MANAGEMENT OF PUBLIC FINANCES IN PUNJAB

INTERIM REPORT

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NATIONAL INSTITUTE OF PUBLIC FINANCE AND POLICY
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PREFACE

The National Institute of Public Finance and Policy is an autonomous non-profit organisation, whose major functions are to carry out research, undertake consultancy work and impart training in the area of public finance and policy.

The Study on Management of Public Finances in Punjab was entrusted to the State Finances Unit of the Institute by the Government of Punjab. The study was carried out by Raja J. Chelliah, M. Govinda Rao and Tapas K. Sen.

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Raja J. Chelliah
Chairman

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Executive Summary

A. An Overview of Public Finances in Punjab

The fiscal situation in Punjab.can be characterised as "critical". The budgetary dissavings which emerged in 1987-88 increased exponentially to reach Rs.1192 crore in 1992-93. Almost 22 per cent of the Plan resources had to be used simply to bridge the deficit in the non-Plan revenue account and to meet losses of public enterprises during the Seventh Plan period. The annual Plan financing estimates for 1992-93 show a further deterioration. The existing resources including borrowed funds of Rs.1250 crore (taking into account the moratorium on Rs.611 crore) would finance a Plan of only Rs.616 crore. To achieve the Plan outlay of Rs.1150 crore, the State would have to borrow an additional amount of Rs.516 crore. This will further add to the burden of interest payments and repayments in the future.

The outpacing of the rate of growth of revenue receipts by expenditure growth has been the principal reason for the emergence of fiscal imbalance in the State. The problem has arisen because not only the rate of growth of revenue expenditures in Punjab has been the highest among the high income States, but also the rate of growth of revenue receipts has been the lowest. While revenue expenditures on the average have grown at over 17.5 per cent per year, the revenue receipts have grown only at 12.5 per cent. Tax as well as non-tax revenues in the State have registered poor growth performances. Our analysis shows that in terms of both the level of tax revenue raised and its growth over time, the performance of Punjab has been worse than that of other high income States.

Given that the fiscal crisis has arisen due to unsustainably high growth of revenue expenditure and very slow growth of revenues, the strategy needed to correct the imbalance must involve measures aimed at both improving the buoyancy of revenue receipts and compressing Government expenditures.

The broad strategy for fiscal reform, therefore, should consist of (i) compression of public expenditure; (ii) cost effectiveness in the delivery of public services; (iii) public enterprises reform to eliminate budgetary subsidies; (iv) augmentation of non-tax revenues through user charges and higher returns on investment; and (v) reform in the tax system to make it growth-oriented and growth responsive.

B. Compression of Government Expenditure

Our analysis of the trends in Government expenditure in Punjab reveals that given the constraints on resources, the fast growth of revenue expenditures has tended to cut into maintenance expenditures and has crowded out capital outlay with adverse implications for infrastructural availability and growth prospects of the State. The high growth of non-productive expenditures cannot just be attributed to the law and order situation in the State. Even as moratorium on interest payments on the special loans to the Centre has been given from time to time, administrative expenditures have continued to increase at over 20 per cent per year. One major item of expenditure which has shown a very fast increase has been 'wages and salaries'. The fast increase in wages and salaries has come about not only due to very high emoluments - higher than even those of the Central government employees, but also because of very high increases in Government employment over the years.

The Committee of Secretaries has suggested a number of economy measures to contain unproductive expenditures in the State. It has identified activities and branches of various departments which should be closed down and has recommended several measures like introduction of single file system, winding up of certain branches of the secretariat, keeping the plan schemes at the minimum and phasing out subsidies. This initial work, in our view is extremely useful and should be continued with technical inputs from the Cell under Secretary, Evaluation. The Cell should help the Committee to identify superfluous and surplus staff in various departments and indicate wasteful items of expenditure which could be pruned.

An important decision taken by the Government is to reduce the growth of non-Plan expenditures of the Government in the next three years to eight per cent, seven per cent and six per cent, respectively. But this has to be achieved in a cost-effective manner so that only non-productive items of expenditures are cut.

We, on the basis of our analysis, recommend the following measures to compress revenue expenditure in the State.

(i) There should be a total ban on new employment for the next three years and the ban should apply also to police personnel. As about 2.8 per cent of the employees retire every year, this measure will result in the saving of about Rs.150 crore per year from 1995-96 on salary payments alone. If complimentary expenditures on goods and services is also taken into account, the saving would be Rs.224 crore every year from 1995-96. The surplus employees in various departments should be redeployed to fill the essential posts. The ban on recruitment should apply also for taking people on part time or casual basis. Certain services may be contracted out to avoid fresh recruitment. However, this should not be done where personnel have already been appointed for the purpose.

(ii) The developmental plan of the State should be adequately backed by proper financial planning. A large plan size without having adequate resources only causes fiscal deterioration in the long-run. The State should be careful to ensure that the on-going projects are adequately funded. The attempt should be to consolidate the planning process and to avoid taking up new projects. It is also necessary to avoid creation of further employment under various plan schemes. Planning should be confined to the core sector only in order to ensure the provision of satisfactory levels of social and economic infrastructure. The State government should carefully review the existing Centrally sponsored schemes and discontinue those which have outlived their utility and redeploy the surplus staff.

(iii) In the case of the Police department, while it is necessary to upgrade the technology, cost savings should be effected by reducing the police personnel, particularly at lower levels. As already mentioned, not filling the posts falling vacant is an important method of effecting economy. The Police department itself should be actively involved in evolving specific plans to contain expenditures on the personnel. The State government should also draw up plans to use the police force productively, once the law and order situation improves to a satisfactory level.

(iv) An important measure of fiscal correction is to ensure that salary levels of Government employees in Punjab are not higher than those of the comparable Central government employees. In the medium term, therefore, efforts should be made to align the pay scales of State government employees with Central pay scales. This should be done through appropriate administrative measures over a period of three to five years. Once parity with the Central scales is brought in, the practice of having periodic Pay Commissions at the State level must be given up. To achieve this the Government would have to prepare the ground and educate the public at large about the resource cost involved in over protecting the interests of Government servants, constituting a small proportion of the population.

(v) In the short term, we suggest that some perquisites given to the Government employees should be withdrawn. Discontinuation of bonus to Government employees, scrapping of leave travel concession for the next four years and doing away with the 'difficult area allowance' are some of the measures that the Government can consider.

(vi) One of the important items of expenditure that has shown very fast increase in recent years is the expenditure on POL products. A bulk of this expenditure is incurred by the Police department. While the improvement in law and order is likely to reduce this expenditure to some extent, unless immediate administrative measures are taken, this may not happen as the employees having used to getting the transport facility would be unwilling to give it up. More innovative approaches are necessary to reduce expenditures on this account. In the Police department, it should be possible to require the officers themselves to drive the vehicles rather than having additional drivers. In other departments, it would be economical to hire taxis rather than maintaining a large fleet of vehicles. Giving lump sum vehicle allowance to senior officers who are presently entitled to use the staff car and asking them to use their personal cars may also be tried. A good proportion of the existing staff cars may simply be given to the drivers willing to take voluntary retirement as compensation for their losing their jobs, and these may be run as taxis with an understanding that these taxis will be hired on a priority basis by the Government as and when needed. The scheme thus introduced should be viable as well as attractive. In such a case, the Government need only have a skeleton fleet.

(vii) Reduction in the growth of non-Plan expenditure in the next three years envisaged by the Government, unless properly planned, can cut into the productive items of expenditure like spending on maintenance of assets. Given the developmental nature of these items, it would be helpful to classify such expenditures as Plan expenditure to safeguard adequate outlay on them.

(viii) It is possible to reduce outlay on a number of items by privatising some functions. Maintenance of State highways and important bridges can be assigned to private parties who can be allowed to impose tolls to recover the costs. It is, however, necessary that the Government should specify the norms on the quality of maintenance and fix the toll rates.

(ix) There should be a detailed review of subsidies and transfers so as to target them to reach the intended groups. Subsidies which do not serve important social purposes should be phased out. Similarly, on the basis of a detailed review of Centrally sponsored schemes, decisions on their continuance or otherwise should be taken.

C. Returns from Public Enterprises and other Non-Tax Revenues

A major reason for the stagnancy in non-tax revenue is the very low financial returns from public enterprises and inadequate recoveries from the social and economic services provided by the Government. Even in the case of services which are of commercial nature, the recovery performance in the State has left much to be desired.

The State government's total investments by way of equity and loan in 25 Government companies and corporations upto 31.3.1991 amounted to Rs.240 crore. In addition, the Government has invested in the State Electricity Board about Rs.3725 crore and in PRTC another, Rs.130 crore. While the total investments of the State government in public enterprises was Rs.4100 crore, the contribution to the exchequer by way of interest and dividend was just about Rs.15 crore. Our analysis of Punjab State Electricity Board (PSEB) reveals that it generated a rate of return of (-)21.6 per cent in 1991-92. In 1992-93 even after the revision of the power tariff, the loss is expected to be close to Rs.600 crore.

a. State Electricity Board: Detailed analysis of the various productivity indicators of PSEB shows that although there is some scope for improving physical productivity in terms of enhancing the plant load factor and reducing fuel consumption, this may not lead to significant reduction in losses. The basic reason for the losses appears to be the underpricing of electricity in the State. The average price of electricity sold is lower than the average cost of providing it in the case of domestic, agricultural, low tension industrial and power intensive industrial consumption. The estimated loss on account of underpricing of power sold to the agricultural sector alone works out to be Rs.667 crore in 1992-93. Further, as bulk of the supply to the agricultural sector is unmetered, it is possible that a lot of theft of power is misclassified as agricultural consumption.

On the basis of our study, we make the following recommendations:

(i) Significant financial improvement can be brought about only by revising the tariff rates substantially. The tariff on agricultural consumption should be increased to 50 paise per unit, which is the rate agreed upon in the Power Minister's Conference. On other categories of consumption, we recommend that the rates prevailing in Haryana should be imposed in Punjab. These recommendations will generate additional revenue of about Rs.380 crore.

(ii) Even after the tariff revision, it is estimated that the commercial losses would amount to Rs.130 crore in 1993-94. Phasing out the losses altogether is possible if a 10 per cent reduction in the cost is achieved through productivity increases. We are of the view that this is feasible and in order to achieve this, the plant load factor should be increased to 60 per cent and the number of employees should be reduced to four per Kwh of energy sold, from the present level of 5.4. This can be achieved by not appointing personnel to positions falling vacant on retirement.

(iii) We also suggest that the tariffs on other categories of consumers should be increased from time to time to adjust to the increasing costs of generating and transmitting electricity. On domestic and commercial categories, this year the rate should be increased by about 10 per cent and even on the sales outside the State attempts should be made to secure 25 per cent higher than the prevailing rate.

(iv) We also recommend that the practice of giving unmetered supply of electricity to the agricultural sector should be given up in order to properly account for the power consumption by various categories of consumers and to prevent the misuse or excess use of energy. Now that the procurement prices of foodgrains have been increased substantially, the farmer should not find it difficult to pay for the electricity at the rate as agreed upon in the Power Minister's Conference.

b. Punjab Road Transportation: Another major State government activity having considerable amount of investment is passenger road transportation. Although the Government has invested about Rs.140 crore in Punjab Roadways (PRW) and PEPSU Road Transport Corporation (PRTC), the two units together accounted for a net loss of Rs.36 crore. Our analysis reveals that the poor financial performance of the two units cannot be attributed to the low fare structure. Although the level of taxes on motor vehicles and passengers in the State is heavier than in many other States, this cannot be a determining factor as States like Haryana and Tamil Nadu even with lower net of tax fares made profits. The major reasons for the poor financial performance, therefore, have to be found in the operating ratio, cost per bus kilometre and vehicle productivity. On the other hand, the load factor which is a broad indicator of the density of traffic is seen to be higher in the two units than in other State transport corporations. Our analysis leads us to make the following recommendations:

(i) There must be a better coordination between the transport and taxation departments. This would enable a coordinated structure of passenger fares and taxation.

(ii) A system of compounding passenger taxes would simplify the administration and enforcement and enhance taxpayer compliance. The compounded levy should be collected by a single agency.

(iii) There is a case for substantial reduction in the role of PRW and PRTC in the provision of passenger transportation in Punjab over a period of time. Over the next five years, the role of PRW and PRTC should be brought down to 25 per cent of the allotted kilometreage. This can be achieved by not replacing overaged buses, not recruiting employees to fill positions falling vacant due to retirement, giving a bus along with route permits to groups of employees willing to take voluntary retirement and through such other administrative measures found appropriate. At the same time, the regulatory and supervisory system should be adequately strengthened to enforce the prescribed fare structure, ensure running of buses on stipulated routes and prevent collusion and unhealthy competition among transporters to protect commuters' interest.

(iv) There is no case for giving monopoly to public sector transport to run on any route. The 25 per cent route kilometreage allotted to PRW and PRTC may, however, be on the basis of exercising their first choice. In order to run the public transport on more efficient lines, PRW and PRTC may be merged. Norms must be enforced on operational efficiency and staff-bus ratio. The remuneration to the staff must have built-in incentives to improve efficiency as in the system prevailing in Tamil Nadu. The number of overaged buses should not cross five per cent of the fleet.

(v) The Government should carefully reconsider the merits of giving concessions to various sections travelling in PRW and PRTC. In particular, we strongly suggest that the lumpsum payment made by police personnel to PRW and PRTC in lieu of free bus travel needs to be enhanced to realistic levels.

(vi) The workshops can be leased out or handed over to cooperatives formed by the employees declared surplus. Such employees can be encouraged to voluntarily retire and can form cooperatives which can undertake maintenance of vehicles on a commercial basis. Similarly, the bus stations can be leased out to private parties for maintenance with ceiling rates fixed on usage fees (''Adda'' fees). Alternatively, business houses can be involved in the maintenance of bus stations in exchange for exclusive advertisement rights.

c. **Other Non-departmental Public Enterprises:** Of the 25 public enterprises and their subsidiaries in 1990-91, seven enterprises made profits totalling Rs.9.75 crore and 11 enterprises made losses amounting to Rs.7.8 crore. The financial position of the remaining seven enterprises cannot be assessed, as their accounts have not been finalised for a recent year. Although the interest due to the Government was about Rs.40 crore, these units actually paid only Rs.7.73 crore and the amount of dividend received by the State government was just about Rs.75 lakh. The accumulated losses in these enterprises was Rs.230 crore.

