73) | 2200 [0.30] (0.58) | 44321 [6.09] (11.85) | 12913 [1.78] (3.45) | 84 [0.01] (0.02) | 373767 [51.39] | 727346 [100] |
| 2005-06 | 228909 [31.29] (63.54) | 88699 [12.12] (24.62) | 1612 [0.22] (0.45) | 5845 [0.80] (1.62) | 25475 [3.48] (7.07) | 7901 [1.00] (2.03) | 2398 [0.33] (0.67) | 360239 [49.24] | 48732 [6.66] (13.12) | 4756 [0.65] (1.28) | 214547 [29.32] (57.76) | 7109 [0.97] (1.91) | 35078 [4.79] (9.44) | 60910 [8.33] (16.39) | 275 [0.04] (0.07) | 371407 [50.76] | 731646 [100] |
| 2006-07 | 231826 [29.43] (56.49) | 91883 [11.67] (22.39) | 11651 [1.48] (2.84) | 6220 [0.79] (1.52) | 50969 [6.47] (12.42) | 14982 [1.90] (3.65) | 2841 [0.36] (0.69) | 410372 [52.10] | 47372 [6.01] (12.55) | 6623 [0.84] (1.75) | 194690 [24.72] (51.60) | 13814 [1.75] (3.66) | 55160 [7.00] (14.62) | 59537 [7.56] (15.78) | 91 [0.01] (0.02) | 377287 [47.90] | 787659 [100] |
| Buoyancy (in Rs.) | 2.32 | 2.37 | 1.9 | 1.63 | 2.3 | 1.39 | 1.59 | 2.34 | 1.43 | 0.61 | 4.51 | 0.48 | 1.03 | 1.42 | 1.69 | 2.62 | 4.11 |
| CARG % per | 3.8 | 3.59 | 19.11 | 7.57 | 14.97 | 8.69 | 8.57 | 10.03 | 6.05 | 3.72 | 21.38 | 7.57 | 6.19 | 7.29 | 1.09 | 11.06 | 32.1 |

Source : Annual Financial Statements and Explanatory Memorandum on the Punjab Budgets. Chandigarh : Dept. of Finance

Note : Figures in the brackets [], () & { } represents the percentage of the Total, Social Services & Economics Services Respectively

Expenditure on rural development showed 1.2 times increase in absolute terms. In percentage terms the share of this item in economic services declined from 10.46 percent in 1985-86 to 4.27 percent in 1992-93 and in development expenditure it declined from 3.88 percent to 1.99 percent during the same period (Table 5.5). During second period it increased from Rs. 4117 lakh in 1993-94 to Rs. 6623 lakh in 2006-07 with compound growth rate of 3.72 percent per annum (Table 5.6). Its growth rate in post-liberalised period was higher than the pre-liberalised period. But the percentage share in economic services declined from 0.72 percent to 4.92 percent during the same period which was less as compared to first period. The rural development does not seem to be buoyant for both the periods; its buoyancy coefficient was 0.38 in first period and 0.61 in second period.

Water and power development includes multi-purpose river projects, irrigation and flood control, power projects etc. Expenditure on this head is significant, as, both agriculture and industry depends upon the improvement in these sectors. From 1980-81 to 1992-93, the share of this sector in development expenditure is around 10 percent except for the year 1991-92 when it was very high of 47.45 percent. In absolute terms it increased from Rs. 3532 lakh in 1980-81 to Rs. 14899 lakh in 1992-93 (Table 5.5). It grew at the growth rate of 21.84 percent per annum and its percentage share in economic services varied in between 21.22 percent to 31.13 percent during first period. In the post-liberalised period, its growth rate was slightly low than first period, it was 21.38 percent during 1993-94 to 2006-07 (Table 5.6), but in percentage terms it showed improvement. The percentage share of this head in development expenditure increased from 7.43 percent in 1993-94 to 24.72 percent in 2006-07 and in economic services it grew from 16.27 percent to 51.6 percent. The buoyancy coefficient of water and power development increased in the second period as compared to first period. It increased from 3.91 to 4.51.

Expenditure on industry and minerals constituted a very small percentage of development expenditure during first period. Its percentage share in development expenditure varied in between 0.41 percent to 1.82 percent from 1980-81 to 1992-93 (Table 5.5). In absolute amount it increased from Rs. 492 lakh in 1980-81 to Rs. 1568 lakh in 1992-93 with compound growth rate of 9.07 percent per annum. Its percentage share in economic services also

constituted a very little amount; it was around 2 percent during the second period. It grew from Rs. 5352 lakh in 1993-94 to Rs. 13814 lakh in 2006-07 with compound growth rate of 7.75 percent per annum (Table 5.6). The percentage share of this head in development expenditure was varied in between 0.30 percent to 2.54 percent and in economic services its percentage share declined from 5.55 percent in 1993-94 to 1.91 percent in 2005-2006-07. It increased in 2006-07 with 3.66 percent. The growth rate was high in pre-liberalised period than post-liberalised period. The buoyancy coefficient of industry and minerals with respect to State income declined sharply in the second period.

Expenditure on transport services increased from Rs. 6489 lakh in 1980-81 to Rs. 19998 lakh in 1992-93 with compound growth rate of 8.89 percent per annum (Table 5.5). Its percentage share in economic services declined from 38.99 percent in 1980-81 to 22.04 percent in 1992-93, it was very low of 7.74 percent in 1991-92. Its relative share in development expenditure also experienced a declining trend; it was 16.42 percent in 1980-81 and 10.33 percent in 1992-93. During the second time period it grew at compound growth rate of 6.19 percent which was less than first period growth rate. And its percentage share in economic services also declined from 26.19 percent in 1993-94 to 9.44 in 2006-07 (Table 5.6). The percentage share of this head in development expenditure also showed a declining trend, it declined from 11.96 percent in 1993-94 to 7 percent in 2006-07. The buoyancy coefficient of transport increased in the second period as compared to first period. It increased from 0.71 to 1.03.

The growth rate of general economic services was 38.99 percent during 1980-81 to 1992-93 (Table 5.5). It increased from Rs. 685 lakh in 1980-81 to Rs. 26210 lakh in 1992-93. Its percentage share in economic services first declined from 4.12 percent in 1980-81 to 1.28 percent in 1988-89 and then it showed improvement and increased from 3.21 percent in 1989-90 to 28.89 percent in 1992-93. Its percentage share in development expenditure increased from 1.73 percent in 1980-81 to 13.53 percent in 1992-93. During second period growth rate of this head was very low as compared to first period. It grew at compound growth rate of 7.29 percent per annum during post-liberalised period. Its percentage share in economic services declined from 24.73 percent in 1993-94 to 15.78 percent in 2006-07 (Table 5.6). Its relative share in development expenditure also fell from 11.30 percent in

1993-94 to 1.78 percent in 2004-05. But during subsequent two years it showed improvement. It was 8.33 percent and 7.56 percent in 2005-06 and 2006-07 respectively. The buoyancy coefficient of general economic services with respect to State income declined sharply in the second period. It declined from 6.38 in first period to 1.42 in second period.

Now we examine the functional categories of non-development expenditure on revenue account given in Table 5.7 and Table 5.8.

5.3) General Services

Expenditure on General Services are called non- development expenditure. General Services include expenditure on organs of state, fiscal services, interest payments, administrative services and payment of pensions. Administrative expenditure and interest payments on loans from Centre and other institutional loans are major part of general services.

Expenditure on General Services has been a major head of expenditure on revenue account. Its growth rate was 20.62 percent in first period and it declined to 14.03 percent in second period. Infact this growth rate was higher than that of other two categories of expenditure i.e., social services and economic services for both the two periods.

Among the components of General services, interest payments and administrative services were major items in the first period but in the second period along with these components pensions also constituted a big share in general services. Interest payments are made against loans from the centre, internal debt, small savings and provident funds. Internal debt of state government consist of mainly market loans, loans from various banks, LIC, etc. expenditure on administration services covers the whole range of administrative activities like district administration, police, public works, secretariat services etc. ex on fiscal services is another item which includes tax and other revenue collection activities. The administrative expenditure refers to consumption expenditure (i.e., purchase made by government departments, salaries and remuneration).

5.3.1) Organs of State:

Table 5.7 and Table 5.8 indicate that organs of State consisted of 4.0 percent of non development expenditure in 1980-81 which came down to 1.95 percent in 1992-93. In absolute terms it escalated from Rs. 629 lakh to Rs. 2899 lakh from 1980-81 to 1992-93 with compound growth rate of 13.58 percent per annum. Although the growth rate was low during the second period, yet the absolute amount spent on the organs of State had increased considerably. It increased from Rs. 3452 lakh in 1993-94 to Rs. 16883 lakh in 2006-07 with growth rate of 12.96 percent per annum. Its relative share in total non development expenditure also diminished from 1.79 percent in 1993-94 to 1.58 percent in 2006-07. It is observed that growth rate of organs of State was more in the second period higher than in the first period.

5.3.2) Fiscal Services:

Table 5.7 and Table 5.8 shows that the expenditure incurred on the fiscal services increased at compound growth rate of 13.08 percent per annum during 1980-81 to 1992-93. It went up from Rs. 937 lakh to Rs. 4095 lakh during 1980-81 to 1992-93. Its relative share in non development expenditure declined from 6.07 percent in 1980-81 to 2.7 percent in 1992-93. During 1993-94 to 2006-07 fiscal services escalated from Rs. 5340 lakh in 1980-81 to Rs. 23003 lakh in 2006-07 with compound growth rate of 11.89 percent which was lower than in 1980s. Its percentage share in non development expenditure also declined from 2.76 percent to 2.15 percent from 1993-94 to 2006-07. It is observed that during the whole period of study the share of fiscal services in non development expenditure is declining.

Table 5.7 Pattern of Non-Developmental Expenditure of Punjab Government (1980-81 to 1992-93)

(Rs. in Lakhs)

| Year | Organs Of State | Fiscal Services | Interest Payment And Servicing Of Debt | Administrative Services | Pension And Misc General Services | Total General Services | Compensation And Assignment To Local Bodies | Total Non-Development Expenditure |
|---------------------------------------|-----------------|-----------------|--|-------------------------|-----------------------------------|------------------------|---|-----------------------------------|
| 1980-81 | 629 (4.08) | 937 (6.07) | 6649 (43.1) | 6102 (39.55) | 1003 (6.50) | 15320 | 108 (0.70) | 15428 (100) |
| 1981-82 | 629 (3.36) | 1055 (5.63) | 7811 (41.69) | 7353 (39.25) | 1778 (9.49) | 18626 | 110 (0.59) | 18736 (100) |
| 1982-83 | 718 (3.31) | 1132 (5.21) | 8699 (40.06) | 8254 (38.01) | 2601 (12.02) | 21404 | 301 (1.39) | 21725 (100) |
| 1983-84 | 790 (3.34) | 1295 (5.47) | 9253 (39.1) | 8903 (37.69) | 3273 (13.82) | 23514 | 167 (0.71) | 23681 (100) |
| 1984-85 | 819 (2.51) | 1356 (4.16) | 15443 (47.35) | 9836 (30.16) | 4491 (13.77) | 31945 | 672 (2.06) | 32617 (100) |
| 1985-86 | 1029 (2.64) | 1585 (4.07) | 14720 (37.77) | 13914 (35.70) | 5976 (15.33) | 37224 | 1747 (4.49) | 38971 (100) |
| 1986-87 | 1221 (2.85) | 1727 (4.03) | 17454 (40.72) | 14698 (34.29) | 6734 (15.71) | 41834 | 1031 (2.41) | 42865 (100) |
| 1987-88 | 1389 (3.14) | 2212 (4.99) | 16119 (36.39) | 17028 (38.44) | 6479 (14.62) | 43227 | 1070 (2.42) | 44297 (100) |
| 1988-89 | 1613 (2.85) | 2418 (4.28) | 21921 (38.78) | 21229 (37.56) | 7438 (13.16) | 54619 | 1908 (3.38) | 56527 (100) |
| 1989-90 | 2086 (2.95) | 3282 (4.64) | 23367 (33.02) | 30584 (43.21) | 9209 (13.01) | 68528 | 2244 (3.17) | 70772 (100) |
| 1990-91 | 2033 (2.30) | 3243 (3.67) | 33226 (37.59) | 34083 (38.56) | 12999 (14.71) | 85584 | 2809 (3.18) | 88393 (100) |
| 1991-92 | 3039 (3.00) | 4035 (3.99) | 36059 (35.58) | 40431 (39.90) | 14630 (14.44) | 98194 | 3132 (3.09) | 101326 (100) |
| 1992-93 | 2899 (1.95) | 4095 (2.76) | 41061 (27.63) | 81230 (54.67) | 15981 (10.75) | 145266 | 3314 (2.23) | 148580 (100)] |
| CARG (percent PER ANNU M) | 13.58 | 13.08 | 16.38 | 24.08 | 25.95 | 20.62 | 13.73 | 20.72 |

Source: Annual Financial Statements And Explanatory Memorandum On The Punjab Budgets. Chandigarh Department Of Finance.

Note: Figure In The Brackets Represents Percentage Of The Total Non-development expenditure.

Table 5.8: Pattern of Non-Developmental Expenditure of Punjab (1993-94 to 2006-07)

(Rs. In Lakhs)

| Year | Organs Of State | Fiscal Services | Interest Payment And Servicing Of Debt | Administrative Service | Pension And Misc General Service | Total General Service | Compensation And Assignment To Local Bodies | Total Non Development Expenditure |
|---------------------------|-----------------|-----------------|--|------------------------|----------------------------------|-----------------------|---|-----------------------------------|
| 1993-94 | 3452 (1.79) | 5340 (2.76) | 104217 (53.93) | 54708 (28.31) | 19818 (10.26) | 187535 | 5712 (2.95) | 193247 (100) |
| 1994-95 | 5020 (1.30) | 7926 (2.06) | 124369 (32.30) | 66873 (17.37) | 176045 (45.73) | 380233 | 4773 (1.24) | 385006 (100) |
| 1995-96 | 5515 (1.79) | 7741 (2.51) | 148959 (48.33) | 67068 (21.76) | 72483 (23.52) | 301766 | 6439 (2.09) | 308205 (100) |
| 1996-97 | 7261 (2.44) | 7659 (2.57) | 163444 (54.87) | 77640 (26.07) | 35185 (11.81) | 291189 | 6661 (2.24) | 297850 (100) |
| 1997-98 | 8138 (2.19) | 8990 (2.42) | 184876 (49.79) | 96345 (25.95) | 65958 (17.76) | 364307 | 7030 (1.89) | 371337 (100) |
| 1998-99 | 9593 (2.15) | 15551 (3.48) | 231680 (51.89) | 109598 (24.55) | 72714 (16.29) | 439136 | 7330 (1.64) | 446466 (100) |
| 1999-00 | 9592 (1.10) | 13536 (2.44) | 263667 (46.81) | 109070 (19.36) | 162159 (28.79) | 558024 | 5237 (0.89) | 563261 (100) |
| 2000-01 | 10693 (1.62) | 15759 (2.38) | 234327 (35.40) | 117824 (17.80) | 274478 (41.46) | 653081 | 8880 (1.34) | 661961 (100) |
| 2001-02 | 11178 (1.45) | 15296 (1.98) | 317805 (41.09) | 122996 (15.90) | 289448 (37.43) | 756723 | 16630 (0.15) | 773353 (100) |
| 2002-03 | 13328 (1.43) | 17107 (1.84) | 343393 (36.95) | 141929 (15.27) | 391478 (42.13) | 907235 | 22118 (2.38) | 929353 (100) |
| 2003-04 | 14441 (1.54) | 18737 (2.0) | 371232 (39.51) | 152581 (16.24) | 378099 (40.25) | 935090 | 4393 (0.47) | 939483 (100) |
| 2004-05 | 13607 (1.37) | 18277 (1.84) | 398150 (40.11) | 141228 (14.23) | 413742 (41.69) | 985004 | 7453 (0.75) | 992457 (100) |
| 2005-06 | 13678 (1.26) | 21916 (2.01) | 371516 (34.12) | 169036 (15.52) | 475479 (43.66) | 1051625 | 37402 (3.43) | 1089027 (100) |
| 2006-07 | 16833 (1.58) | 23003 (2.15) | 415178 (38.92) | 183663 (17.22) | 395187 (37.04) | 1033864 | 32855 (3.08) | 1066719 (100) |
| CARG(percent per annum) | 12.96 | 11.89 | 11.22 | 9.76 | 25.89 | 14.03 | 14.41 | 14.04 |

Source: Annual Financial Statements And Explanatory Memorandum On The Punjab Budgets Chandigarh: Department Of Finance.

Note: Figure In The Brackets Represents Percentage Of The Total Non Development Expenditure.

5.3.3) Interest payment and servicing of debt:

Table 5.7 and Table 5.8 depicts that expenditure on Interest payment and servicing of debt escalated from Rs. 6649 lakh in 1980-81 to Rs. 41061 lakh in 1992-93 with growth rate of 16.38 percent per annum. Its relative share in non development expenditure decreased from 43.1 percent in 1980-81 to 27.63 percent in 1992-93. In the second time period the expenditure on this head increased from Rs. 10427 lakh in 1993-94 to Rs. 415178 lakh in

2006-07. The growth rate of this head was 11.22 percent during the second period which was lower than the first period (16.38 percent). Its relative share in non development expenditure declined from a high of 53.93 percent in 1993-94 to 38.92 percent in 2006-07 which was due to rising share of pensions and miscellaneous general services.

5.3.4) Administrative Services:

Table 5.7 and Table 5.8 highlight expenditure on administrative services constituted 39.95 percent in 1980-81 which went up to 54.67 percent in 1992-93. In absolute term it increased from Rs. 6102 lakh in 1980-81 to Rs. 81230 lakh in 1992-93 with growth rate of 24.08 percent. In the second time period, the amount of expenditure on this head escalated from Rs. 54708 lakh to Rs. 183663 lakh from 1993-94 to 2006-07. The compound growth rate of this head was 9.76 percent per annum which was very lower in 1990s than in 1980s (24.08 percent). Its relative share declined from 28.31 percent to 17.28 percent from 1993-94 to 2006-07.