Our analysis reveals that in the name of fulfilling various social objectives, the State government has got involved in the manufacture of and trading in a variety of products. Investments in business for producing seeds, tanneries, footwear, consumer electronics, bio-medical equipment, hosiery and knitwears, for poultry development, for production of films and running of hotels are some of them. Most of these activities are making losses and even if they were making profits, there is no case for the Government to use its limited skills and resources in running these enterprises. We make the following recommendations:

(i) The Government should totally move away from the activities of manufacturing and trading of goods and services having no externalities. The method of disinvestment should, however, be decided on a case by case basis.

(ii) The State should create a renewal fund with a contribution to the seed capital. Attempt should be made to obtain contribution to this from the National Renewal Fund. The sale proceeds of enterprises should be put in the Fund to provide compensation to the displaced employees, to retrain them and even to give them loans for viable self-employment schemes. The displaced employees of these enterprises should, under no circumstance, be absorbed by the Government.

(iii) The State should put a ban on taking up new schemes like the Hotel-cum-Convention Centre in Chandigarh. The need of the hour is to put the finances of the State back on the rails and the State government cannot afford to use its resources for such activities.

(iv) We would also like to state that the State government should take steps to ensure that the resources of the State are not spent in luxurious buildings for various enterprises. All the enterprises need not have buildings of their own. Many of the enterprises already have lavishly furnished rented premises. Each of them wants a building of its own and for the purpose uses the scarce resources of the State. Once built, these new premises will have to be furnished anew. Capital expenditure needed urgently for developmental work should not be used up in providing lavish office accommodation and furnishing it twice over.

d. Other Non-tax Revenues: Uneconomic pricing of various services provided by the Government has led to the proliferation of implicit subsidies and is another major reason for the stagnancy in the non-tax revenues. The Committee of Secretaries has identified a number of areas in the departments of transport, local government, irrigation, education and technical education where additional mobilisation of resources is feasible. These suggestions are important and the Government must consider implementing them. Our specific suggestions in this regard are:

(i) We would like to emphasise the need to augment resources by enhancing charges on canal and tube-well irrigation where presently water rates cover only about 25 per cent of maintenance expenditure. Over the next five years, the rates should be increased so as to raise the entire resources required for the maintenance of irrigation works.

(ii) Equally important is the need to increase fees on post-secondary, technical and medical education as also some specialised medical services like pathology tests, X-rays and ECG in addition to a small entry fee to the hospitals. The fees for nursing home facilities in Government hospitals should be charged at commercial rates, except for the really poor.

D. Tax Revenues

We have pointed out that the performance of Punjab in raising tax revenues also has not been impressive. The average annual growth of tax revenues at 13.7 per cent compares poorly with the performance of other high income States where the growth rates were higher by almost two percentage points. Our analysis shows that entertainment tax and land revenue showed negative growth rates throughout the Eighties and the rate of growth of revenue from virtually every major item of tax decelerated in the Eighties as compared to the Seventies.

A matter of special concern, however, is the poor growth performance of revenues from stamp duty and registration fees, sales taxes and taxes on motor vehicles and passengers. The Committee of Secretaries has already identified the scope for additional resource mobilisation in respect of various taxes. The specific proposals include reimposition of land revenue on exempted land, increase in the stamp duty and registration fees, reforms in excise taxation, increase in the rates of passengers and goods tax. We, by and large, agree with these proposals except the one relating to stamp duties which we shall examine. However, two proposals, namely, enhancement of Octroi and the introduction of toll tax on transport, in our view, would only pose further hindrance to the smooth movement of traffic and would be inimical to the economic interests of the State as well as the country in the long run. We would like to examine the package of tax proposals before expressing our views, meanwhile, some tentative suggestions are made below.

A major feature of the tax revenues of the State seen in recent years is the declining contribution from entertainment tax. The invasion of home videos, video parlours, cable and other satellite based transmission networks have been a major cause of the declining contribution from entertainment taxes. We recommend that a beginning must be made by collecting taxes from these sources and the Punjab Government should follow the Maharashtra example in this regard. Maharashtra has already announced a tax on cable television operators and has already passed the necessary ordinance. The Government of Punjab should study this and immediately introduce the tax at appropriate rates.

We are in agreement with the Committee of Secretaries that land revenue should be raised and the levy should be reimposed on holdings presently enjoying exemption. This is an important suggestion and the Government should implement this. We, therefore, recommend that the rates could be revised upwards by 25 per cent. Similarly, cess on commercial crops should also be revised upwards. In course of time, a system can be developed wherein the State would levy the tax and the local bodies would collect and use it for their developmental purposes. That would bring in a clear nexus between the taxes paid and benefits received and consequently, enhance tax compliance.

We have already mentioned some measures pertaining to the levy of tax on vehicles, goods and passengers. It is necessary to compound the levy on goods and passengers and make one agency responsible for the collection of both motor vehicle tax and goods and passenger taxes. Apart from coordinated administration, proper enforcement of the tax is crucial to reduce tax evasion. Further, the penalties in cases of detection of evasion and in cases of officials colluding with transporters should be heavy enough to be really a deterrent.

We shall deal in detail with sales tax (which gives 60 per cent of the State's tax revenue) in our final report. We would like to comment only on one aspect of sales tax policy. In our view the new Industrial Policy which gives sales tax concessions for industrialisation is more liberal than in the neighbouring States. Agreement among at least the neighbouring States would be greatly beneficial as it will avoid "beggar-my-neighbour" policy. The concession presently given would hurt the existing industries. Nor would it encourage industrialisation on the desired lines. In our view better infrastructure, availability of stable and regular electricity, streamlining of various clearances required and a congenial climate of industrial relations are more important preconditions for the fast growth of industries. We would study this in greater detail and submit our detailed recommendations in the final report.

E. Concluding Remarks

Nursing the precarious fiscal condition of the State back to health requires bold and innovative measures. This has to be done in a planned manner to ensure that fiscal compression does not reduce the infrastructural levels and thereby adversely affect the growth prospects in the State. We are aware of the initiatives taken by the State government to phase out the fiscal imbalance. We also recognise the limitations imposed by the uncongenial environment on undertaking corrective measures. We have recommended remedial measures taking into account the various constraints. In the final report, we will present a medium term fiscal policy and in this framework, evolve an action plan to achieve the required compression of expenditure and acceleration in the growth of revenues. We will also go into the details of subsidies and the structure and operation of major taxes in the final report.

The implementation of recommendations contained in this Report, however, should go a long way in bringing about fiscal correction. It may be noted that at the present trend, the revenue deficit in 1993-94 is expected to reach Rs.1300 crore and the recommendations made in this report, if implemented, could reduce the deficit by more than 50 per cent. The ban on recruitment and abolition of perquisites would result in the saving of about Rs.125 crore. The rationalisation of electricity tariff would enable the State Electricity Board to pay interest to the State government amounting to Rs.425 crore. Similarly, Road transport undertakings and other public enterprises would yield interest receipts of Rs.40 crore. Other non-tax revenue measures should yield an additional revenue of Rs.110 crore. Altogether, these measures would reduce the revenue deficit by Rs.700 crore. In addition, measures such as deceleration in the growth of non-plan expenditure, elimination of identified subsidies and transfers, lower expenditure on transport and POL items, divesting of loss making public enterprises, raising of fees and charges on public services should help in generating additional savings.

Chaper I

Public Finances in Punjab: An Overview

Most of the States have been facing severe resource constraints in recent years but the fiscal situation in Punjab can be characterised as critical. This is ironical, for, Punjab not only has the highest per capita State Domestic Product (SDP), but also receives a significant volume of remittances both from abroad and from other parts of the country. The State has been in the forefront of economic development, and has been an example of development actually trickling down to alleviate poverty as indicated by the low proportion of poor population.

The critical fiscal situation in the State has come about due to the combination of a number of factors. The State's own revenue receipts as well as the Centre's current transfers have grown at a relatively low rate in relation to the growth of revenue expenditures, particularly on the non-Plan account. While the revenue receipts in the State increased at an annual average rate of a little over 12.5 per cent, the revenue expenditures increased at a spectacular rate of 17.5 per cent (Table 1). Consequently, the budgetary dissavings which emerged in 1987-88 increased exponentially to reach almost Rs.1182 crore in 1992-93 or 2.8 per cent of SDP (Graphs 1 and 1a and Table 2). If the trend continues, it would reach a staggering figure of about Rs.2000 crore by 1995-96. On non-Plan revenue account alone, the deficit is estimated at Rs.655.54 crore in 1992-93 and with the present trend, the figure is likely to reach Rs.1250 crore by 1995-96 (Graphs 2 and 2a).

A major consequence of the deteriorating fiscal position in the State has been the serious erosion of budgetary contribution to financing the Plan. During the Sixth plan period, the balance from current revenues (BCR) or budgetary deficits after meeting non-Plan revenue expenditures was negligible but during the Seventh plan period, almost 10 per cent of the Plan resources was diverted to meet this deficit. The drain on account of losing public enterprises formed another 11.5 per cent of the resources during the Seventh plan (5.2 per cent during the Sixth plan).

Rather than contributing to the Plan, the BCR has caused a greater drain in resources in Punjab than in other States. During the Seventh plan period, for instance, the average position of the States taken together shows a positive budgetary contribution (BCR) of 17.8 per cent of the total Plan resources and the drain

Table 1

Growth of Revenue Receipts and Revenue Expenditures in Punjab and other High Income States 1981-82 to 1990-91

(Per cent per year)

	Own Revenue	Tatal Revenue	Revenue Expend-iture
Gujarat	15.3	14.0	17.2
Haryana	15.8	14.7	16.5
Maharashtra	15.2	15.1	16.7
Punjab	15.0	14.5	17.2

Table 2

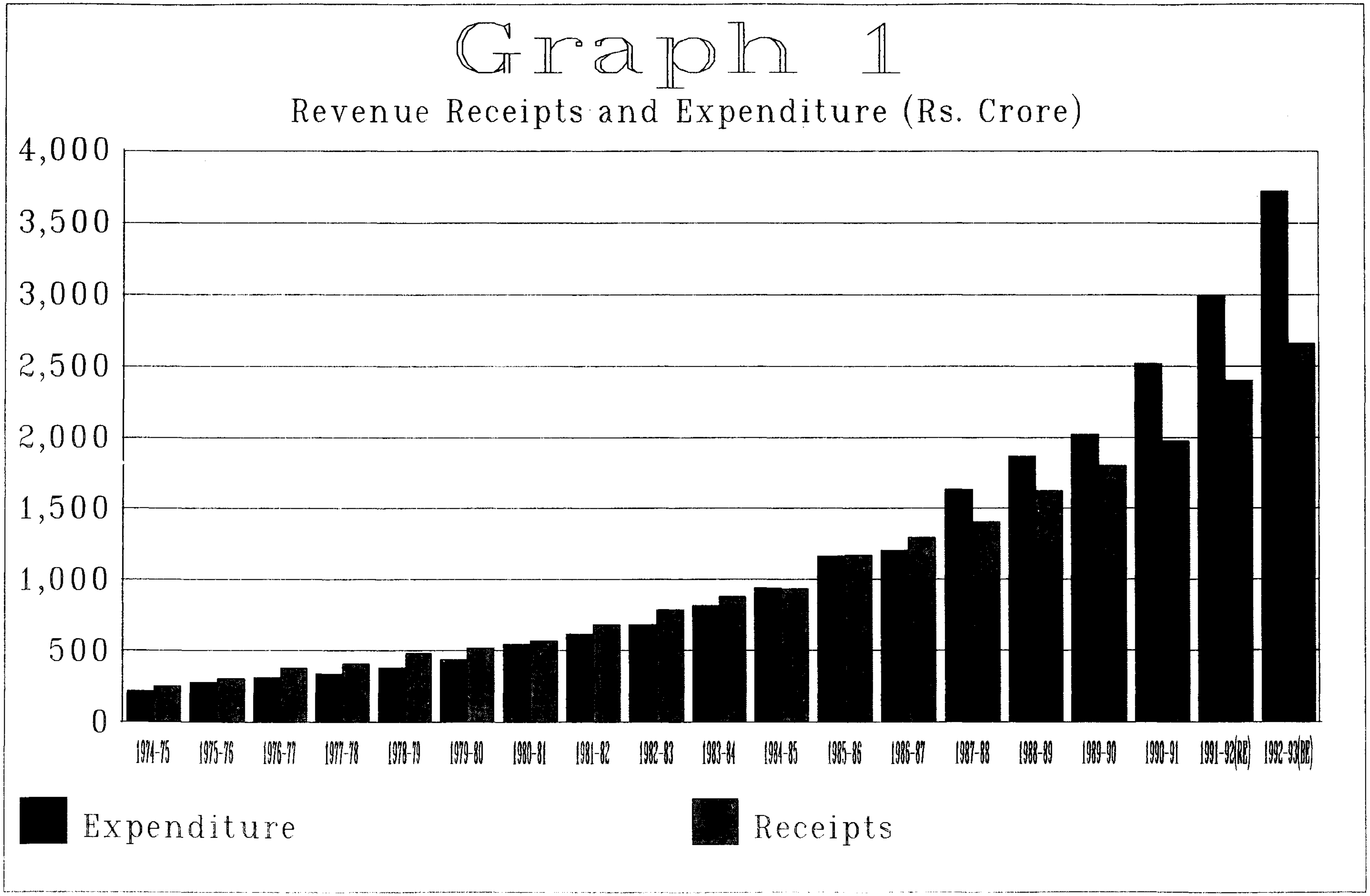
Revenue Deficit in Punjab (1974-75 to 1992-93)

(Rs. lakh)

Years	Revenue Receipts	Revenue Expenditures	Revenue Surplus (+)/ Deficit(-)	Revenue Surplus (+)/Deficit(-) as a percentage of SDP
1974-75	25002	2156	3441	1.4
1975-76	30441	27644	2797	1.1
1976-77	37641	31109	6532	2.1
1977-78	40612	33789	6823	1.9
1978-79	48101	38165	9935	2.6
1979-80	51935	43718	8217	1.9
1980-81	56766	54524	2242	0.5
1981-82	68261	61585	6676	1.3
1982-83	78605	68008	10596	1.8
1983-84	87913	81694	6219	1.0
1984-85	93199	93898	-699	-0.1
1985-86	117024	116244	780	0.1
1986-87	129250	120209	9041	1.0
1987-88	140454	163355	-22901	-2.1
1988-89	162340	186748	-24408	-2.0
1989-90	179997	202102	-22105	-1.5
1990-91	197569	251991	-54422	-2.8
1991-92(RE)	235939 *	299368 *	-59429	N.A.
1992-93(BE)	266012	372132	-106120	N.A.