5.3.5) Pensions and miscellaneous general services:

Table 5.7 and Table 5.8 indicate that during 1993-94 to 2006-07 expenditure on this head rose from Rs. 1003 lakh in 1980-81 and Rs. 15981 in 1992-93. The growth rate of this head was 25.95 percent per annum. Its relative share in total non development expenditure varied between 6.5 percent to 15.71 percent from 1980-81 to 1992-93. During the second time period the expenditure on this head increased from Rs. 19818 lakh in 1993-94 to Rs. 475479 lakh in 2005-06 but it declined to Rs. 395187 lakh in 2006-07. The expenditure on this head increased at rate of 25.89 percent per annum and its relative share in total non development expenditure varied in between 10.26 to 45.73 percent from 1993-94 to 2006-07. The expenditure on pension went up considerably on the account of implementation of pay commission recommendation.

5.4) Compensation and Assignments to Local Bodies:

Table 5.7 and Table 5.8 reveal that expenditure on this head rose from Rs. 708 lakh in 1980-81 to Rs. 3314 lakh in 1992-93 with growth rate of 13.73 percent per annum. Its relative

share in total non development expenditure increased from 0.70 percent in 1980-81 to 2.23 percent in 1992-93. The expenditure on this head grew from Rs. 5712 lakh in 1993-94 to Rs 22118 in 2002-03; it fell to Rs. 4393 lakh in 2003-04 but increased to Rs. 395187 lakh in the subsequent year. Its share in non development expenditure varied in between 0.15 percent to 3.43 percent. The growth rate of this head was more in the post- liberalised than in the first period. The growth rate of this head for the second time period was 14.41 percent per annum, as against 13.73 percent in pre-liberalised period.

Table 5.9: Share of Functional Categories of Revenue Account in Total Expenditure and NSDP (1980-81 to 2006-07)

| Year | Share in Total Revenue Expenditure | | | Share in NSDP | | | Share in Total Expenditure | | |
|---------|------------------------------------|-------------------|------------------|-----------------|-------------------|------------------|----------------------------|-------------------|------------------|
| | Social Services | Economic Services | General Services | Social Services | Economic Services | General Services | Social Services | Economic Services | General Services |
| 1980-81 | 41.64 | 30.29 | 27.88 | 0.94 | 0.69 | 0.63 | 17.17 | 12.49 | 11.50 |
| 1981-82 | 39.34 | 30.47 | 30.01 | 0.92 | 0.71 | 0.70 | 14.83 | 11.49 | 11.31 |
| 1982-83 | 38.33 | 29.90 | 31.31 | 0.96 | 0.75 | 0.78 | 12.03 | 9.38 | 9.82 |
| 1983-84 | 40.10 | 31.02 | 28.68 | 1.18 | 0.91 | 0.84 | 14.11 | 10.92 | 10.09 |
| 1984-85 | 37.63 | 26.66 | 33.94 | 1.18 | 0.84 | 1.06 | 13.15 | 9.32 | 11.86 |
| 1985-86 | 41.80 | 24.69 | 32.01 | 1.50 | 0.89 | 1.15 | 15.93 | 9.41 | 12.20 |
| 1986-87 | 37.84 | 26.48 | 34.83 | 1.36 | 0.95 | 1.25 | 22.08 | 15.45 | 20.32 |
| 1987-88 | 35.01 | 23.91 | 21.39 | 2.01 | 1.37 | 1.23 | 24.41 | 16.67 | 14.92 |
| 1988-89 | 47.28 | 22.45 | 29.25 | 2.38 | 1.13 | 1.47 | 31.25 | 14.84 | 19.33 |
| 1989-90 | 42.56 | 22.41 | 33.92 | 2.14 | 1.13 | 1.70 | 29.79 | 15.69 | 23.74 |
| 1990-91 | 35.36 | 29.56 | 33.96 | 2.17 | 1.82 | 2.09 | 26.21 | 21.91 | 25.18 |
| 1991-92 | 22.78 | 53.08 | 23.40 | 2.23 | 5.20 | 2.29 | 19.07 | 44.44 | 19.59 |
| 1992-93 | 30.08 | 26.51 | 42.44 | 2.30 | 2.02 | 3.24 | 24.02 | 21.17 | 33.89 |
| 1993-94 | 28.36 | 23.85 | 46.38 | 2.45 | 2.06 | 4.01 | 20.42 | 17.17 | 33.40 |
| 1994-95 | 20.38 | 15.91 | 62.92 | 2.57 | 2.00 | 7.92 | 15.24 | 11.90 | 47.07 |
| 1995-96 | 28.23 | 17.08 | 53.54 | 3.20 | 1.94 | 6.06 | 18.19 | 11.01 | 34.51 |
| 1996-97 | 23.67 | 33.32 | 42.04 | 3.07 | 4.32 | 5.45 | 16.01 | 22.54 | 28.44 |
| 1997-98 | 26.32 | 26.29 | 46.50 | 3.76 | 3.75 | 6.64 | 17.51 | 17.49 | 30.93 |
| 1998-99 | 31.48 | 15.27 | 52.38 | 4.55 | 2.21 | 7.57 | 16.97 | 8.23 | 28.24 |
| 1999-00 | 26.64 | 18.11 | 54.73 | 4.45 | 3.02 | 9.13 | 16.59 | 11.28 | 34.09 |
| 2000-01 | 25.55 | 17.93 | 55.76 | 4.74 | 3.32 | 10.34 | 16.06 | 11.27 | 35.04 |
| 2001-02 | 24.47 | 14.68 | 59.54 | 4.86 | 2.92 | 11.82 | 13.53 | 8.11 | 32.91 |
| 2002-03 | 21.73 | 15.58 | 61.20 | 4.93 | 3.53 | 13.88 | 14.78 | 10.60 | 41.62 |
| 2003-04 | 21.45 | 18.72 | 59.55 | 4.89 | 4.27 | 13.58 | 13.65 | 11.91 | 37.89 |
| 2004-05 | 20.56 | 21.73 | 57.27 | 4.88 | 5.16 | 13.60 | 13.80 | 14.58 | 38.43 |
| 2005-06 | 19.79 | 20.40 | 57.76 | 4.71 | 4.86 | 13.75 | 16.82 | 17.34 | 49.09 |
| 2006-07 | 22.13 | 20.35 | 55.75 | 5.04 | 4.64 | 12.70 | 15.48 | 14.23 | 39.00 |

Note : NSDP at constant prices of 1999-2000

After examined the functional categories of expenditure on revenue account now, we examine the functional categories of expenditure on revenue account in relation to total

revenue expenditure, total expenditure and Net State Domestic Product given in Table 5.9. From table 5.9 it is seen that the share of social services and economic services in total revenue expenditure and total expenditure declined in second period(1993-94 to 2006-07) as compared to first period(1980-81 to 1992-93). But the share of general services in total revenue expenditure and total expenditure increased at much faster rate in second period as compared to first period. The share of social and economic services in Net State Domestic Product grew at a slow rate but the share of general services in Net State Domestic Product grew at much faster rate than the social and economic services.

SECTION-C

5.5) FISCAL PERFORMANCE OF PUNJAB STATE FINANCES

Analyzing the fiscal indicator of the Punjab government, we can access fiscal performance of the state. The main fiscal indicators taken by us in our study are:

1. Gross Fiscal Deficits
2. Revenue Deficits
3. Primary Deficits

Punjab has been distinguished as one of the most prosperous states in India. Punjab economy experienced a food growth during the green revolution period and also afterwards, till mid eighties. The era of eighties was hit by the menace of terrorism, which had on adverse impact on the state economy. Since then a downward slide in fiscal performance continued and became a matter of concern in the nineties and in early 2000.

Punjab is facing the problem of fiscal crisis since 1984-85 when it became a revenue deficits state. The decade-long civil strife in the eighties proved detrimental to the health of economy. Even in the post militancy period no step were taken by the elected governments to put the economy back on the path of development of state in the post reform period. According to the White paper on state Finances (2002), the factor which have adversely impacted the state's fiscal situation during the 1990s are ever increasing salaries and wage bills of the employees, mounting debt burden, heavily subsidized social and economic services, slow growth of revenue and loss making public sector undertaking (PSUs).

Tables 5.10 and 5.11 show the fiscal imbalances in Punjab during 1980-81 to 1992-93 and 1993-94 to 2006-07.

Table 5.10 Fiscal Indicators of Punjab State Finances (1980-81 to 1992-93)

| Year | Rs. in Crores | | | | | |
|---------|------------------------------------|-------------------------------|--------------------------------|--|---|---|
| | Gross Fiscal Deficit(Rs. in Crore) | Revenue deficit(Rs. in crore) | Primary deficit (Rs. in crore) | Gross fiscal deficit as percentage of net state domestic product | Revenue deficit as percentage of net state domestic product | Primary deficit as percentage of net state domestic product |
| 1980-81 | 159.8 | (-)18 | 97.7 | 0.66 | (-)0.07 | 0.40 |
| 1981-82 | 178.3 | (-)62.6 | 104.3 | 0.67 | (-)0.24 | 0.39 |
| 1982-83 | 182.8 | (-)102.5 | 99.3 | 0.67 | (-)0.37 | 0.36 |
| 1983-84 | 262.1 | (-)59.3 | 172.5 | 0.94 | (-)0.21 | 0.62 |
| 1984-85 | 479.2 | 9.4 | 327.1 | 1.60 | 0.03 | 1.09 |
| 1985-86 | 566 | (-)7.3 | 419.3 | 1.75 | 0.02 | 1.30 |
| 1986-87 | 343 | (-)90.0 | 168.5 | 1.02 | (-)0.27 | 0.50 |
| 1987-88 | 968 | 229 | 806.8 | 2.75 | 0.65 | 2.29 |
| 1988-89 | 833 | 244.1 | 613.8 | 2.25 | 0.66 | 1.66 |
| 1989-90 | 909 | 221 | 675.3 | 2.26 | 0.55 | 1.68 |
| 1990-91 | 1242.2 | 544.2 | 910.0 | 3.03 | 1.33 | 2.22 |
| 1991-92 | 1150.5 | 480.9 | 789.9 | 2.69 | 1.12 | 1.84 |
| 1992-93 | 1252 | 635.6 | 841.4 | 2.79 | 1.42 | 1.88 |

Source: Handbook of statistics on state government finances. Reserve Bank of India, 2004

Note Net State Domestic Product at constant prices of 1999-2000

: '-' indicates surplus

Table 5.10 shows the fiscal indicators of Punjab state finances. The fiscal deficits increased from Rs 159.8 crore in 1980-81 to Rs. 1250.0 crore in 1992-93 with the increase of 7.8 times. Gross fiscal deficit as the percentage of Net State Domestic Product rose from 0.66 percent to 2.79 percent during the first period. It decreased marginally in 1986-87 but then again started increasing from 1987-88.