Note: The book transfer of interest payments from the State Electricity Board accounting to Rs.137736 lakh has been excluded from both revenue and expenditure.

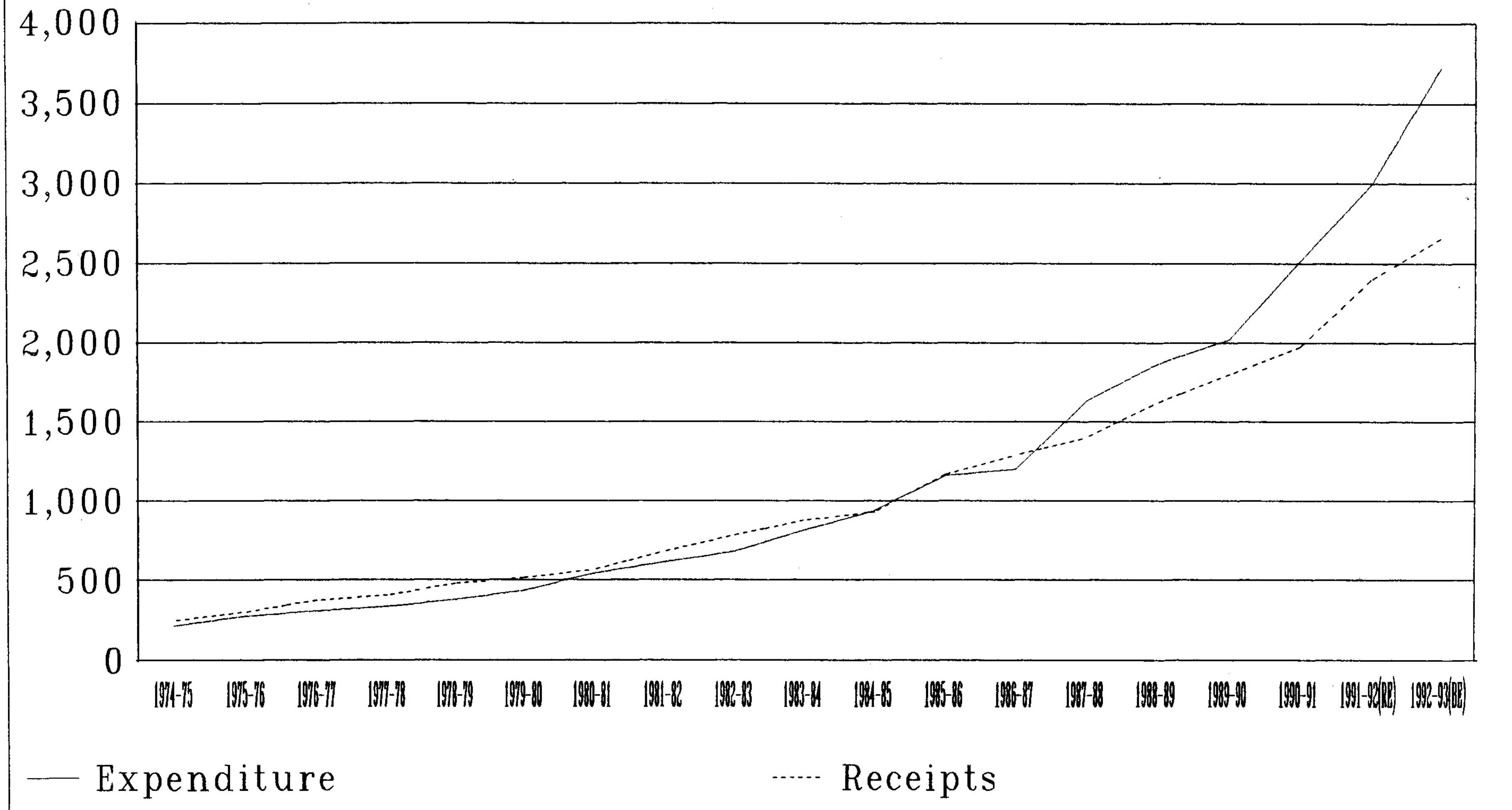
Source: 1. State Budgets.
2. C.S.O. for SDP estimates.



Graph 1
Revenue Receipts and Expenditure (Rs. Crore)
4,000
3,500
3,000
2,500
2,000
1,500
1,000
500
0
1974-75
1975-76
1976-77
1977-78
1978-79
1979-80
1980-81
1981-82
1982-83
1983-84
1984-85
1985-86
1986-87
1987-88
1988-89
1989-90
1990-91
1991-92(RE)
1992-93(BE)
Expenditure
Receipts

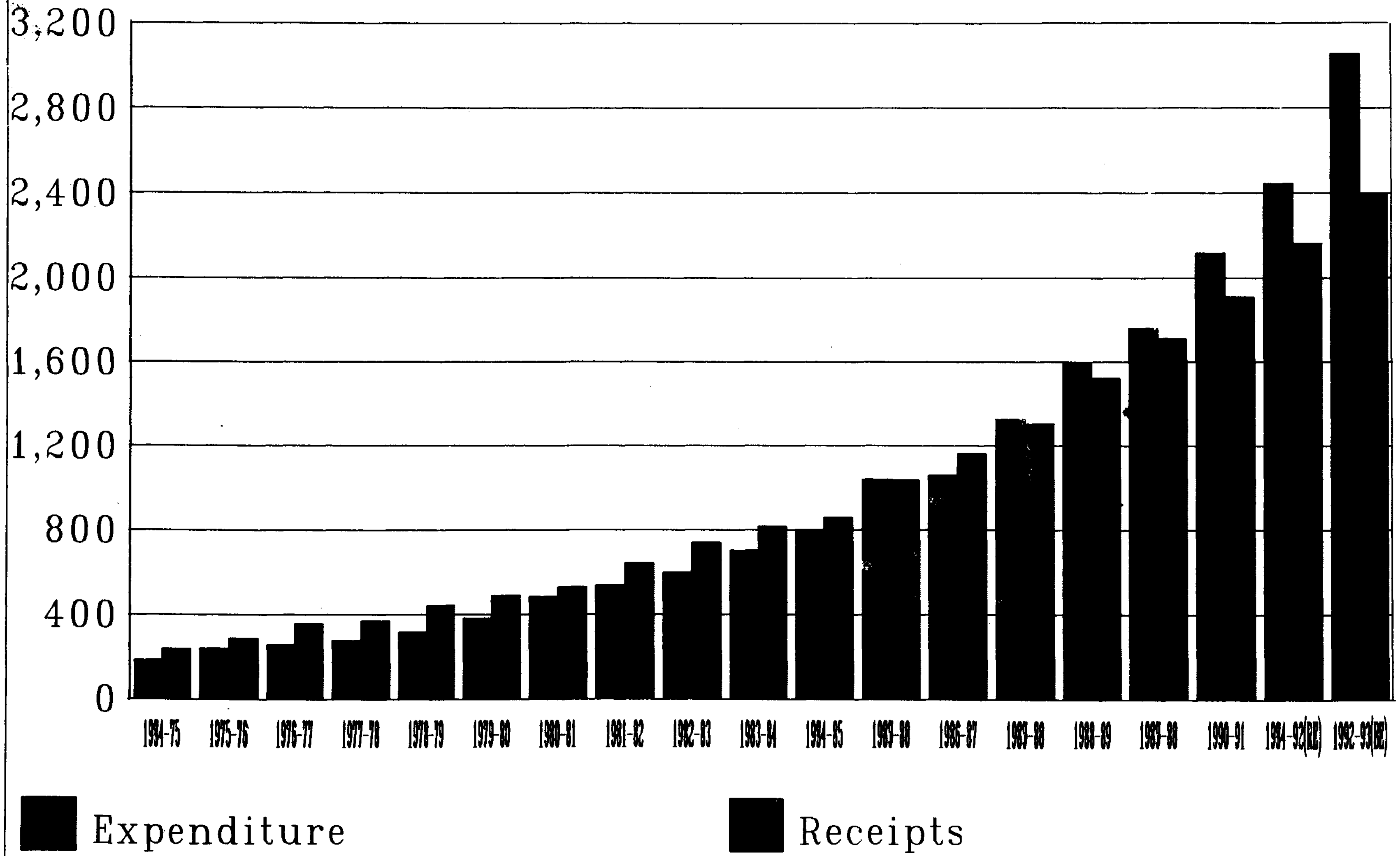
Graph 1a

Revenue Receipts and Expenditure (Rs. Crore)



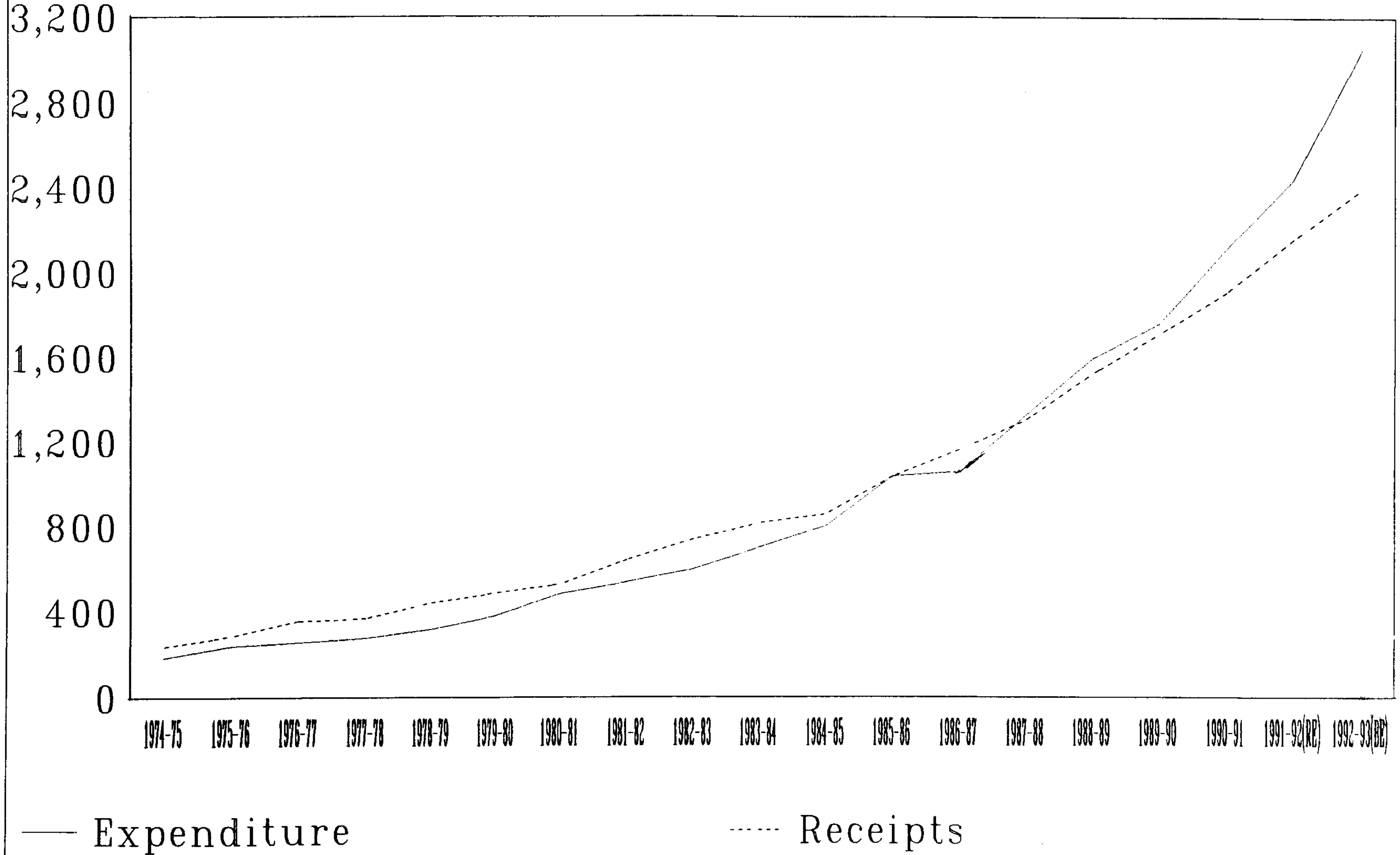
Graph 2

Non-Plan Revenue Receipts and Expenditure (Rs. Crore)



Graph 2a

Non-Plan Revenue Receipts and Expenditure (Rs. Crore)



on account of public enterprises was only 2.9 per cent. In contrast, in Punjab almost 21.5 per cent of the Plan resources had to be spent to meet the deficits on these two accounts. It is, therefore, not surprising to see that in Punjab, Plan expenditure (Rs.2402 crore) was actually lower than the total borrowings by Rs.200 crore. Considering that about a third of the Plan expenditure was of current nature, only about 62 per cent of the borrowed funds was actually used as capital expenditure in the State. As a substantial proportion of this was given as loans to public enterprises to meet their cash losses, the actual capital outlay arising from this Plan investment was even less.

A clear evidence of fiscal crisis can be seen in the latest estimates of Plan financing. Although in official discussions with the Planning Commission an Annual plan of Rs.1150 crore was finalised for 1992-93, the existing resources are adequate to finance a Plan of only about Rs.634 crore and an additional finance of Rs.516 crore would have to be found yet. Even this has been made possible due to the moratorium given on interest payable on and repayment of special loans to the Centre amounting to Rs.611 crore and an additional special term loan of Rs.600 crore. The estimated drain on account of budgetary deficit in terms of BCR is Rs.787 crore and on account of public enterprises, it is Rs.320 crore. Even after borrowing Rs.1250 crore (after taking credit of the moratorium), the State government can finance a Plan of only just about Rs.634 crore. In other words, only by borrowing over Rs.1750 crore and with the moratorium on interest payments and repayments to the tune of Rs.611 crore, the State can achieve a Plan size of Rs.1150 crore during 1992-93. The Plan financed in such a manner is unsustainable and can only bring in greater hardships in the future. Therefore, immediate remedial measures are called for to release larger volume of funds to provide satisfactory levels of social and economic infrastructure.

As mentioned earlier, the revenue receipts in Punjab registered a very low growth rate during the 1980s. The average rate of growth of revenue in Punjab was just about 12.7 per cent. This again is mainly due to the slow growth of the State's own revenues, which on an average increased at only 12.6 per cent per year during the decade as against the growth rate of nominal SDP of 13.5 per cent. The growth rate of revenues recorded in Punjab was the lowest among all the high income States and it was also lower than the average growth rates in low and middle income States. What is more, the growth of the State's own revenues showed a distinct deceleration from 14.8 per cent in the latter part of the Seventies to 12.6 per cent during the Eighties.

The slow growth of revenues was particularly marked in the case of non-tax revenues. The recorded average annual growth rate during the Eighties at 8.3 per cent was only marginally higher than the inflation rate and, therefore, the non-tax revenues in real terms have been virtually stagnant. What is more, the annual rate of growth has shown a deceleration from 12.6 per cent during the second half of the Seventies to 8.3 per cent during the Eighties. Stagnancy in non-tax revenues clearly indicates the failure of the State government to realise reasonable returns from the past investments in public enterprises by way of interest receipts and dividends and levying user charges on various social and economic services. Studies have shown that implicit budgetary subsidies defined in the sense of unrecovered costs from providing social and economic services in Punjab in 1987-88 aggregated to Rs.1182 crore or 11 per cent of the SDP and these have shown an increase at the rate of 16 per cent per year during the preceding decade.[1] Unless the State gets adequate returns from the past investments in public enterprises and various departmental schemes as also recover sizeable proportion of costs of services rendered to various groups, it would not be possible to provide satisfactory levels of public services in the future. Phasing out and proper targeting of implicit budgetary subsidies must receive emphasis in any serious attempt at restoring fiscal balance in the State.

It is ironical that when the tax revenues in the major States taken together increased at about 15 per cent per year during the Eighties, the growth rate in Punjab was distinctly lower at 13.7 per cent. In fact, in all other high income States the growth of tax revenue was close to 16 per cent per year and even the low income States registered a growth rate of about 15 per cent per year (Table 3). It is also disturbing to see significant deceleration in the rate of growth of tax revenues in the State. As compared to the State's own growth performance of taxes in the Seventies (15.6 per cent), the growth rate during the Eighties was lower by about two percentage points.

The slow growth of tax revenues, by itself, can not be taken as an indicator of the poor tax performance of the State. In fact, it may be perfectly legitimate to expect the tax revenues to grow at low rates if the level of taxes paid by the people in relation to their incomes is already high. Even if the percentage of tax revenue to SDP

1. It must be noted that this includes unrecovered costs of all social and economic services including education (including elementary education), public health and water supply (both rural and urban). If elementary education and public health are excluded from the calculation, the subsidy works out to about seven per cent of SDP in 1987-88. See, Rao, M.G. and Mundle Sudipto, An Analysis of Changes in State Government Subsidies: 1977-87 in Amaresh Bagchi, J.L. Bajaj and William Byrd (Eds), *State Finances in India,* Vikas Publishing House, 1992.

Table 3

Growth of Revenue Receipts in Punjab and Other High Income States (1981-82 to 1990-91)

(Per cent per year)

Items		Gujarat	Haryana	Mahara-shtra	*Punjab*	All High Income States	All Middle Income States	All Low Income States	All Major States
I.	States' Own Tax Revenues	15.8	15.8	15.6	*13.7*	15.4	15.3	14.8	14.8
II.	States' Own Non-Tax Revenues	13.0	15.8	14.3	*8.3*	13.8	*	*	*
III.	Total States' Own Revenues	15.3	15.8	15.2	*12.6*	15.0	14.3	14.3	14.1
IV.	Total Central Transfers	9.3	8.2	14.6	*13.1*	12.7	15.0	16.1	15.2
	a. Statutory Transfers	5.6	13.5	14.0	*13.7*	12.0	*	*	*
	b. Plan Transfers	16.1	12.7	16.3	*11.9*	15.3	*	*	*
V.	Total Revenues	14.0	14.7	15.1	*12.7*	14.5	14.5	15.1	14.5

Note: * Not Estimated.

Source: Budget Documents of the State Governments.

Table 4

Growth of Revenue Receipts in Punjab

(Per cent per year)

		Growth rates		
		1975-82	1982-91#	1975-91
I.	States' Own Tax Revenues	15.6	13.8	14.6
II.	States' Own Non-Tax Revenues	12.6	8.3	10.1
III.	Total States' Own Revenues	14.8	12.7	13.5
IV.	Total Central Transfers	13.6	13.0	13.3
	a. Statutory Transfers	10.8	13.7	12.5
	b. Plan Transfers	20.9	11.3	15.2
V.	Total Revenues	14.5	12.8	13.5

Note: # Estimated on the basis of a kinked exponential model.

Source: Budget Documents of the State Governments.

is taken as an indicator, *albeit* a crude one, of the tax effort of the State, the performance of Punjab was not very satisfactory. The percentage in the State in 1989-90 was the lowest among the high income States (Table 5). What is more, the percentage has shown only a marginal increase of 0.4 point from 8.2 per cent in 1981-82 to 8.6 per cent in 1989-90.

The relatively low level of taxes in the State mentioned above is indicative of the dismal revenue performance for two other reasons. First, the per capita income in the State was the highest among all the States and yet, the tax ratio in the State was lower than in Gujarat by 1.4 percentage points and in Haryana and Maharashtra by over one percentage point. Second, given the predominance of income from agriculture in the State which is not subject to personal income taxation, the per capita disposable income in Punjab was higher than in other States by a greater magnitude than what is indicated by differences in per capita incomes. Thus, in terms of both the level of taxes raised and its growth rate over time, the performance of Punjab has left much to be desired. This also indicates the large scope for raising revenues in the short and medium term to reach at least the levels achieved by other high income States in terms of tax ratios.

The low growth of revenues does not create any serious fiscal problem if the rate of growth of revenue expenditures also remains low. However, in contrast to the relative stagnancy of revenue receipts, revenue expenditures have shown fast increases during the Eighties. The total revenue expenditures in the State which on an average increased at only 14.6 per cent during the latter half of the Seventies, accelerated to over 17 per cent per year during the Eighties (Table 6). It is also seen that the growth of revenue expenditures in Punjab during the 1980s was the highest even among all the high income States (Table 7). In fact, the growth of revenue expenditures would have been still higher, if the moratorium on significant amounts of interest payable on special Central loans had not been given by the Central government. It is also seen that fast increase in 'law and order' related expenditures does not entirely explain this phenomenon. Very high increases were seen also in other administrative expenditures. Given the constraint on resources, the fast increase in revenue expenditures has had the effect of crowding out capital expenditures. In consequence, the growth of capital expenditures decelerated from 18.2 per cent in the latter half of the Seventies to a mere 13.6 per cent during the Eighties.

A major consequence of fast increases in non-developmental expenditures within the revenue account has been to crowd out expenditure on the maintenance of capital assets and to reduce Plan outlay. It is seen that the growth of expenditures on economic services, a large part of which forms maintenance expenditures on public

Table 5

Share of Revenue Receipts in SDP in Punjab and other High Income States

(Per cent)

		Gujarat		Haryana		Maharashtra		Punjab		All High Income States	
		1981-82	1989-90	1981-82	1989-90	1981-82	1989-90	1981-82	1989-90	1981-82	1989-90
I.	States' Own Tax Revenues	8.0	10.0	8.3	9.1	8.2	9.7	8.2	8.6	8.2	9.5
II.	States' Own Non-Tax Revenues	2.3	3.7	3.9	4.4	3.0	3.4	2.2	1.7	2.8	3.4
III.	Total States' Own Revenues	10.3	13.7	12.3	13.5	11.1	13.1	10.4	10.3	10.9	2.8
IV.	Total Central Transfers	3.8	2.9	3.1	2.5	2.9	3.4	2.6	2.3	3.1	3.0
a.	Statutory Transfers	2.6	2.0	2.0	1.6	2.2	2.5	1.8	1.7	2.2	2.1
b.	Plan Transfers	1.2	0.9	1.0	0.9	0.7	1.0	0.8	0.6	0.9	0.9
V.	Total Revenues	14.1	16.6	15.3	16.0	14.1	16.5	13.0	12.6	14.0	15.9

Note: $ Estimated Financial Year Population.
Figures for 1989-90 are quick estimates.

Source: As in Table 1.

works, road and irrigation works was just about 14.8 per cent. It was also mentioned earlier that the deficit in the non-Plan revenue account during the Seventh plan period accounted for 21.5 per cent of the Plan resources. During 1992-93, the drain on this account alone in absolute terms was Rs.787 crore.

The sizeable drain in budgetary resources belies the hope for having a reasonable Plan size and, therefore, it is important to decelerate the growth of non-Plan expenditures. The State government, in consultation with the Planning Commission, is contemplating a Plan size of Rs.5000 crore for the three year period, 1993-96.

However, even after strict economy measures are taken the resource assessment indicates a total BCR of Rs.(-)1270 crore for these three years. Therefore, financing a Plan of this size is extremely difficult unless a strict control over the non-Plan revenue expenditure is exercised. The State government is considering an action plan to decelerate the growth of non-Plan expenditure to eight per cent, seven per cent and six per cent, respectively, in the next three years. This will, however, have to be brought about carefully to ensure that only the non-productive expenditures are reduced.

In an interdependent fiscal system where States' fiscal operations are significantly influenced by the fiscal policy at the Central level, the task of restoring fiscal balance at the State level cannot be easily achieved. The high rate of inflation, particularly at the time of structural adjustment programme, results in disproportionate growth of expenditures over revenue receipts and widens the fiscal imbalance further. The programme also envisages reduction in fiscal deficit and an easy option for the Central government to reduce fiscal deficit is to decelerate transfers to States, particularly on the Plan account.[2] This would reduce the availability of resources for developmental outlay. The rationalisation of saving incentives in the Income tax Act has also significantly reduced small saving loans. In addition, the Centre's own profligacy in giving liberal benefits to its employees, like increase in emoluments, bonus, leave travel concession and subsidised accommodation, housing and vehicle loans has led to State government employees demanding and obtaining similar benefits. Although the Austerity Committee appointed by the NDC did recommend withdrawal and discontinuation of a number of these perquisites, the reluctance of the Central government in accepting these recommendations and take a lead in cutting down these unproductive expenditures has created difficulties for the States in initiating these measures. Nevertheless, Punjab, with its precarious fiscal position cannot avoid initiating such unpleasant measures any more and therefore will have to adopt effective strategies to cut down expenditure on non-productive items.

It must also be mentioned that to a large extent, the fiscal imbalance problem in Punjab is the result of the past legacy. The reluctance to undertake tax and non-tax measures to raise additional resources during the long period of President's rule was an important cause of low growth of revenues. Similarly, fast increases in law and order related expenditures have indeed escalated the fiscal problem. What is, however, a

2. This is because statutory transfers are given on the recommendation of the Finance Commission and, therefore, cannot be reduced.It may be noted that the increases in aggregate gross Central transfers (shared taxes, grants and loans) to States in 1991-92 and 1992-93 were only 6.7 per cent and 8.2 per cent, respectively.

matter of concern is that even at stagnant tax rates the revenues ought to have been higher for, given the all-State average elasticity of 1.1, the growth of SDP at 13.5 per cent should have generated the growth of tax revenues at 14.9 per cent per year on an average. Besides, administrative expenditures other than on law and order related categories increased at 20 per cent per year. Clearly, these are indicative of the laxity in fiscal management in the State during the last decade.

It is seen that if the past trends in revenues and expenditures continue, the revenue deficit in 1995-96 would be about Rs.2000 crore. Such a situation will surely be unsustainable. As it is, in 1992-93 the required Central assistance is more than the Plan outlay itself by over Rs.200 crore. The State has already received Central assistance of Rs.811 crore (Rs.211 Plan assistance plus Rs.600 crore special loans) and an additional Rs.516 crore is required to finance the outlay of Rs.1150 crore. In addition, the moratorium on interest payments and loan repayments amounted to Rs.611 crore. Unless corrective measures are taken, the situation will deteriorate further by 1995-96 and sizeable amounts of Central assistance would be needed to fill the non-Plan revenue deficits. At a time when Central government itself is facing a severe fiscal problem, there is no reason to expect that the Centre will continue to extend such a generous support. It must be noted that no other State has received as much financial support as Punjab has in the last few years. Unless immediate remedial measures are taken, this will lead the State into a cumulative cycle of self-propelling unproductive expenditure growth and the Plan outlay of Rs 5,000 crore during the three years, 1993-96 cannot be realised.