On the other hand revenue account witnessed deficit for seven years out of thirteen years. The striking feature of the revenue budget of the state government was that revenue receipts exceeded revenue expenditure till 1984-85, i.e., state enjoyed revenue surpluses of Rs. 18 crore in 1980-81, Rs. 62.6 crore in 1981-82, Rs. 102.5 crore in 1982-83 and Rs. 59.3 crore in 1983-84. The state witnessed a deficit of Rs. 9.4 crore in 1984-85 for the first time and then it witnessed surpluses in subsequent two years. There was a continuous trend of deficit on revenue account since 1987-88 and it was Rs. 635.6 crore in 1992-93. The percentage share of revenue deficit in Net State Domestic Product witnessed an increasing trend; it rose from 0.65 percent in 1987-88 to 1.42 percent in 1992-93. The percentage share was negative in 1980-81 to 1983-84 and 1986-87.

Primary deficit escalated from Rs. 97.7 crore in 1980-81 to Rs. 841.4 crore in 1992-93. It was low of Rs. 97.7 crore in 1980-81 and Rs. 93.3 crore in 1982-83. The percentage share of primary deficit also increased from 0.40 percent to 1.88 percent from 1980-81 to 1992-93 and it was highest of 2.29 percent in 1987-88 when the Punjab for the second time witnessed deficit in revenue account.

Table 5.11 indicates that fiscal deficit showed an increasing trend during 1993-94 to 2006-07. It went up from Rs. 1493.4 crore in 1993-94 to Rs. 4383.9 crore in 2006-07 with an increase of 2.9 times. The percentage share of fiscal deficit was very fluctuating during second period it increased from 3.19 percent in 1993-94 to 3.72 percent in 1994-95 and remains stable at 2.74 percent in 1995-96 and 1996-97, and then started moving upward and was 7.42 percent in 2003-04, again it fell to 3.47 percent in 2005-06 and then again increased to 5.39 percent in 2006-07.

Table 5.11: Fiscal Indicators of Punjab State Finances (1993-94 to 2006-07)

| (Rs. in Crores) | | | | | | |
|-----------------|-------------------------------------|--------------------------------|--------------------------------|--|---|---|
| Year | Gross Fiscal Deficit (Rs. In crore) | Revenue Deficit (Rs. In crore) | Primary deficit (Rs. In crore) | Gross fiscal Deficit As Percentage of Net State Domestic Product | Revenue Deficit As Percentage Of Net State Domestic Product | Primary Deficit As Percentage of Net State Domestic Product |
| 1993-94 | 1493.4 | 766.9 | 451.2 | 3.19 | 1.64 | 0.96 |
| 1994-95 | 1785.2 | 741.8 | 541.5 | 3.72 | 1.55 | 1.13 |
| 1995-96 | 1364.6 | 450.2 | (-)125 | 2.74 | 0.90 | (-)0.251 |
| 1996-97 | 1464.7 | 1357.1 | (-)169.7 | 2.74 | 2.54 | (-)0.32 |
| 1997-98 | 2477.6 | 1483.9 | 628.8 | 4.52 | 2.70 | 1.15 |
| 1998-99 | 3799.3 | 2628.7 | 1462.5 | 6.55 | 4.53 | 2.52 |
| 1999-00 | 3194.70 | 2727.40 | 558.00 | 5.23 | 4.46 | 0.91 |
| 2000-01 | 3903.8 | 2336 | 1560.5 | 6.18 | 3.70 | 2.47 |
| 2001-02 | 4958 | 3781.2 | 1780.9 | 7.75 | 5.91 | 2.78 |
| 2002-03 | 4772.1 | 3753.9 | 1272.3 | 7.30 | 5.74 | 1.95 |
| 2003-04 | 5108.4 | 3562.9 | 1635.2 | 7.42 | 5.18 | 2.38 |
| 2004-05 | 4115.0 | 3390.55 | 134.0 | 5.68 | 4.68 | 0.18 |
| 2005-06 | 2654.0 | 1240.25 | (-)1061 | 3.47 | 1.62 | (-)1.39 |
| 2006-07 | 4383.9 | 1748.64 | 231.9 | 5.39 | 2.15 | 0.28 |

Source: Handbook of Statistics on State Government Finances Reserve Bank of India, 2004.

Note: '2' Indicate Surplus.

Net State Domestic Product at Constant Prices of 1999-2000.

The revenue account during 1993-94 to 2006-07, witnessed all deficits and no surplus. It went up from Rs. 766.9 crore in 1994-95 to Rs. 3781.9 crore in 2001-02 and it declined in the subsequent years. The revenue deficit was Rs. 1748.64 crore in 2006-07. Its percentage share in Net State Domestic Product varied in between 1.55 percent to 5.9 percent.

Primary deficit witnessed an increase during the second period, except three years when it enjoyed surpluses. There was primary surplus of Rs. 125 crore in 1995-96, Rs. 169.7 crore in 1996-97 and Rs. 1061 crore in 2005-2006-07. In absolute amount it went up from Rs. 451.2 crore in 1993-1993-94 to Rs. 1780 crore in 2001-02 and it declined in 2002-03. But again it increased to Rs. 1635.2 crore in 2003-04. The primary deficit was low of Rs. 134.0 crore in

2004-05 it was deficit of Rs. 231.9 crore in 2006-07. Primary deficit witnessed a high rising trend in the period 2000-01 to 2003-04.

It is seen that, revenue deficit growing continuously, from 1992-93, which is consistent with high growth of expenditure. The trends in gross fiscal deficit reveal that the problem in the finances of State Government lies in the unbridled growth of revenue deficit.

5.6) Major findings

The total expenditure in the State has shown an increasing trend during the period covered by the study. Two phases of expenditure trend has been observed; one for the Year's 1980-81 to 1992-93 and second, for 1993-94 to 2006-07. A growth rate of expenditure in the second period is higher than the earlier period. During the nineties Government expenditure has grown at a faster rate.

The capital expenditure increased at a much faster rate during second period as compared to first period. But the share of revenue expenditure was more than the capital expenditure for both the two periods. Share of revenue expenditure in total expenditure has increased by nearly 70 percent over the time period. An increasing share of capital expenditure in total allocation of resources is essential for the State in order to improve infrastructural and transport and Communication services and also to maintain the existing capital assets. Capital Expenditure is not only lower in the state but it has been declining as a percentage of total Expenditure over the years. Its share comes down to nearly 30 percent of total expenditure in recent times.

The development expenditure share in total expenditure was more than non-development expenditure till 1992-93 but at the end of our study period the amount of non-development expenditure exceeded the development expenditure. This trend is far from conducive for supporting the growth of physical and social infrastructure, so essential for reviving buoyant growth of the State.

In the functional categories of revenue expenditure, though the major expenditure head is Social and Community services its share has been declining over the years. The share of other heads of expenditure like, economic and general services have grown compared to the social services. From the growth rate of functional types of expenditure, it is seen that, in the second period, the growth rate of social services has been the lowest while the growth rate of general services is the highest. The fastest growing general service in revenue account includes administrative services and interest Payments, salaries and pensions etc.

From the trends of functional categories of expenditure, it is observed that education; health and social security measures are the major heads of expenditure in social and community services. The agriculture and water and power development are the main expenditure items in the economic services. In the general services, the expenditure on payment of interest and other administrative expenditures are the major items. As a percentage of total revenue expenditure, the expenditure respect to social and community services has not shown much improvement in the second period, interest payments and administrative expenditures in general services have shown higher growth. Overall rise of general services in the State has resulted in the rising revenue expenditures which do not help in development process. From the percentage share of different main heads of the expenditure, it is seen that general services have shown higher share in total expenditure as well as Net State Domestic Product and the share of social services in total expenditure declining. The growth rate of this sector (General Services) has been responsible for increasing sharply the revenue expenditure in the State.

From the regression analysis to estimate the degree of responsiveness of the development expenditure structure to the Net State Domestic Product of the State. The buoyancy coefficient of total development expenditure was 3.16 in first period and it increased to 4.11 in second period. It is seen that in almost all the cases the buoyancy coefficient are lower except water and power development and transport in second period than that of first period. The deficit in the State budget seems to be substantial and more in revenue account. Gross fiscal deficit share in Net State Domestic Product of Punjab has increased sharply. This is a

matter of serious concern because after liberalisation, the Union Government has been insisting that the fiscal deficit as a percentage of state income should be reduced.

It is evident from the above analysis that finances of Punjab are in very bad shape. The state is losing its credibility on financial account and the fiscal stress is eroding state's capacity to carry out development works.

CHAPTER VI

SUMMARY AND CONCLUSIONS

The importance of state finances in federal setup has been well recognized. The critical role of State Finances in realignment and restoration of the macro balance in the economy is apprehended particularly in the context of economic restructuring. There is widespread recognition that to achieve development targets and accelerate the economic growth an improvement in the government effectiveness not only at Centre but also at the state level is required.

State finances of Punjab has been analysed in this study in view of the fiscal imbalances faced by the state in recent times. The gap between revenue receipts and expenditure has been widening in the state budget for quiet a long time, thus resulting in rising deficit. Steadily growing revenue expenditure, in fact, reduced the scope for providing adequate expenditure on development activities and also capital investments.

The liberalisation process, which has been introduced in the country in 1991, opened up many opportunities for the states to attract capital investment in the crucial sectors. To drive benefit from such opportunities the state could have well developed infrastructure facilities and skilled manpower. A sound fiscal policy involving adequate generation of revenue and well framed expenditure policy would go a long way in creating a conducive atmosphere for the development in the state. Three important aspects of state finances in India and state finances of Punjab have been analysed in the present study. First, whether the state has been successful in exploiting its revenue potential, Second, the role of the Centre transfer to the state in the Finances of Punjab State; and third, the expenditure pattern of the state along with the analysis of various types of deficits over a period of more than two decades from 1980-81 to 1992-93 and 1993-94 to 2006-07. Major observations of the study are given below:

First we start with the main findings of the study of State Finances in India and then proceed to the analysis of finances of Punjab.

6.1) Budgetary Trends in State Finances in India

During first period growth rate of revenue expenditure was more than revenue receipts. In the second period growth rate of both revenue receipts and revenue expenditure declined, but the growth rate of revenue receipts was more than revenue expenditure in the second period as compared to first period. The percentage share of revenue expenditure was more than revenue receipts during the whole period of study.

The growth rate of capital receipts declined in second period whereas the growth rate of capital expenditure increased in the second period. The percentage share of capital receipts is more in the first period but in the second period the percentage share of capital expenditure was more than capital receipts as compared to first period.

Pattern of revenue receipts of State finances of India reveals that own tax revenue of the States occupied the foremost place for both the two periods. But the growth rate of all the components of revenue receipts of States declined in the second period as compared to first period. Growth rate of grants from the Centre declined at much faster rate than other components of revenue receipts, it declined from 17.28 percent in 1980-81 to 1992-93 to 12.19 percent in 1993-94 to 2006-07. The percentage share of own tax revenue in Gross Domestic Product increased from 3.44 percent in 1992-93 to 8.82 percent in 2006-07. The percentage share of non-tax revenue in Gross Domestic Product was very low for both periods. The percentage share of share in Central taxes and grants from the Centre in Gross Domestic Product shown a steady increase in second period.

An examination of key fiscal indicators of State finances during first period revealed that gross fiscal deficit as a percentage of Gross Domestic Product increased from 0.57 percent to 1.80 percent and that of primary deficit rose from 0.39 percent in 1980-81 to 0.66 percent in 1992-93. Witnessing surpluses till 1986-87, revenue deficit as a percentage of Gross Domestic Product increased from negative value of 0.23 in 1980-81 to 0.44 percent in 1992-93. Overall budgetary position witnessed surpluses for only four years, i.e. 1985-86, 1988-89,

1990-91 and 1992-93. In the second period the percentage of gross fiscal deficit, revenue deficit and primary deficit in relation to Gross Domestic Product followed an increasing trend gross fiscal deficit as a percentage of Gross Domestic Product increased from 1.66 percent to 2.7 percent with some fluctuations, revenue deficit rose from 0.32 percent to negative value of 0.87 percent and primary deficit ascended from 0.32 percent to negative value of 0.54 percent. States experienced budgetary surpluses since 2002-03.

The State Governments have witnessed noticeable improvement in their consolidated fiscal position during the recent years. The revenue account of States turned around from deficit to surplus during 2006-07 after a gap of two decades.

6.2) Budgetary Trends in Punjab

6.2.1) State Revenues

Revenue receipts of state include own tax and own non-tax receipts, Center transfer of resources to the Finances Commission in the form of tax shares and Grants-in- Aid. Total receipts of the state could be divided into revenue receipts and capital receipts, in which loans from Centre is the major constituent. Total receipts growth rate declined in the second period. The growth rate of total receipts has come down from 14.18 percent during the first period to 13.4 percent in the second period. The share of revenue receipts was more than capital receipts for both the two periods The percentage share of revenue receipts increased from 42.53 percent in 1980-81 to 61.06 percent in 1992-93 and further increased to 72.7 percent in 2006-07. On the other hand the percentage share of capital receipts declined. It declined from 57.47 percent in 1980-81 to 38.95 percent in 1992-93 and further declined to 27.03 percent in 2006-07. This phenomenon is a challenge the State Government has to face to monitor and manage financial resources.

The growth rate of total revenue receipts declined and the growth rates of tax revenue and transfer from the Centre to Punjab also declined in the second period. But the growth rate of state own non-tax revenue has shown improvement in the second period. The reason

responsible for this increase was the recovery of interest from Punjab State Electricity Board. Financial assistance from the Center to Punjab reduced and the growth in the state's tax revenue was sluggish as compared to non tax revenue. Although in absolute terms amount of tax revenue increased, its percentage share in total revenue receipts is coming down. The major reason responsible for slow growth rates is the adverse effect of terrorism on the buoyancy in tax revenue, no additional resource mobilisation on the part of government and various tax concessions to attract private investment in the wake of economic reforms and also to please powerful lobbies in the society. But the State's own tax revenue still occupies the foremost position in the pattern of receipts on revenue account for both the periods.

Share of own tax revenue in Net State Domestic Product (Tax ratio) has shown improvements over the years. The own tax ratio for the state has increased from 1.44 percent in 1980-81 to 3.92 percent in 1992-93 and further to 4.59 percent in 1993-94 to 11.08 percent in 2006-07 and the tax ratio for on-tax revenue remained around 5 percent in the second period. The tax ratio for transfers from the Centre to Punjab has not shown much improvement. It is around 2 percent over the years. The growth rate of own tax revenue has declined from 14.43 percent in the first period to 11.66 percent in the second period.

Among individual taxes, the sales tax, state excise, stamps and registration, taxes on goods and passengers, taxes on vehicles and electricity duty dominated the tax structure of the state in the first period. Land revenue declined in importance as a good source of tax revenue. State excise registered a highest compound rate of growth per annum followed by sales tax, electricity duty and taxes on vehicles during pre liberalised period. In the post liberalised period, the sales tax which generates more than 50 percent of the own tax revenue has shown a decline in its growth rate. State excise registered a highest compound rate of growth per annum during second period also. The growth rate of land revenue, taxes and duties on electricity also showed improvements in the growth rates during post liberalised period as compared to pre liberalised period. But the growth rates of state excise and tax on vehicles have suffered major decline in the second period.

Responsiveness of the tax structure is another aspect of State finances. The Responsiveness of own tax revenue is studied by measuring buoyancy. From the buoyancy coefficient of own tax revenue of the State, a declining trend is observed during the study period. The buoyancy coefficient of own tax revenue have gone down from 2.67 during first period to 2.10 in second period. So far, as buoyancy of individual taxes are concerned except State excise, other taxes have shown the higher buoyancy in the second period (Stamps and registration duty has a higher buoyancy).

The buoyancy coefficient of Sales tax has increased from 2.64 during the first period to 3.13 during the second period. Taxes on vehicles have shown same buoyancy coefficients of 2.18 during both periods. Similarly, for land revenue and electricity duty higher buoyancy coefficients has been observed in second period. But the buoyancy coefficient of State excise experienced a lower buoyancy of 1.17 in period II as compared to 2.99 in the period I.

Non-tax revenue constituted 16.31 percent of total revenue receipts in 1980-81 which has decreased to 11.80 percent in 1992-93. However, this share has improved during 1993-94 to 2006-07. It increased from 12.64 percent in 1993-94 to 23.65 percent in 2006-07. Its growth rate also went up sharply from 14.03 percent during the first period to 19.00 percent during the second period. But still the major share in total revenue receipts come from state's own tax revenue. The low share of non-tax revenue of state has been due to (a) lower rate of user charges on services provided by the government and (b) loss making public sectors enterprises. Investment incurred by the state government in various services like, irrigation, electricity and other services and public sector units have not yielded enough revenues. These are the major hidden subsidies.

The bulk of non tax revenue accrued by way of receipts from economic services, interest receipts and general services in the pre liberalised period but in the post liberalised period the major contribution in the non tax revenue was receipts from general services followed by interest receipts and economic services. The growth rate of all components of non tax revenue showed a higher growth rate in the second period as compared to first period, except the dividends. It declined from 12.36 percent to -3.56 percent from Period-I to Period-II. The

general services registered highest growth rate (17.07) followed by dividends (12.36) interest receipts (11.27) and social services (10.53) during first period and in the second period the general services again registered highest growth rate of 32.89 percent followed by the growth rate of interest receipts and social services.