The latest estimates available indicate that revenue deficit in Punjab in 1992-93 would be Rs.1182 crore. After adjusting for the moratorium on interest on special loans payable to the Centre amounting to Rs.386 crore, the revenue deficit works out to about Rs.800 crore. If this has to be phased out, say, in three years (by 1995-96), expenditures will have to be virtually frozen if the revenues grow at the trend rate. Alternatively, if the trend in revenue expenditure continues, the State's own revenues would have to increase at the rate of 32 per cent per year which is impracticable. The State government is adopting an action plan to decelerate the growth of non-Plan expenditures to eight per cent, seven per cent and six per cent in the next three years. Even so, the task of phasing out revenue deficit appears to be formidable. Assuming that Central transfers will continue to increase at 15 per cent per year, and Plan revenue expenditures will increase only at 10 per cent per year, the revenue deficit can be phased out in 1995-96 only, if the State's own revenue receipts increase at the rate of 23.4 per cent per year, which is, by no means an easy task. It is therefore necessary to adopt certain immediate measures to enhance revenues, cut down unproductive spending and eliminate subsidies to public enterprises. At the same time, long term measures to impart greater buoyancy to the tax and non-tax revenues and to decelerate Government spending on non-productive activities should also be undertaken.

The broad strategy of fiscal reform in Punjab should therefore consist of (i) compression in public expenditures; (ii) cost-effectiveness in the delivery of public services; (iii) public enterprise reform (including privatisation) to eliminate budgetary subsidies through economic pricing and improving their efficiency of operation and to limit the operation of pubic enterprises to core areas; (iv) augmentation of non-tax revenues through user charges and higher returns on investment; and (v) reform of the tax system to make it growth oriented and growth responsive. In this report, some specific immediate measures needed to restore fiscal balance in the State both in the short as well as medium term context will be discussed. Chapter II will analyse the trends in revenue expenditures and suggest some remedial measures needed to decelerate its growth. Chapter III will identify the causes of slow growth of non-tax revenues from public enterprises and other departmental receipts and recommend corrective measures. The examination of the State's tax system and the reforms needed will be detailed in Chapter IV and concluding observations will be made in Chapter V.

Chapter II

Compression of Government Expenditure in Punjab

a. Growth of Government Expenditure - Salient Features: We have already alluded to the fact that the growth of revenue expenditure in Punjab was the highest among the high income States. With revenue expenditure exceeding revenue receipts by almost Rs.1200 crore, and the rate of growth of expenditures exceeding the rate of growth of revenue receipts on an average by 4.6 percentage points every year, the State has reached a stage of self propelling and explosive growth of unproductive expenditures through the growth in interest payments as well as wages and salaries. It is, therefore, not surprising to see that the growth of revenue expenditures has accelerated from 14.6 per cent during the latter half of the Seventies to over 17.5 per cent during the Eighties (Table 6).

The disaggregaged analysis of the growth and composition of expenditure presented in Tables 6 to 8 clearly brings out the important disconcerting features. First, given the overall constraint on resources, the fast growth of revenue expenditures has tended to cut into capital outlay. Thus, the acceleration in revenue expenditure growth from the latter half of the Seventies to the Eighties is clearly associated with the deceleration in the growth of capital outlay from over 18 per cent to less than 12 per cent. In fact, direct capital expenditure by the Government on creation of capital assets during the Eighties declined at the rate of 27 per cent per year, and the overall growth of 12 per cent was mainly due to the growth of capital transfers at 14 per cent per year. It must be noted that a sizeable proportion of capital transfers comprises loans given to public enterprises to meet cash losses which do not read any capital formation. Second, even within revenue expenditures, spending on economic services has increased at the lowest rate; and this is indicative of the inadequate provision made to maintain physical assets like roads and bridges and irrigation works. The deceleration in capital outlay and inadequate provision for maintenance expenditures would certainly have adverse implications on the infrastructural availability and growth prospects in the State.

What is worrisome is that the increasing requirements to finance 'law and order' related expenditures, given the overall financial constraints, have come about by displacing expenditures having high social returns for the economy and not by pruning

Table 6

Growth of Expenditure in Punjab

(Per cent per year)

	1975-82#	1982-91#	1975-91
I. Revenue Expenditure*			
1. Administrative Services	14.2	20.3	17.7
of which			
Justice,Jails and Police	14.0	20.1	17.6
2. Interest Payment	18.5	17.5	17.9
3. Social Services	13.5	17.7	15.9
4. Economic Services	15.1	14.1	14.5
5. Total Revenue Expenditure	14.6	17.1	16.1
of which Plan Expenditure	11.5	19.3	16.0
II. Capital Expenditure			
1. Direct Capital Expenditure	7.6	-28.7	-15.6
2. Capital Transfers	18.7	16.5	17.4
3. Total Capital Outlay	18.2	13.6	15.5
III. Total Expenditure	15.6	16.1	15.9

Note: * Total Revenue Expenditure does not include the following items:
1. Appropriation for Reduction and Avoidance of Debt.
2. State lotteries are netted in revenues.

Estimated by employing the kinked exponential model.

Source: Budget Documents.

Table 7

Growth of Revenue Expenditure in Punjab and other High Income States (1981-82 to 1990-91)

(Per cent per year)

	Gujarat	Haryana	Maharas-htra	Punjab	All High Income States
I. Revenue Expenditure					
1. Administrative Services of which	17.5	17.2	15.7	19.7	16.4
Justice,Jails and Police	15.3	16.7	14.9	19.7	16.1
2. Interest Payment	24.6	21.3	24.3	16.7	22.7
3. Social Services	15.7	18.0	16.8	17.9	17.4
4. Economic Services	16.8	13.4	15.5	14.8	16.0
5. Total Revenue Expenditure	17.2	16.5	16.7	17.3	17.2
of which Plan Expenditure	18.5	16.3	19.7	19.7	19.5
II. Capital Expenditure					
1. Direct Capital Expenditure	9.8	0.9	10.8	-27.1	7.9
2. Capital Transfers	10.4	11.7	4.8	14.1	9.9
3. Total Capital Outlay	10.1	6.2	8.1	11.9	9.0
III. Total Expenditure	15.5	14.0	14.9	15.7	15.3

Source: Budget Documents.

Table 8

Level and Composition of Expenditure

	Gujarat		Haryana		Maharashtra		Punjab		All High Income States	
	1981-82	1989-90	1981-82	1989-90	1981-82	1989-90	1981-82	1989-90	1981-82	1989-90
I. Per Capita (Rs.)										
A. Revenue Expenditure										
1. Administrative Services	50	146	52	158	116	306	63	227	84	238
of which										
Justice,Jails and Police	21	56	22	65	22	58	27	103	23	64
2. Interest Payment	24	118	35	132	23	100	44	120	27	111
3. Social Services	124	379	122	385	121	367	142	440	125	382
4. Economic Services	113	335	159	352	88	278	115	243	105	296
5. Total Revenue Expenditure	311	978	368	1027	348	1052	364	1030	342	1027
of which Plan Expenditure	55	155	73	234	23	118	47	133	40	142
B. Capital Expenditure										
1. Direct Capital Expenditure	69	127	87	85	62	133	68	116	67	124
2. Capital Transfers	56	100	44	121	47	71	97	259	56	108
3. Total Capital Outlay	125	227	132	206	109	204	165	374	123	233
C. Total Expenditure	436	1206	500	1233	456	1256	529	1404	465	1259
II. Share of SDP (Per cent)										
A. Revenue Expenditure										
1. Administrative Services	2.1	2.7	1.9	2.5	4.3	5.1	2.0	3.1	3.2	3.9
of which										
Justice,Jails and Police	0.9	1.0	0.8	1.0	0.8	1.0	0.9	1.4	0.8	1.1
2. Interest Payment	1.0	2.2	1.3	2.1	0.9	1.7	1.4	1.6	1.0	1.8
3. Social Services	5.2	7.0	4.5	6.0	4.5	6.1	4.6	6.0	4.7	6.3
4. Economic Services	4.7	6.2	5.9	5.5	3.3	4.6	3.7	3.3	4.0	4.9
5. Total Revenue Expenditure	12.9	18.0	13.7	16.0	12.9	17.5	11.7	14.1	12.8	16.9
of which Plan Expenditure	2.3	2.8	2.7	3.7	0.9	2.0	1.5	1.8	1.5	2.3
B. Capital Expenditure										
1. Direct Capital Expenditure	2.9	2.3	3.2	1.3	2.3	2.2	2.2	1.6	2.5	2.0
2. Capital Transfers	2.3	1.8	1.7	1.9	1.7	1.2	3.1	3.5	2.1	1.8
3. Total Capital Outlay	5.2	4.2	4.9	3.2	4.0	3.4	5.3	5.1	4.6	3.8
C. Total Expenditure	18.1	22.2	18.6	19.2	17.0	20.8	17.0	19.2	17.4	20.7

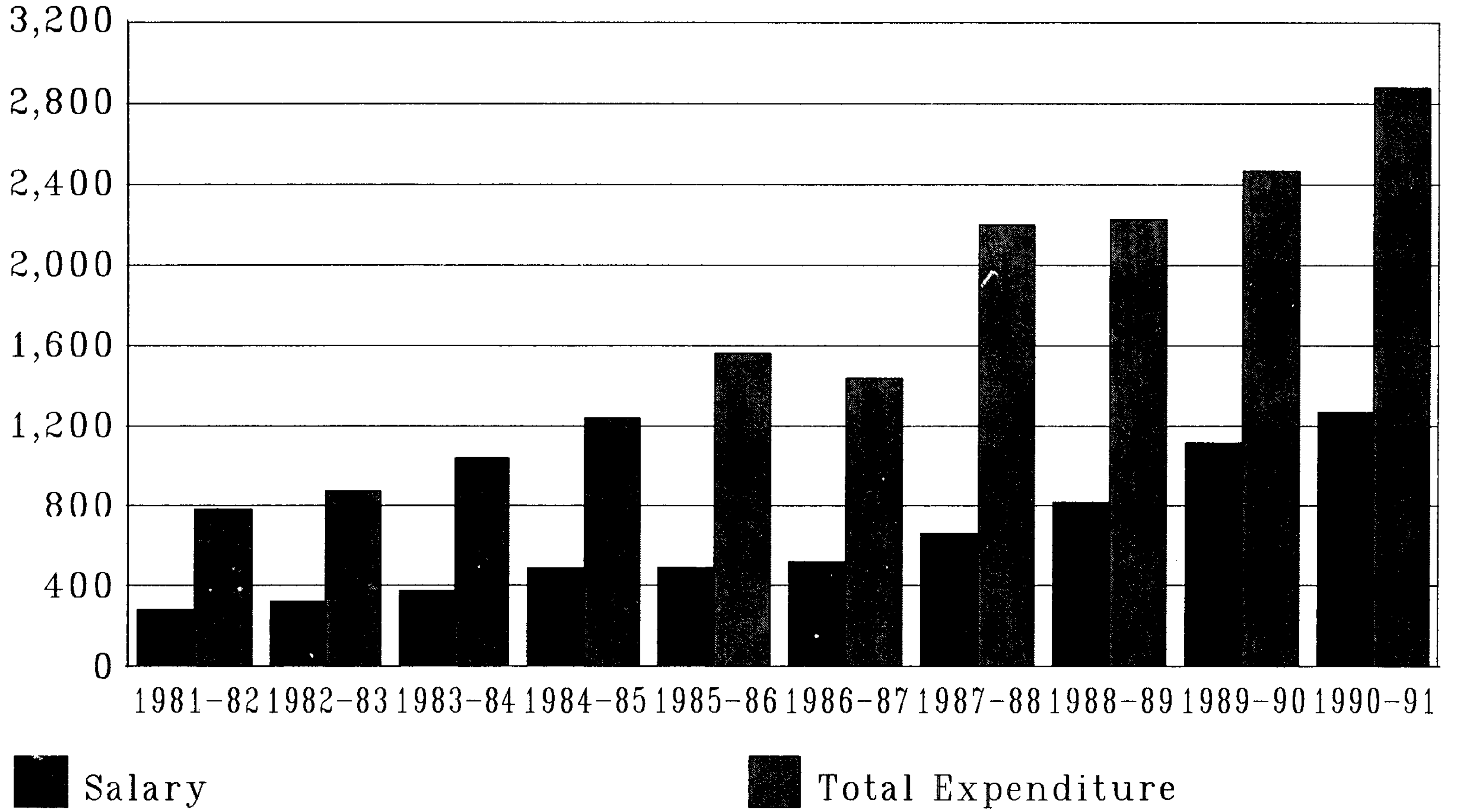
unproductive administrative expenditures. The expenditures on Justice, Jails and Police did increase at close to 20 per cent per year on the average during the Eighties and the increase in expenditures on Police department alone was about 22 per cent. This, however, does not mean that the growth of administrative expenditures could not have been slowed down. Instead, administrative expenditures increased at about 20 per cent per year. Thus, along with law and order related expenditures which as a proportion of SDP increased from 0.9 per cent in 1981-82 to 1.4 per cent in 1989-90, the share of administrative expenditures too increased from 1.1 per cent to 1.7 per cent during the period (Table 8). It must also be noted that the growth rate of interest payments in the State was much lower than in other high income States due to the periodic moratorium on interest payments on special loans given by the Central government. In consequence, the interest payments in Punjab increased at only 16.7 per cent, whereas in other high income States, the growth of this item ranged from 21 to 25 per cent annually. In spite of this, the State's direct capital spending declined even in absolute terms at a very high rate of 27 per cent per year on the average.

It is clear from the above that the generally held impression about the difficult law and order situation being primarily responsible for the fiscal problems in the State is, at best, only partially true. A more important source of fiscal crisis is the unabated increase in other non-productive items of expenditure. In fact, even the moratorium on interest payments on special loans from the Centre, instead of inducing fiscal correction, has only fuelled acceleration in these expenditures.