6.2.2) Transfers from the Centre

It has been observed that the share of transfers from the Centre to Punjab in total revenue receipts declined over the period of time. The growth rate declined from 15.33 percent in first period to 13.75 percent in second period. Looking into individual categories of transfers it is observed that the relative share of Centre taxes and duties in the total transfers from Centre to Punjab declined whereas, the relative share of grants in aid increased in the total revenue transferred from the Centre to Punjab this trend continued in the second period also. The growth rates of both, share in Centre taxes and duties and grants in aid declined in the post liberalised period as compare to first period. As a result the share of gross transfers, in the total revenue receipts has declined. From trends of transfers of the resources to the state, it is found that, the transfers have failed to rise with the rise in the state income. The declining transfers to the state can not be termed as equitable.

6.2.3) Government Expenditure in Punjab

The government expenditure in Punjab has shown as increasing trend over the period covered by the study. From the trend of expenditure it is observed that in the second period the growth rate of expenditure has been faster as compared to first period. The share of revenue expenditure in the total expenditure has increased to 75 percent thus restricting the capital expenditure. The trend of expenditure suggests that the maintenance of existing assets in the form of more administrative services has been favored rather than creating new assets which could have accelerated the growth in the state's economy. The compound growth rate of revenue expenditure in the State is higher than that of Capital expenditure in first period and in the second period it was lower than capital expenditure. The percentage share of revenue expenditure in total budget expenditure increased from 41.25 percent in 1980-81 to

79.85 percent in 1992-93. On the other hand the percentage share of capital expenditure in total budget expenditure decreased from 58.75 percent to 20.15 during the same period. But in the second period the percentage share of revenue expenditure in total budget expenditure decreased from 72.01 in 1993-94 percent to 69.95 in 2006-07 and the percentage share of capital expenditure in total budget expenditure increased marginally from 27.99 percent in 1993-94 to 30.05 percent in 2006-07. Among the broad functional categories which includes development expenditure and non- development expenditure, it is observed that there was structural changes in the pattern of state's expenditure on revenue account from 1980-81 to 2006-07. The relative share of non-development expenditure increased while that of development expenditure declined in the total revenue expenditure. During the first period, although the share of development expenditure was more than that of non-development expenditure, but the compound growth rate of former was lower (14.16 percent per annum) than the latter (20.77 percent per annum) and the share of development expenditure was more than that of non-development expenditure. But in the second period the growth rate of both development and non-development expenditure declined but the relative share of development expenditure was lesser than the non-development expenditure in the total revenue expenditure. The growth rate and share of non-development expenditure in Net State Domestic Product was higher than that of development expenditure.

Among the functional categories of expenditure the general services of non- development expenditure which includes administrative services and interest payments have shown higher growth rate in the second period than those of economic services and social services of development expenditure. The non- development expenditure on general services (revenue account) has grown at the rate of 20.68 percent during the period 1980-81 to 1992-93 whereas the growth rate for social and economic services were 13.35 percent and 15.18 percent respectively. During the second period (i.e. 1993-94 to 2006-07) the growth rate of general services of non – development expenditure declined but it was higher than those of social and economic services. The growth rate of general services in the second period was 14.68 percent while the growth rate of social and economic services were 10.30 percent and 11.06 percent respectively. The growth rate, of social services during the second period was the lowest. The share of social services in the revenue expenditure has declined from 41.64

percent in 1980-81 to 22.13 percent in 2006-07, while the shares of general and economic services have increased in the same period. The share of general and economic services in total revenue receipts increased at a much faster rate than economic services.

Though in the social and economic services of development expenditure, components like education, health social security, agriculture and power and development are the major heads of expenditures they have not shown much improvement in the second period in terms of the relative allocation to these activities. On the other hand components of general services of non-development expenditure like administrative services and interest payments have increased at a faster rate. Such as expenditure pattern helped the revenue expenditure to rise faster which does not contribute much to the economic development.

From the buoyancy coefficient of development expenditure the declining trend is observed over the period covered by the study. The buoyancy coefficient of total development expenditure has gone up from 3.16 in first period to 4.11 in second period. So far as buoyancy of social and economic services expenditure is concerned except water and power development and transport, other components of social and economic services have shown lower buoyancy in the second period. The declining buoyancy of development expenditure in the State implies that development expenditure has failed to rise with the rise of income in the State. The declining buoyancy of development expenditure in the State is due to sharp increase in non-development expenditure.

With regard to the overall budgetary position of Punjab State Finances, it is observed that the budget deficit increased from 1.63 in 1980-81 to 67.87 in 1992-93. In the second period it increased from 82.24 in 1993-94 to 3406.05 in 2006-07. The share of budget deficit in Net State Domestic Product has increased from 0.01 percent in 1980-81 to 0.15 percent in 1992-93. In the second period it increased from 0.18 percent in 1993-94 to 4.11 percent in 2006-07. Persistent rise in Budget–Deficit result in unrelenting rise in non-development expenditure and mounting public debt. As the amount of debt increases, its repayment becomes very difficult.

The mismatch between receipts and expenditure has been growing and more so in the revenue account, due to which the revenue deficit increased faster. The revenue deficit which stood at Rs.9.35 crore in 1984-85, has increased to Rs.635.59 in 1992-93 and in the second period it increased from Rs.766.93 crore in 1993-94 to Rs.1748.64 crore in 2006-07. It is in the capital account where a surplus could be seen in many years particularly in the second period except the year 2006-07.

As far as the percentage share of revenue receipts and revenue expenditure in Net State Domestic Product concerned, it is observed that the share of revenue expenditure in Net State Domestic Product increased at a much faster rate than revenue receipts for both the periods and it is more than the revenue receipts.

Examination of fiscal indicators of Punjab Government for the period 1980-81 to 1992-93 revealed that gross fiscal deficit as a percentage of Net State Domestic Product increased from 0.66 percent to 2.79 percent, revenue deficit rose from negative value (showing surpluses) of- 0.07 percent to 1.42 percent and primary deficit went up from 0.40 percent to 1.88 percent. For the time period 1993-94 to 2006-07 the rising trend of gross fiscal deficit (3.19 percent to 5.39 percent) and revenue deficit as a percentage of Net State Domestic Product (1.64 to 2.15) continued but primary deficit as a percentage of Net State Domestic Product declined for the years 1995-96, 1996-97 and 2005-06. Primary deficit as a percentage of Net State Domestic Product was around 2.00 percent for the second period. The increased gross fiscal deficit in terms of percentage of Net State Domestic Product, points out the dependence of the State to borrowing so as to manage such a large fiscal deficit

The fiscal imbalances faced by the State in recent times have its root in inadequate revenue effort and unbridled revenue expenditure. Consequently, the debt burden of the State has increased to great height which may not be manageable with the present fiscal policies. The fiscal adjustment in the State is the need of the hour which requires comprehensive budgetary reforms and reorientation of State finances.

6.3) Policy Measures

The growing fiscal imbalances of the States called for structured policy initiatives to address the problem. These initiatives had to be operationalised by the States when the Eleventh Finance Commission set binding preconditions for undertaking reforms to get the fiscal assistance. The policy initiatives include preparation of Medium-Term Fiscal Reform Programmes (MTFRPs). Adjustment programme had also been undertaken in some of the States which were linked to borrowings from multilateral agencies. Major landmark in coordinated tax reforms were simplification and rationalisation of the Sales tax system since the beginning of the current decade and the introduction of VAT from April 1, 2005, in place of the existing cascading type sales (Rao, et al., 2005). Incentive based fiscal reforms recommended by the TFC are also an important policy step towards bringing fiscal discipline at State level.

The policy measures initiated by the States may be grouped under three categories, viz., (i) Policy measures towards State taxes and non-taxes, (ii) Expenditure Management, and (iii) Institutional Reforms. The details of these policy measures are set out below.

6.3.1) States' Taxes

The general approach of the States has been to rationalise and simplify the tax structure, broaden the tax base and impose moderate rates of taxation. States have initiated policy measures towards fiscal empowerment mainly through States own taxes and showed intention to increase the magnitude and efficiency of tax revenue mobilization over the years. The initiated measures by States include enhancement/ restructuring of various taxes such as land revenue, vehicle tax, entertainment tax, sales tax, electricity duty, tax on trades, professional tax and luxury tax. The major policy initiatives are as under:

(i) **Expert Committees/Commissions:** A number of States have appointed committee/commission to review the structure of their tax and non-tax revenues. The efforts

were also initiated towards computerisation of tax/budget departments, treasuries and check-posts in view of the VAT as implemented by the States.

(ii) **Introduction of VAT:** Realising the need for tax reforms, most of the States have switched over to a VAT regime on the basis of recommendations of the Empowered Committee of State Finance Ministers with effect from April 1, 2005. VAT may be defined as a tax on the value added at each stage of production and distribution of a commodity. VAT is inherently efficient than the sales tax or excise duty or any turnover tax. Operationally, application of VAT at a particular stage implies payment of tax by the producer or distributor on the value of his output but with a rebate (or credit) on the taxes paid by him on the inputs.

6.3.2) States' non-tax revenues

The policy measures towards non-taxes include reviewing/ rationalising the royalties, including those on major and minor minerals, forestry and wildlife, revision of tuition fees, medical fees, irrigation water rates and tariffs on urban water supply. The States have prepared MTFRPs and have emphasized on the cost effectiveness and raising user charges of services rendered by them.

6.3.3) Expenditure Management

The major policy initiatives on expenditure front include containing unproductive expenditures and reorienting spending towards developmental purpose, restrictions on fresh recruitment/ creation of new posts, review of manpower requirements, cut in establishment expenses and reduction in non-merit subsidies through better targeting. In their recent budgets, some State Governments, such as Punjab, have called for restructuring of the staff position in each government department and have indicated that future employment in the government would be project-specific and need-based.

Tamil Nadu took initiatives to constitute an *Expenditure Review Committee* to review, on an on-going basis, the expenditure in respect of each department. States, like Punjab, have

initiated measures towards disinvestment on a select basis in respect of loss-making Public Sector Undertakings. Many States including those of Andhra Pradesh, Gujarat, Rajasthan, Tamil Nadu, Uttar Pradesh and Madhya Pradesh have introduced the new pension scheme based on the defined contribution system.

6.3.4) Institutional Reforms

The institutional reforms facilitate the fiscal consolidation process. To strengthen the process of fiscal consolidation, some states have initiated Rule based fiscal policy measures for providing statutory backing to the fiscal reforms and to enact the Fiscal Responsibility Legislation targeting to eliminate revenue deficit and reduce Gross Fiscal Deficits. Apart from this Other Institutional Reforms are also initiated by the states such as setting up of the Guarantee Redemption Fund, Consolidated Sinking Fund and Ceiling on Guarantees

6.3.5) State Public Sector Undertakings Reforms

Several States have shown interest in undertaking a comprehensive review of the functioning of the State Public Sector Undertakings (SPSUs), including the possibility of closing down of non-viable units after providing for suitable safety-nets to the employees including voluntary retirement scheme (VRS). States such as Tamil Nadu, Kerala, Haryana, Karnataka and Orissa have encouraged private sector participation in the transport and power generation sectors. Karnataka's initiatives towards Policy Paper on restructuring of SPSUs and Maharashtra's initiatives towards setting up a Board for restructuring of the SPSUs are noteworthy.

6.3.6) Power Sector Reforms

The State Electricity Boards (SEBs) account for the bulk of the states' investment in public sector undertakings (PSUS) and poor financial performance of former has aggravated the problem in the state finances.

A notable development has been undertaken by the state government in the area of power sector reforms which include the constitution of State Electricity Regulatory Commissions (SERCs) for determining the tariff structure, unbundling of electricity boards into separate entities for power generation, transmission and distribution, increasing power tariffs and measures for reducing transmission and distribution losses.

The Reserve Bank of India, as debt manager and banker to the State Governments has also initiated measures towards strengthening their fiscal position. The major initiatives include: (i) constitution of various Group/Committees on State finances such as to examine Ways and Means Advances and overdraft scheme to the states. It has also constituted group of finance secretaries to examine the fiscal risk of guarantees extended by the states, another group to study the pension liabilities of the state government and committee to frame model fiscal responsibility legislation at state level. (ii) Managing Market Borrowings Programme of States. It has introduced flexibility in market borrowing of state government by encouraging the states to directly access the market for resources ranging from 5 to 35 percent of gross borrowings, with the states deciding on the method, timing and maturities of the borrowings. (iii) Organising conferences on State Finances, (iv) Policy initiatives towards cash management, (v) policy initiatives towards off-budget borrowings.

Supplementing the States efforts, the Central Government introduced measures to encourage and facilitate fiscal reforms at the State level. These mainly include: (i) introduction of Fiscal Reforms Facility, (ii) one time settlement of State Electricity Boards, (iii) introduction of Debt Swap Scheme and debt relief measures to reduce the current high level of interest payment. Recognizing the need for reducing the interest burden of the states, all loans from the Centre to the State government bearing coupons in excess of 13 percent are to be swapped with marketing borrowings and small savings proceeds at prevailing interest rates over a period of three years ending in 2004-05. Based on the recommendation of the Eleventh Finance Commission, the central government set up an Incentive Fund with a corpus of Rs.10,607 crore earmarked over a period of five years for encouraging fiscal reforms in the states. The release of resources from the Incentive Fund was based on the ratio of revenue deficit. States draw up a medium term fiscal reform programme initiated under

the central government scheme called the Under “states fiscal reforms facility” states draw up a Medium term Fiscal Reform Programme for fiscal consolidation and reforms in power sector and public sector enterprises.

6.4) Effectiveness of Policy Measures

The effectiveness of policy measures to strengthen the State finances remained largely inadequate keeping in view the size of the problem. Most of the policy measures were *ad hoc* in nature and were guided by the exigency rather than being structured and well planned to put the State finances on the right path. The component wise details of various policy measures and their effectiveness to strengthen the State finances are set out below.

6.4.1) States’ Tax Revenues

Taking into account the past trends of State finances and the, literature available on State finances, it seems that there was not much progress on restructuring of State finances. Many State Governments continued to carry their business as usual. There has been some progress in reforming the tax system, although the leakages in tax base through exemptions continue to pose problems (RBI, 2005). States took initiatives towards setting up Committees/ Groups and prepared MTFRPs to suggest the ways to enhance, revenues. However, the implementation part of these measures remained weak as evident with the near stagnation in States taxes- GSDP ratios in the 1990s. Despite the States’ efforts towards enhancing revenues, the factors, such as, narrow States’ tax base, greater dependence on indirect taxes and lack of control on populist measures (such as free electricity) taken by States continued to persist. Furthermore, the increased competition among the States to attract the investment by providing tax concessions and other fiscal incentives has only resulted in a race to the bottom (Rastogi, 2004). Competitive reduction in taxes led to a mere redistribution of existing capital among the States at the cost of significant revenue foregone, while taxes could not be levied on services and agricultural income (Rao, 2002).

6.4.2) States' Non-Tax Revenues

The effectiveness of various non-tax reforms to improve cost recovery for major social and economic services provided by States has remained below the expectations. This is reflected in very low user charges/cost recovery from various services and low/negative returns from investment in PSEs. User charges remained inadequate because of the perception of availing government services as free. Furthermore, with the inferior quality of services, the public is loath to pay higher charges for public services. Cost recovery in the case of a number of social services, such as education and health, have hovered around 1 per cent and 5 per cent, respectively, in the recent period. The cost recovery in respect of economic services such as irrigation, roads and power is found to be higher than that of social services but still remains quite low (RBI, 2005). It seems that there is no link between capacity to borrow and the return on services provided by the Government. Since there is not enough incentive for the government to undertake appropriate levy of user charges, states are encouraged to become fiscally irresponsible and to subject user charges to populist considerations (Mohan, 2000; Acharya, 2002).

Over the years, States have initiated a number of measures to improve the functioning of State public sector enterprises (PSEs). There has, however, not been adequate generation of revenues in the form of dividends and profits received from the PSEs. There is a need to take a relook of the functioning of PSEs in order to ensure the viability of running State level PSEs in long run. Around one-fourth of the total State public sector enterprises are profit making while the rest are the largest drain on the system. Most State PSEs are unlikely to yield significant resources from privatisation proceeds, but privatisation could at least help avoid recurring losses which are otherwise a burden on the budgets. The power sector remains the worst affected by the populist measures announced by a number of States. The average tariff rate for electricity provided to agriculture remained 25 paisa per KWh for all States (even some States have actually made it free, i.e., Punjab) while average cost of supplying power remained Rs.2.81 per unit. Irrigation charges cover only around one fifth of the maintenance costs of the system, to say nothing of capital charges (Ahluwalia, 2001).

The reforms initiated in the power sector in recent years at State level are encouraging. However, keeping in view of the past record of populist measures such as free electricity, for certain sectors require a close monitoring on the effectiveness of these reforms. In view of the large investment made by States in the public sector enterprises, state level fiscal strategy should be designed in a manner which ensures that these returns in the form of user charges and profits from commercial activities be adequate and augment fiscal discipline.

After discussing fiscal reforms initiated at the sub-national level to correct the fiscal imbalances in the finances of Indian states, we now discuss reform measures undertaken by the Punjab government towards fiscal consolidation in the state. In pursuance of the decision of the Government of India to provide assistance to the state governments in order to strengthen their financial situation, the Government of Punjab signed a Memorandum of Understanding (MoU) with the Government of India in 1999. The agreement reached between Ministry of Finance, Government of India and Government of Punjab is termed as Fiscal Reform Programme for Punjab. According to this agreement, the Ministry of Finance would provide immediate assistance to help the State Government get out of the overdraft. The assistance comprised permitting the government to carry out market borrowing immediately and on priority basis, making advanced devolution and releases of Central Plan Assistance and Ways and Means Advances.

The Memorandum of Understanding stated that in order to increase revenues and reduce expenditure, the state government would draw up an implementation plan, giving details of the various actions, the agencies responsible for carrying out these actions and a time frame within which the actions would be completed. The MoU listed certain measures for improving the fiscal situation. These were reduction in non-plan revenue expenditure, reduction in subsidies through improved cost recovery for both social and economic services, withdrawing tax incentives to industries, disinvestments, reform of tax regime and improvement in management of public debt.

The action taken report submitted by the Government of Punjab to Government of India in November 2000 exhibited poor fiscal consolidation with increasing non-plan expenditure and no correction of fiscal imbalances. The institutional reforms were announced in 2000-01 and 2000-02, which included the constitution of Public Expenditure Reforms Commission and Public Sector Disinvestment Commission, preparation of MoU with the Government of India on Power sector reforms and notification of setting up of State Electricity Regulatory Commission.