A clear evidence of the above phenomenon is the spectacular increase in the remuneration to bureaucracy in the State. The total expenditure on wages, salaries and pensions increased by about 4.7 times in a decade from Rs.279 crore in 1981-82 to Rs.1313 crore in 1991-92, at the rate of 17.6 per cent per year (See Chart 3). During the same period, as the net Government employment on the average increased at the rate of 2.4 per cent annually, increase in the emoluments per employee worked out to 15.2 per cent in nominal terms and almost seven per cent in real terms. In contrast, the per capita income in the State, at constant prices, increased at only 3.5 per cent. Clearly, increase in the payments to employees at rates much higher than the increase in the productivity in the State is unsustainable. In fact, compensation to employees in 1992-93 forms over 58 per cent of the total revenue expenditures excluding interest payments.

Graph 3

Salary Growth of State Govt. Employees (Rs. Crore)



It is important to note that the salary levels in respect of a number of Government employees in Punjab are higher than those of the comparable Central government employees. In respect of some categories, the level is higher by almost 20 per cent. Consequently, dearness allowance, house rent allowance and other allowances given as a percentage of the basic pay are also higher. What is equally disturbing is that the Pay Commissions appointed at frequent intervals routinely enhance salary levels. In the last 13 years, the pay scales have been revised twice; once in 1979-80 and then again in 1988-89. Every time the scales are revised, the benefits of fixation and automatic grade promotions accrue, and over time, salary differentials for the existing employees become even larger than the differential that would exist for fresh recruits. In fact, the recommendations of the Third Pay Commission appointed by the State government implemented from 1988-89 have been one of the major factors responsible for this outcome. The Commission did recommend pay scales higher than comparable Central government employees in the case of certain categories. The subsequent clamour for parities and differences among the categories *inter-se* has only added to enhance the differential. The problem is compounded by having increments as a percentage of the basic salary rather than a lump sum increase in the scales. In addition, the Government has been spending large amounts by way of bonus to employees, leave travel concession and difficult area allowance. Clearly, there is no case for paying the State government employees at rates higher than those applicable to the comparable Central government employees at a time when the State government has to depend upon the Central government for special loans to finance its developmental outlay. Giving annual increments as a percentage of the basic pay too does not seem to have a rationale. Central government assistance meant for developmental outlay should not be used for paying higher pay and allowances to employees. Nor does it carry any conviction among the taxpayers when they realise that the tax revenue collected from them is utilised to enrich an organised and articulate group, namely, Government employees constituting a small proportion of the population.

As mentioned earlier, one reason for the increase in expenditure on wages and salaries is the increase in employment. The aggregate net employment in the Government increased annually at the rate of 2.4 per cent and as the retirement rate during the Eighties was about 2.8 per cent, the increase in gross Government employment was 5.2 per cent. The rate of increase in the net employment in Class I and Class II (and Class III Gazetted) categories was 4.2 per cent and 6.1 per cent, respectively, and Class IV and contingent employees too increased at the rate of 3.2 per cent and 2.8 per cent, respectively.[3] The growth of police personnel was much higher at

3. Growth rates of different categories of employees pertain to the period from 1981 to 1988 as comparable data are available only upto 1988.

over seven per cent per year. Unless effective steps are taken to engage these personnel in productive activities once peace and normalcy is restored, the existence of a large police force itself may create insurmountable social tensions. It must also be noted that increase in gross employment in the State government sector by over five per cent per year has enormous welfare cost. The opportunity cost of employing a large bureaucracy is not merely the forgone developmental outlay equivalent to salary payments; the Government employees also appropriate a sizeable volume of additional resources like office space, equipment, stationery, telephones and transport. In addition, the existence of a large bureaucracy in itself is a serious impediment to fast and effective decision making.

The Government is very well aware of these issues and a Cabinet sub-committee with the Chief Minister as the Chairman and the Finance Minister as the Convenor has charted out a four-point action plan to contain the Government expenditure growth, namely, (i) across the board 10 per cent cut in non-Plan expenditure, (ii) no *ad hoc* commitments without Cabinet approval, (iii) freezing of employment and redeployment of the identified surplus staff in departments and public enterprises; and (iv) partially replacing the existing system of recruitment with contractual or part time staff.

There are two basic problems with the above scheme. Although these are well intentioned, even when these are strictly adhered to, cost-effective use of resources is not ensured. Across the board, 10 per cent cut will not necessarily result in pruning expenditures on items beneficial to vested interests, but will probably only result in cutting socially productive items like spending on maintenance of roads, buildings and other assets. Similarly, inclusion of public enterprises in the plan to redeploy the surplus staff will only transfer the prevailing losses of public enterprises to the budget proper. Appointment of contractual and part time staff too may not be the solution to the problem in view of the court judgements to absorb such employees on a permanent basis when they complete 240 days as casual employees.

The success of reform measures will depend critically on the political will to enforce them. It is necessary to show clear signals that the Government is keen to reduce unproductive spending. Unfortunately, some of the recent decisions do not give such an indication. The decision to enhance the perquisities, salary and allowances of the members of the legislative assembly and ministers, various concessions on social security, education relief and resettlement and waiving of loans given to scheduled castes and tribes are the cases in point. Similarly, at a time when the State is facing an acute financial crisis, the Government should go slow in creating new districts or building a Vidhan Parishad.

Nevertheless, the decision to decelerate the growth of non-Plan expenditures to eight per cent, seven per cent and six per cent, respectively, in the next three years is extremely important. However, while implementing the plan, it is necessary to ensure that only non-productive items of expenditure are compressed. Generally, due to constraints on resources, eagerness to have large Plans and difficulties in cutting down other items of spending attempts at compressing expenditures have led to the displacement of maintenance expenditures. Productive use of the existing capital stock created by the Government is possible only when adequate financial provision is made for its maintenance. As maintenance expenditure is classified as 'non-Plan' and this item is unlikely to appreciably benefit any of the important interest groups, the temptation is to reduce the allocation to maintenance. Given the developmental nature of the outlay, it may be desirable to classify the maintenance expenditures on irrigation works, public works and roads under 'Plan'.

The Committee of Secretaries, under the Chairmanship of the Chief Secretary, in its report submitted to the sub-committee of the Council of Ministers, has identified a number of economy measures to achieve fiscal correction. These include measures for economy in Government expenditures, administrative reforms as well as additional resource mobilisation avenues. As regards expenditures, the Committee has identified the activities and branches of various departments which could be closed down, has recommended the introduction of a single file system between various Directorates and the Secretariat and has suggested various other measures to achieve cost effectiveness. Winding up certain branches of the Secretariat in the Department of Industries, keeping the Plan schemes down to the minimum and phasing out the subsidies in the Agricultural department, and non-filling of vacant posts after review in the Co-operation department, various administrative reforms to revamp Housing, Urban and Education departments are some of the suggestions made by the Committee. This is a useful initial exercise and the Committee should do further work in identifying specific areas and activities where economy can be effected. To help the Committee with techincal expertise the Cell under Secretary, Evaluation should be strengthened.

On the basis of the analysis of expenditure growth detailed above, it is necessary that decelerating payments to Government employees should be an important component of expenditure compression. Some specific measures in the short and medium term that may be taken to contain outlay on wages and salaries are:

(i) There should be a total ban on new recruitment for the next three years. This ban should also apply to police personnel. The vacant posts should not be filled; as about 2.8 per cent of the employees retire every year, this measure will result in the saving of about Rs.40 crore in 1993-94, Rs.85 crore in 1994-95 and Rs.150 crore in 1995-96. Given the strong complementarity of wages and salaries with the expenditure on goods and services, the total saving from the 'freeze' on employment would be about Rs 60 crore in 1993-94, and in 1995-96, it would be over Rs.225 crore. Even after 1995-96, there is no reason to increase employment in the Government unless there is an urgent need for doing so and recruitments may be made to fill vacant posts, if found necessary. As already suggested, after a detailed review, the employees found surplus in certain departments should be redeployed to fill 'essential' posts. There should be strict adherence to this economy measure and under no circumstance should fresh recruitments be made till 1995-96. The ban on new recruitment should also be applied to taking people on part time or casual basis. Certain services may be contracted out to avoid fresh recruitment. But if there are employees already appointed for the purpose, they should be redeployed.

(ii) In the case of the Police department, it is important to economise expenditures while maintaining and improving the effectiveness of the service rendered. This would require that the technology available with the Police department would have to be upgraded while reducing the personnel, particularly at lower levels. In fact, the Police department itself can find ways of exercising economy. The Police department may be asked to submit an action plan for technological upgradation keeping in view the envisaged limit on the growth of non-Plan expenditures of eight per cent, seven per cent and six per cent in the next three years.

(iii) A frequently employed method of overcoming restriction on new recruitment at the State level has been to employ people under various Plan schemes. Determining the size of the Plan at a high level, when it is not supported by adequate resources has been a major factor causing overall fiscal deterioration in Punjab as in other States. The larger the Plan size, the larger gets the number of new projects taken under it and, therefore, the higher is the employment created under these schemes. It would be advisable for the Government to determine the Plan size on the basis of resources available and confine planning to the core sector in order to ensure more satisfactory levels of social and economic infrastructure. Instead of taking up more and more schemes under the Plan, it would be cost-effective to provide adequate funds to consolidate and complete the existing schemes. Even if some new schemes have to be taken up, recruitment for these schemes should not be made and the vacancies should be filled only with the redeployable staff, if necessary, after proper retraining. It is also necessary to carefully review the Centrally sponsored schemes and discontinue those with low priority and redeploy the surplus staff in them. In short, there should be no recruitment for Plan schemes except perhaps, for new schools and hospitals.

(iv) We have already emphasised the fact that the salary levels of Government employees in Punjab are higher than even those of the comparable Central government employees. It is therefore necessary that in the medium term effort should be made to align the State's salary scales with Central pay scales. The present fiscal condition of the State does not justify giving higher pay scales than the Central pay scales to its employees. It would be necessary to bring about parity with Central scales in the course of the next three to five years through appropriate administrative measures. Once parity with Central pay scales is brought in, the practice of having periodic Pay Commissions at the State level must be given up and the State should simply follow the Central pay scales. This, in addition to rationalising the pay structure of the State government employees will also avoid pressures being put on the Government by different groups of employees. In achieving this rationalisation, the Government would have to prepare the ground and educate the public at large about the resource cost involved in overprotecting the interests of a few Government servants at the cost of the common man.

(v) In the short term, it is necessary to do away with some of the perquisites given to the employees. A time of such a precarious fiscal position is not appropriate for initiating the practice of paying bonus to employees. Discontinuation of bonus to Government employees would save Rs.30 crore a year. Similarly, suspending leave travel concession will save another Rs.10 crore. Also, at the present juncture, there is no reason why an additional expenditure of Rs.12 crore should be incurred on paying 'Difficult Area Allowance'.[4] This allowance may be cut down in stages as

4. Additional allowance payable to employees stationed in border areas.

the situation improves. These measures were also among those suggested in the Report of the Austerity Committee of the NDC chaired by the Chief Minister of Orissa.

(vi) Another significant and fast increasing item of expenditure is on staff cars and petroleum, oil and lubricants (POL). Year after year, there appears to have been a tremendous growth in the staff car fleet and the consumption of POL items even when the prices of petroleum products have shown a steep rise. The 1992-93 budget, for example, made a provision of Rs.18.5 crore for the POL products, of which, the requirement of the Police department alone was close to Rs.17 crore. The latest estimates indicate that an additional provision of over Rs.15 crore had to be made. Thus, altogether, the spending on POL items in 1992-93 is estimated at about Rs.34 crore. While a part of the increase may be attributable to the increase in POL prices, almost 85 per cent increase in the expenditure on the items over the budget estimates is indeed worrisome.

While we are aware of the problems created on account of disturbances in the State and the need for flexibility in the use of vehicles particularly by the agencies maintaining law and order, it is necessary to ensure that this does not encourage the misuse of the facility. Apart from the excess consumption of petrol, the system has also encouraged the appointment of an army of drivers and excessive overtime payments. In addition, we understand that the kilometre norm per litre of petrol prescribed in Punjab is lower than the usual norm. Adequate checks must be brought in to ensure that the staff car facility is not misused and the kilometreage norm should be fixed on realistic basis.

(vii) Although a good part of the expenditures on POL items is due to the difficult law and order situation, it is unlikely that when normalcy is restored, the expenditure will automatically decline as much as it has risen. It may be difficult to get rid of the established practices. Innovative approaches are necessary to reduce expenditure on this item, particularly in the case of the Police department. Here it should be possible to require the police officers on duty to drive the vehicles themselves rather than having drivers for the purpose. In other cases, generally, hiring of taxis would work out cheaper than maintaining vehicles. It should also be possible to give a lump sum vehicle allowance to the senior officials who are entitled to use the staff car to go to work at present, and ask them to use their personal vehicles. Also, a large proportion of the existing staff cars may simply be given to the drivers as compensation for leaving their jobs, to be run as taxis with an understanding that these taxis will be hired on a priority basis by the Government as and when required. This would reduce both employment in the Government and expenditure on conveyance. This scheme of retirement and compensation should be so worked out as to make it viable as well as attractive. The Government should only have a skeleton fleet.

(viii) There are a number of activities for which budgetary support can be considerably reduced by privatisation. Maintenance and upkeep of State highways and bridges, for example, can be handed over to private parties who can recover the cost by levying tolls on the passing vehicles at prescribed rates. The norms on the quality of maintenance can be specified and the toll rates may be fixed by the Government. Similarly, many of the services may be contracted out and the Government itself does not have to undertake them. Each department can draw a list of such activities and based on this, the Committee of Secretaries can make recommendations to the Government.

(ix) Cutting down various types of subsidies and transfers which do not benefit the poorer sections is another important method of effecting economy. We will examine the explicit and implicit subsidies in greater detail in our final report. Even without going into the details, it is possible to suggest that there should be a detailed review of various subsidies and transfers as also of many of the Centrally sponsored schemes. Subsidies given for land reclamation and social conservation and transfers made to various voluntary agencies need to be examined in detail and those found not absolutely necessary, should be discontinued. Rationalisation may also be needed in the grants given to urban local bodies. It would be necessary to decentralise the functions and to improve the finances of the local bodies through the levy of user charges at economic rates and by making property tax a lucrative source of revenue.