There was no improvement in the financial health of the Punjab despite the set of measures announced by its government. The State's account with the RBI was running in an overdraft of Rs.168.29 crore as on March 2, 2002. After the change of the government in February 2002, the government committed itself to correcting institutional factors leading to economic and financial distortion. The various commissions constituted in the past and studies carried out by National Institute of Public Finance and Policy recommended the implementation of major structural reforms in the state finances and administration for resource argumentation and expenditure management. In this direction, the Punjab government enacted Fiscal Responsibility and Budget Management Act (FRBMA) in May 2003.

The state government signed another MoU with the Ministry of Finance, Government of India on July 23, 2003 to achieve fiscal sustainability in the medium term. It clearly stated various steps to be taken for fiscal consolidation of the state. Limits are quantified for revenue and overall fiscal imbalances for a stated target year 2006-07. More stress on the correction of fiscal deficit along with revenue deficit permits increase in capital expenditure but requires a sharp reduction in (non-interest) revenue expenditure. The act imposed inflexible limit on long-term government guarantees. It stressed on the transparency in borrowings and expenditure of the government. The act also ensures that government shall present the medium term fiscal policy statement along with annual budget in State Legislative Assembly, which includes the report on performance of various fiscal indicators. For ensuring that the government adheres to the programme, the act provides for corrective measures that are automatically to be undertaken once the actual deficits show signs of exceeding their targeted value in any year. The act clearly states that for the purpose of the

definition of fiscal deficit, off budget borrowings shall be treated as borrowings by the state government, and the expenditure incurred on subsidies due to the enterprises in the power sector, whether paid or not, shall be treated as expenditure by the state government. This introduces transparency in borrowings and expenditure of the government. The Act protects against election year opportunism as it carries a specific ban on fiscal sops six months before the election (Sawhney, 2005).

6.5) Assessment of Fiscal Reform Programme of the Punjab Government

All the institutional and sectoral measures suggested by the Government of India, Reserve Bank of India and other agencies to attain fiscal balances at the sub national level have been adopted by Punjab over a period of time. An evaluation of the fiscal reform programme of the state over the last few years reveals that the state has not followed the recommendations of most of the committees and commissions. Recommendations of Public Expenditure Reforms Commission regarding reduction in government expenditure, removing subsidies, imposition of user charges etc. was not implemented as reflected in the study of Action Taken Report or Fiscal Reform Measures (Annual Financial Statement, GoP, 2004-05). Power sector reforms have not been implemented as committed by the Punjab government in the MoU signed in March 2001, between the Ministry of Power, Government of India and Department of Irrigation and Power, Government of Punjab. Recommendations of the Disinvestment Commission submitted in September 2002 and the government decisions to disinvest in six PSUs are yet to be implemented.

There is misallocation and misutilisation of funds by the government. Fees or cess levied through acts of legislature of the state and sale proceeds of government lands should be credited to the consolidated fund of the states according to the article 266 and 283 of Indian Constitution, which is not done. In the absence of rigorous system of transparency and accountability the proceeds from mandi fees and rural development cess are used in an unauthorised way. There is irregularity in the food accounts of the state since 1995-96 (Sawhney, 2005).

A scrutiny of the state governments' budget reveals that there are variations between budget estimates, revised estimates and actual, which have been pointed out by the Public Expenditure Reforms Commission 2002. This is an evidence of poor fiscal marksmanship indicating that the budgeting process fails to provide a mechanism for appropriate expenditure management to ensure that the policy goals of the government are not undermined. The government has not taken appropriate steps to mobilise additional revenues on the other hand it has abolished octroi in December 2001 and water rate in 1997. The government has failed to reduce the revenue deficit as a proportion of revenue receipts in 2002-03, whereas it has been successful in reducing the fiscal deficit to GSDP ratio marginally.

The government is not paying much attention towards achieving the objectives laid down in the MTFP 2003. The report of the Comptroller and Auditor General of India states that according to MoU (April, 1999) the revenue deficit as proportion revenue receipts was to be reduced by 5 percent each year from 1999-2000. Accordingly, the revenue deficit of 37 percent during 1999-2000 should have been restricted to 32,27 and 22 percent of revenue receipts during 2000-01 (25percent) was much above the target and increased to 42 percent and 33-91 percent in 2001-02 and 2002-03 respectively.

The review of fiscal reforms initiated by Punjab government reveals the fact that fiscal imbalances are consolidated to a minor degree but the financial crisis needs stringent actions to be taken by the government to correct it.

6.6) Suggestions

The present study shows that the finances of the state government in India are under severe strain since the late 1980s. In spite of being the high per capita income states of India, Punjab is also facing acute financial crisis. The fiscal imbalances at State level had deepened and continued. The States took policy measures which helped to some extent to avoid further worsening of their fiscal position; however, these have not been significant. The recent fiscal

developments at State level put emphasis on the on-going fiscal and institutional reforms and seem to follow the path of reforms as suggested by the TFC.

On the basis of this study the following suggestions can be given that can restore financial balance in the state finances and finances of the Punjab government;

As the States face large resource gap, they would have to explore new avenues apart from utilising the traditional resources effectively and efficiently. States need to set priorities in their expenditures to reap the benefits and operate their economy in its full capacity.

The financial resources of the States must be compatible with their administrative responsibilities. Therefore, States should have more financial resources in order to meet their commitments.

State governments has to broaden tax base including those of agriculture income and to reduce exemptions/concessions, On the revenue side, the states have to take measures for the administrative and legislative reforms in taxation such as expansion of tax base, rationalisation of tax structure by removing bottlenecks in revenue collection, filling up the loopholes in tax system, phasing out the non-merit concession on taxation, etc. Various ad hoc policies from time to time for mobilisation of revenue should give way to tax reforms with long perspective.

On the expenditure side, the thrust should be on containing the non-development expenditure through increase in cost recovery/user charges and returns from public investment, rationalisation and containment of both explicit and implicit subsidies and expenditure reprioritisation towards social and productive sectors. Borrowings should be utilised for productive purposes and not to finance the non-development expenditure.

The major trend of public expenditure is enormous increase in the revenue expenditure of the State governments. As a result, the rate of growth of a country as a whole is lower than the targeted rate of growth. Therefore, steps have to be taken to increase the percentage of capital

expenditure as well as the share of development expenditure in the total expenditure because it enables the State government to achieve their planned objectives.

Another area which needs attention is public sector undertakings restructuring. The state governments should phase out subsidies and gear up (PSUs) to run on commercial prudence. Private participation in power and transport sectors should be initiated.

Government role should be reduced from nonessential areas, through decentralisation, disinvestment and privatization. Efficiency in the working of government departments can be increased by introducing transparency in their works, promoting cost recovery and commercial discipline, establishing strong and independent anti-corruption commissions to check corruption in the government departments.

The above-mentioned suggestions are meant for improving the financial position of state finances in India and hold equal importance regarding the improvement in the fiscal situation of Punjab. This study discusses some more suggestions to correct the fiscal imbalances in Punjab:

The fiscal adjustment in the State requires continued effort by the Government to reduce the fiscal deficit and improve the fundamentals of State finances. The finances of the State can be improved by augmenting revenue through tax reforms and reinforcing non-tax revenues and restructuring expenditure pattern.

The tax reforms in the State should concentrate on the changes in the tax structure itself rather than increasing the tax rates. The tax reforms should attempt simplifying the rate structure, broadening the tax base and provide an effective and provide responsive tax administration. Various ad hoc policies from time to time for mobilisation of revenue should give way to tax reforms with long perspective.

Individual own taxes like excise duty, vehicles and goods tax, Stamps and registration duty have shown higher growth rate to recent times. Strict administration to check any

irregularities and simpler tax rules would enhance the revenue generating capacity of these taxes.

There is an urgent need to check the massive tax evasion in the state. Reintroducing the octroi posts can do this. It will increase collection from octroi and could be used to identify tax evaders city by city from the records available with octroi posts. Tax reforms in the State should always give importance to restructuring of land revenue rates and to mobilize revenue from agricultural income tax.

There is need to augment non-tax receipts from economic services and social services by improving service delivery and increasing the user charges on these services of the government. There is an urgent need to check misappropriation, misutilisation and pilferage especially in the case of water and electricity.

There are number of loss making PSEs in the State. Effective disinvestment programme has to be chalked out to reduce government participation in such industries Undertaking of commercial nature should be handed over to private sector.

Restructuring of public expenditure is very essential to overcome the present budgetary problems. Subsidies to targeted groups only, i.e., to disadvantaged sections of people will have to be considered. Expenditure on social sectors, infrastructure and transport and communication should be on priority basis. Administrative expenditures in the States have to be pruned.

Looking at the revenue constraint, any meaningful capital investment may not be possible by the State Government. Attracting capital investment from private and foreign sources should be given top priority so as to develop crucial sector of the State's economy. Full utilisation of existing resources and completion of ongoing projects could reduce the cost overruns in the future.

6.7) Future Scope

The above suggestions need individual in-depth studies. The present study has its own limitations, in the sense that it could analyse the revenue and expenditure aspects of the State budget in revenue account only in Consolidated Fund. Micro level studies on individual taxes, such as the sales tax, State excise duty, etc., would be very useful and necessary. Similarly, on expenditure side also, study on 'subsidies', 'user charges' etc. would be worth attempting.

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