Chapter III

Returns from Public Enterprises and other Non-tax Revenues

A major reason for the slow growth of revenue receipts in the State is the virtual stagnancy in non-tax revenues in real terms. During the decade of the Eighties, the non-tax revenues in Punjab increased at a little over 8 per cent per year in nominal terms. This is very much lower than the average growth in high income States (14 per cent) as well as the average for all the major States taken together (12 per cent). As a proportion of State domestic product (SDP), the non-tax revenues declined from 2.2 per cent in 1981-82 to 1.7 per cent in 1989-90.

A major reason for the stagnancy in non-tax revenues is the inadequate cost recoveries from the social and economic services provided by the Government. A detailed analysis showed that budgetary subsidies arising from the uneconomic pricing of the public services provided directly by the Government as well as through public enterprises for the year 1987-88 constituted Rs.1182 crore or 11 per cent of the SDP.[5] Of this, the subsidy on account of economic services was 55 per cent and on social services, 45 per cent. Cost recovery rates in respect of every major service provided in the State were not only low but also have shown a decline over the decade from 1977-78 to 1987-88. In the case of economic services, the recovery rate was less than 19 per cent. Even the commercial sectors such as irrigation, power and transport could recover their costs to the extent of only about 18 per cent, 6 per cent and 49 per cent, respectively. In respect of social services only about 2.2 per cent of the cost could be recovered and even on items like higher education, the recovery rate was just about 3.5 per cent.[6]

While the policy of subsidising certain public services is socially desirable, it is necessary to ensure that these are properly targeted to reach the intended groups and the distortionary effects of such subsidisation are minimised. Adequate cost recoveries from important commercial sectors of the Government, therefore, assume enormous importance, particularly in the context of excess demand for and the declining quality

5. If elementary education and public health are excluded, the volume of subsidy works out to Rs.750 crore or seven per cent of the SDP.

6. For details, see Rao, M.G. and Mundle, Sudipto (1992), "An Analysis of Changes in Subsidies at the State Level" in Amaresh Bagchi, J.L. Bajaj and William Byrd (Ed), *State Finances in India,* Vikas Publishing House, 1991.

of public services. This, however, calls for not only improvement in productivity in the provision of public services by the Government as well as public enterprises, but also economic pricing of these goods and services.

a. Public Enterprises: There are 25 Government corporations in addition to State Electricity Board (SEB) and PEPSU Road Transport Corporation (PRTC). Unfortunately, up-to-date information relating to the State run public enterprises in Punjab is not available as many of these enterprises are yet to finalise their accounts for recent years. From the sketchy information assembled by us, it is seen that the total investment by the State government by way of equity and loan in the 25 Government companies and corporations as on 31.3.1991 amounted to about Rs.240 crore. In addition, the State government's investment in SEB was Rs.3725 crore and in PRTC Rs.130 crore (Rs.89 crore equity and Rs.41 crore loans). Thus, the total State government investment in public enterprises by way of equity and loan amounted to about Rs.4100 crore, but their contribution to the exchequer by way of interest payment and dividend was only about Rs.15 crore. While generating profits and paying high returns on investments in itself may not be the primary objective of public enterprises, it is necessary to understand the causes of low returns and examine whether the subsidy implicit in the operation of government enterprises accrues to the intended groups. In the following, we make some analysis of SEB, PRTC and other public enterprises run by the State government.

b. Punjab State Electricity Board: Punjab State Electricity Board, by March 31, 1991, had a total capital investment of Rs.4649 crore of which the State government's contribution was Rs.3724 crore or 80 per cent.[7] This massive investment generated a rate of return of (-)21.6 per cent in 1991-92. Even after the revision of power tariff in November, 1992, the financial situation of the Board continues to be a cause for concern. The revenues are expected to fall short of operating expenses by almost Rs.106 crore, and after depreciation (Rs.167 crore) and interest payable (Rs.326 crore), the loss is expected to be close to Rs 600 crore. As the situation has continued to worsen year after year, the Board has not only not been able to

7. This is the figure quoted in the Accountant General's Report. However, according to the information supplied by the Bureau of Public Enterprises, the total investment was Rs.3345 crore of which the State government's contribution was Rs.2663 crore or 80 per cent.

Table 9

Selected Performance Indicators of State Electricity Boards, 1991-92

Sl. No.	Board	Plant load factor (per cent)	Employees per million kwh electrcity sold*	Auxiliary consumption (per cent)	T&D Loss (per cent)	Fuel Consumption Rate/Kwh Coal (kg)	Fuel Consumption Rate/Kwh Oil (ML)	Average revenue (ps/u sold)	Average rate for agri/irri (ps/u sold)	Share of Sale for agri/irri (per cent)	Unit Operating cost (paise/kwh)	Rate of Return (per cent)	Debt-service ratio (per cent)
1.	Andhra Pradesh	62.10	4.5	10.0	19.0	0.77	2.60	91.18	2.10	36.7	91.07	2.62	1.06
2.	Assam	24.70	15.0	n.a.	20.0	0.62	63.46	93.12	50.00	1.8	302.66	-39.69	-0.97
3.	Bihar	21.30	7.6	11.7	21.5	0.85	30.20	99.19	10.24	27.0	173.47	-28.10	-1.25
4.	Gujarat	57.00	2.5	10.6	21.4	0.63	9.20	81.45	16.00	33.8	126.51	-21.24	-0.60
5.	Haryana	45.90	6.7	11.5	23.5	0.74	12.57	90.28	25.00	44.8	123.26	-21.95	-0.26
6.	Himachal Pradesh	n.a.	7.1	n.a.	20.1	n.a.	n.a.	73.00	25.00	2.0	112.26	-20.75	0.46
7.	Jammu & Kashmir	n.a.	13.5	n.a.	45.0	n.a.	n.a.	39.0	n.a.	n.a.	176.88	n.a.	-4.27
8.	Karnataka	59.10	3.5	10.0	18.9	0.79	2.00	85.90	4.16	37.3	83.73	-10.41	1.17
9.	Kerala	n.a.	5.6	n.a.	20.0	n.a.	n.a.	56.25	22.0	3.9	69.03	-15.73	0.62
10.	Madhya Pradesh	49.10	6.0	9.6	22.7	0.79	14.26	92.54	14.94	16.3	115.69	-8.03	0.81
11.	Maharashtara	61.30	3.8	10.0	15.4	0.76	7.09	109.11	15.00	22.8	118.85	-4.04	0.94
12.	Meghalaya	n.a.	15.4	n.a.	12.2	n.a.	n.a.	70.60	28.30	0.4	160.29	-38.29	0.30
13.	Orissa	30.20	7.2	10.0	23.0	0.85	11.50	78.52	34.00	7.8	81.89	-0.90	0.95
14.	Punjab	52.80	5.4	8.5	18.6	0.68	5.17	59.45	9.04	42.5	105.30	-21.57	-0.76
15.	Rajasthan	66.30	7.2	10.0	22.0	0.73	14.00	96.77	31.24	31.1	117.18	-5.44	-0.75
16.	Tamil Nadu	55.40	5.8	10.0	18.3	0.76	4.26	90.02	n.a.	21.4	125.60	-16.44	1.05
17.	Uttar Pradesh	44.40	5.1	10.7	24.0	0.81	5.41	79.58	28.08	38.6	123.03	-20.22	-0.17
18.	West Bengal	130.70	7.9	10.3	21.0	0.61	10.56	118.41	24.01	7.8	154.54	-30.22	0.41
	All States	50.60	5.2	9.9	20.7	0.74	9.31	85.66	15.79	27.9	119.15	-14.17	0.46

Note: * = Relates to 1990-91
n.a. = Not Available

Source: *Annual Report of the Working of State Electricity Boards and Electricity Departments*; Planning Commission, *August, 1992.*

make any contribution to the general budget by way of interest payments but even the loans meant to make further investments had to be utilised to meet its cash losses.

Our analysis shows that some of the major performance parameters of PSEB, particularly the plant load factor, auxiliary consumption, transmission and distribution losses, fuel consumption per Kwh of energy generated, number of employees per Kwh of electricity sold and even the operating cost per unit of energy sold cannot be considered very unsatisfactory in comparison with all-State averages (Table 9). Yet, the Board makes huge losses for which the reasons have to be found in the structure of the tariffs. This is not to imply that further scope for improving physical productivity in terms of enhancing the plant load factor, increasing employee productivity and reducing fuel consumption does not exist. The Electricity Boards in a number of States like Andhra Pradesh, Gujarat, Karnataka, Maharashtra and Tamil Nadu have shown better performance in terms of many of these indicators and surely, the PSEB can improve its productivity. In fact, even the information on transmission and distribution losses cannot be considered very authentic as a part of these losses could have been misclassified as agricultural consumption. Nevertheless, significant improvements in productivity in the short run are unlikely, and even if some improvements in these parameters are achieved, the losses cannot be brought down significantly unless the tariff structure is rationalised.

The underpricing of electricity in the State is clearly brought out in the cost-revenue comparisons. It is seen that while the cost of electricity sold in 1992-93 was Rs.1.14/Kwh, the average revenue from the sale of energy was much lower at 60 paise, which implies a loss of 54 paise for every unit of energy sold.

A more disaggregated analysis of the tariffs carried out and presented in Table 10 shows that the average price of electricity sold in Punjab is lower than the average cost in the case of domestic, agricultural, low tension and power intensive industrial consumption. Even the power sold outside the State is below its cost, by almost 20 per cent.

The State government, being aware of the problem, has revised the tariffs with effect from 1.11.1992 in respect of commercial, industrial and agricultural consumption. However, even with the revised tariff, the total loss of the SEB in 1992-93 is expected to be Rs 600 crore. It is also seen that the revised average rate of tariff on agricultural consumption at 11.5 paise is not only much below the minimum rate agreed upon in the State Power Minister's conference (50 paise/unit), but even

Table 10

Consumer Categorywise Average Rate for sale of Electricity
1992-93 (Est)

(Paise/Kwh sold)

Sl. No.	Agency	Domestic	Commercial	Agriculture & irrgn.	Industries			Railway traction	Outside the State	Overall average rate	Operating unit cost
					Low tension	High tension	Power intensive				
	SEBs										
1.	Andhra Pradesh	74.95	155.00	2.10	119.12	166.13	154.88	164.77	8.00	105.07	102.24
2.	Assam	60.00	115.26	50.00	59.58	93.48	106.70	-	-	95.55	211.38
3.	Bihar	98.93	116.31	13.42	157.45	147.35	-	171.84	85.00	106.20	168.71
4.	Gujarat	72.76	72.76	16.00	124.75	128.03	-	120.89	81.27	92.96	127.94
5.	Haryana	75.00	158.00	25.00	146.00	126.00	126.00	-	91.00	91.42	129.47
6.	Himachal Pradesh	43.50	99.03	32.00	80.20	-	-	-	55.53	78.36	96.54
7.	Jammu & Kashmir	-	-	-	-	-	-	-	-	49.00	176.55
8.	Karnataka	86.09	213.78	4.16	152.91	124.86	-	-	-	78.00	97.07
9.	Kerala	69.20	110.93	31.29	85.33	82.40	77.79	-	-	75.21	75.44
10.	Madhya Pradesh	28.09	114.00	14.99	11.72	137.96	120.51	210.90	55.53	105.30	130.27
11.	Maharashtra	81.65	176.97	17.50	129.37	186.67	-	184.67	-	124.84	116.52
12.	Meghalaya	75.00	160.00	44.00	115.20	115.20	-	-	70.00	100.20	158.72
13.	Orissa	58.00	111.00	34.00	67.30	86.24	79.35	119.00	-	87.96	89.67
14.	Punjab	85.70	142.36	8.76	96.23	117.32	98.96	-	84.90	60.43	114.26
15.	Rajasthan	61.00	112.00	31.24	116.91	145.00	-	145.00	-	93.79	128.03
16.	Tamil Nadu	68.60	171.26	-	89.92	165.86	148.61	148.61	58.50	105.00	134.13
17.	Uttar Pradesh	72.77	116.29	30.01	136.25	-	-	142.11	25.00	82.29	126.21
18.	West Bengal	72.77	115.05	32.55	102.99	121.39	68.89	131.98	-	122.12	152.40

Source: As in Table 9.

Table 11

Electricity Tariff in Punjab and Other States

(Paise/Kwh)

Sl.No.	Category	Punjab	Haryana	All India
1.	Domestic	86	75	70
2.	Non-residential supply	155	172	156
3.	Small power	120	146	128
4.	Medium supply	135	146	143
5.	Large supply	150	166	161
6.	Power intensive units	165	181	165
7.	Agricultural			
	a) flat rate	Rs 25/BHP**		Rs 39/BHP
	b) Metered supply	30***	50	43

Note: ** Corresponds to 11.5 per unit.

*** Out of 6.3 lakh tubewell connections, only 3200 are provided with metered supply (42 per cent of total energy sold is being made available to agricultural sector).

Source: 1. Punjab State Electricity Board.
2. Annual Report on the Working of State Electricity Boards and Electricity Departments, Planning Commission, Govt. of India.

Table 12

Comparison of PSEB Industrial Tariff with Tariffs in Other States

(Paise/Unit)

S. No.	States	Small power	Medium supply	Large supply	Power intensive
1.	Andhra Pradesh	125	150	169	174
2.	Gujarat	102	135	141	146
3.	Haryana	146	146	166	181
4.	Madhya Pradesh	107	127	190	190
5.	Maharashtra	123	168	150	163
6.	Punjab	120	135	150	165
7.	Rajasthan	115	152	165	165
8.	Tamil Nadu	177	177	176	166
9.	Uttar Pradesh	180	191	185	221
10.	West Bengal	120	171	176	176
11.	All India Average	128	143	161	165

Source: Punjab State Electricity Board.

lower than the rate prevailing in the neighbouring State of Haryana (25 paise/unit). As about 42 per cent of the total consumption is reportedly utilised for agricultural purposes, the loss on account of underpricing in this sector alone works out to a staggering Rs.667 crore in 1992-93.

The problem with power supply to the agricultural sector is not just low pricing. Electricity to almost 99.5 per cent of the tubewells is provided at a flat rate of Rs.25/BHP and only 0.5 per cent of the tubewells have metered supply. In such a situation, it is not possible to properly account for the energy consumption by the agricultural sector and the theft of power even in other sectors can easily be misclassified as agricultural consumption. The low figures shown under 'transmission and distribution losses' in official documents may be partly due to this phenomenon. Besides, as is well known, a fixed charge leads to excess use of power.

The problem of low tariffs is not confined to the consumption of power in the agricultural sector. Even after the revision of industrial tariff, the rates for that sector in Punjab are lower than the average rates prevailing in the country and in a number of other States, most notably, the neighbouring State of Haryana (Tables 11 and 12). In the case of small industry power, the rates in Haryana are higher by over 20 per cent and in the case of medium and large industrial supply, the rates are again higher by eight and 10 per cent, respectively.

The analysis of the finances of SEB leads us to make a clear recommendation that significant financial improvement can be brought about only by enhancing the tariffs substantially. We are of the view that in respect of utilities like electricity, it is important to ensure regular and steady flow of energy and the consumer will be willing to pay an economic price so long as he is assured of satisfactory supply. This cannot be ensured unless substantial outlay is made for the proper maintenance of the existing plants and the creation of additional capacity for which resources have become a binding constraint. Considering these aspects, we are of the view that in the first instance, the State government should raise the tariff on agricultural consumption to 50 p/unit, the rate agreed upon in the Power Minister's Conference. On industrial consumption the rates should be enhanced to the levels prevailing in Haryana.

Our computation shows that raising agricultural tariff even to the levels prevailing in Haryana will reduce the loss of SEB in 1993-94 by over Rs.90 crore. If, as recommended by us, the rate is raised to 50 p/unit, then the reduction in the loss would be about Rs.266 crore. Similarly, increases in tariffs for industrial consumption to the levels prevailing in Haryana in 1993-94 will bring in additional revenues in the case of sales to small industries to the tune of Rs.19 crore, medium industries by over Rs.10 crore, large industries by Rs.73 crore and bulk supplies to power intensive units by Rs.11 crore (Table 13).

Although these revisions will enhance the gross operating surpluses to Rs.446 crore, the PSEB will still incur commercial loss amounting to Rs.130 crore (Table 14). This will have to be made up through steady improvement in productivity. A 10 per cent cost-saving by improving productivity can wipe out the loss altogether. Improvement in productivity can be achieved by enhancing the plant load factor from the present level of 52.8 per cent to 60 per cent and by reducing the number of employees per Kwh of electricity sold from 5.4 in 1990-91 to 4 per cent over the next three years. These parameters are achievable. In a number of States, the plant load

Table 13

Revenue Effect of Tariff Revision in Punjab

	Average Rates of Tariff (Paise/Unit)			Estimated ted Consumption lakh units*	Revenue Effect (Rs.crore)
	Haryana	Punjab	Differential		
Agriculture	25	11.5	13.5 38.5**	6921	93.43 266.45**
Small industry	146	120	26	718	18.70
Medium industry	146	135	11	959	10.50
Large industry	166	150	16	4565	73.00
Bulk supply-Power intensive	181	165	15	741	11.11

Note: * Estimated at 15 per cent higher than the estimated consumption in 1992-93.

** According to the minimum rate of tariff agreed (50 p/Kwh) in the Power Minister's Conference.

Source: Punjab State Electricity Board.

Table 14

Financial Position of State Electricity Board
After the Recommended Tariff Revision

(Rs Crore)

			1992-93	1993-94
1.	a.	Revenue receipts	1155.00	1428.00
	b.	Effect of tariff revision		379.76
	c.	Total revenue	1155.00	1807.76 (1428.00)
2.	Revenue expenditure		1261.00	1362.00
3.	Gross operating surplus		-106.00	445.76
4.	Depreciation		167.00	192.00
5.	Interest on loan from			
	(i)	Institutions	99.00	108.00
	(ii)	State government	340.00	426.00
	(iii)	Total	439.00	534.00
	(iv)	Less - interest on work in progress	113.00	150.00
6.	Total interest		326.00	384.00
7.	Total expenditure (2+4+6)		1753.00	1938.00
8.	Commercial loss		599.00	130.24 (510.00)

Note: Figures in brackets relate to the position without tariff revision.

factor is higher than 60 per cent, and the employees per Kwh of electricity sold in Gujarat (2.5), Karnataka (3.5) and Maharashtra (3.8) are appreciably lower than in Punjab (5.4).

It must be noted that all these computations are based on the official estimate which assumes that the unit cost of providing power will increase by only 4.5 per cent in 1993-94 over 1992-93.[8] If the general inflation rate is around 9 per cent, which is not an unrealistic assumption to make at the time of the structural adjustment programme, the cost increase would be higher. In addition, as there has been a relaxation in freight equalisation policy, the cost of transporting coal is likely to be higher and commensurately the losses would be larger.

8. The SEB's estimate of average unit cost in 1993-94 is 118.68 paise/unit as compared to 113.60 paise/unit.

It would therefore seem necessary to enhance the tariffs even in respect of other categories of consumption. Our own guess is that the cost increases would be approximately 12-15 per cent, and even if a part of this is absorbed by way of productivity gain, it would be necessary to increase the tariffs on domestic and commercial categories of consumers by about 10 per cent. As regards the sale outside the State, if the sale is effected at a time when there is excess demand, there is clearly no reason why at least the estimated unit cost should not be realised. Thus, there is a case for enhancing this rate by 25 per cent. The State should work out a mechanism to achieve this. The increases in the tariff rates for the categories mentioned in this para would be necessary merely to offset the cost increases not provided for in the estimates and therefore would not reduce commercial losses any more than the estimates presented earlier. However, failure to revise the rates on the suggested lines would enhance the losses approximately by Rs.45 to Rs.50 crore in 1993-94.

We must before closing our discussion on the State Electricity Board point out that supplying electricity for agricultural purpose at a flat rate is undesirable. Therefore, over a period of time, the system should be replaced with metered supply. First, the flat rate tends to make the marginal cost of energy 'zero'. As the prevailing price does not give a correct picture of the scarcity price, it tends to encourage uneconomic use of both energy and water. This also places the farmers with large land holdings at a more advantageous position than the small landholders. Besides, as it is not possible to accurately account for agricultural consumption, a substantial part of non-agricultural consumption can be misclassified under this category. Obtaining domestic connections in the name of agricultural use or even theft of power for industrial purposes misclassified as agricultural consumption may not be an uncommon practice.

c. Road Transport Undertaking and Corporation: Another major activity where the State government has made considerable investments is in passenger road transportation. The State government runs public transport both departmentally and through the Pepsu Road Transport Corporation (PRTC). The block capital in Punjab Roadways (PRW) was Rs.38 crore, whereas in PRTC it was Rs.104 crore. In terms of the fleet on the road, PRTC runs 30 per cent of the public sector passenger vehicles and Punjab Roadways has the remaining 70 per cent. In 1990-91, the two enterprises together accounted for 56 per cent of the permits and 65 per cent of the kilometreage (Table 15).

With the total gross block of over Rs.140 crore[9], the two public sector units

9. There appears to be some discrepancy between these figures and the Accountant General's figures.

together accounted for a net loss of Rs.36 crore (Table 16). As against this, the Ninth Finance Commission had stipulated that the transport undertakings should achieve a rate of return of 6.5 per cent by 1994-95 in a graduated manner and for 1990-91, it stipulated a rate of return of at least one per cent. After taking into account the taxes and depreciation the net loss of the two undertakings was Rs.36 crore in 1989-90.

What are the reasons for the poor financial performance of PRW and PRTC? In contrast to the situation in PSEB, the reason for this cannot be found in the low fare structure. In fact, our analysis shows that the gross rates of return in the two undertakings are reasonable, but show a sharp deterioration after taxes and depreciation are taken into account, as may be seen from Table 16. It is also seen that (Table 17) while the average fare per passenger kilometre in Punjab in 1991 was high at 16 paise, the net of tax fare retained by PRW and PRTC was relatively low at 11 paise. However, Haryana and Tamil Nadu even with lower net fares made profits. Thus, while heavy taxation could be a reason for the poor financial performance, it could not have been a serious limiting factor, particularly as compared to Haryana Roadways, which had heavier tax burden and lower net passenger fare.

Although the above analysis leads us to the conclusion that there may not be much scope for appreciable increase in the passenger fares, it suggests that two important issues must be considered in a rational fare structure. First, there must be better cooperation between the Transport and Taxation departments so as to have a coordinated structure of passenger fares and taxes. A system of compounding passenger taxes could simplify the administration and enforcement besides enhancing taxpayer compliance. But any rationalisation in this regard should be revenue neutral. There is a lot to be gained by having the compounded levy collected by a single agency along with the motor vehicle tax. These issues will be dealt with in detail in our final report. For the present, however, it is necessary to state that the fare structure evolved in the State should keep in view the passenger tax component also.

The second issue relating to rationalisation that we would like to emphasise is the need to adjust the fares from time to time to meet increased costs arising from inflation. To begin with, we are of the view that there is considerable scope for enhancing vehicle productivity and reducing the passenger kilometre cost. For example, vehicle productivity in Haryana is higher than in the two Undertakings in Punjab by over 25 per cent. In fact, the cost per bus kilometre in PSRTC is the highest among the undertakings compared. It is necessary that productivity norms should be specified for the two undertakings and a rational fare structure should be worked out at the break-even level of the undertaking run at a stipulated productivity level. Taking this as a bench mark, the Government could allow increases in fares to compensate for the cost increases from time to time.

Table 15

Passenger Transport Provided by Different Agencies in Punjab

	1975-76	1980-81	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91
1. Punjab Roadways								
(a) Permits held	1745	2329	2619	2633	2640	2717	2364	2633
(b) Daily kilometreage allotted	362545	448878	536658	521965	523837	551182	550647	574071
2. PEPSU Road Transport Corpn.								
(a) Permits held	800	1214	1324	1338	1285	1310	1309	1306
(b) Daily kilometreage allotted	174230	237828	277514	267272	267776	279377	280679	293828
3. Municipal Corporation Transport								
(a) Permits held	-	137	137	137	137	137	114	123
(b) Daily kilometreage allotted	-	26116	26116	26116	26116	26558	26558	26558
4. Private Operators								
(a) Permits held	1383	2219	2746	2825	2890	3112	2787	3016
(b) Daily kilometreage allotted	270610	343490	370265	386053	386323	430724	433276	435035
5. Total								
(a) Permits held	3928	5899	6826	6933	6952	7276	6524	7078
(b) Daily kilometreage allotted	805585	1056312	1210553	1201406	1204052	1287841	1291160	1329492

Source: *Statistical Abstract of Punjab,* 1991.

Table 16

Rate of Return on Block Capital (1989-90): Selected States

(Rs. Crore)

	State	Gross Block	Gross Profit	(3/2) (%)	Depre-ciation	Taxes	(3-6)	Net Profit (+)/ loss(-) (3-(5+6)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1.	Andhra Pradesh	565	164	29	89	71	93	4
2.	Haryana	113	84	74	9	69	15	6
3.	Orissa	64	2	3	2	2	0	-2
4.	Punjab Roadways	38	16	42	6	34	-18	-24
5.	PEPSU Road Transpt Corpn.	104	7	7	3	16	-9	-12
6.	Rajasthan	84	41	49	9	32	9	-
7.	Tamil Nadu	129	162	125	85	72	90	5
8.	Uttar Pradesh	302	87	29	42	50	37	-5
	ALL STATES	4049	1004	25	467	678	326	-141

Source: *A Study on the Performance of State Road Transport Undertakings*, Planning Commission, Government of India, 1991.

Table 17

Tax Element in Passenger Fares in 1991: Selected States

	State	Gross Fare@ (paise)	Share of State Govt		Share of SRTU	
			paise	per cent	paise	per cent
1.	Andhra Pradesh	13.62	1.50	11.0	12.12	89.0
2.	Haryana	16.80	6.30	37.5	1.50	62.5
3.	Orissa	14.00	1.96	14.0	12.04	86.0
4.	Punjab Roadways	16.00	4.96	31.0	11.04	69.0
5.	PEPSU Road Transpt Corpn.	16.00	4.96	31.0	11.04	69.0
6.	Rajasthan	17.75	3.73	21.0	14.02	79.0
7.	Tamil Nadu	10.50	1.05	10.0	9.45	90.0
8.	Uttar Pradesh	16.15	2.42	15.0	13.73	85.0

Note: @ Average weighted fare payable by a passenger.

Source: *A Study on the Performance of State Road Transport Undertakings*, Planning Commission, Government of India, 1991.

As the fare structure cannot explain the poor financial performance of PRW and PRTC, the explanation must lie either in unit cost or in capacity utilisation. Table 18 gives information on the operating ratio, cost per bus kilometre, vehicle productivity and the load factor. It can be seen that on all of the first three counts PRW and PRTC fare worse than their counterparts in Haryana, Tamil Nadu, Andhra Pradesh and Rajasthan. Uttar Pradesh and Orissa are better or worse depending on the indicator chosen. Load factor, which is the occupancy ratio in financial terms, is actually better in Punjab than in many other States. This implies that the demand factors, particularly the law and order problem, cannot explain the poor performance of PRW and PRTC. It thus seems clear that the cost factor and the relatively low vehicle productivity are the key reasons for the poor performance of State road transport undertakings in Punjab.

Which of the inputs causes the higher cost per bus is a pertinent question. This examination is particularly necessary because the figures in Table 16 are inclusive of depreciation and taxes, which can vary greatly across States and can make comparisons difficult. Table 19 indicates the breakup of the cost by various elements. It now becomes clear that the relatively heavy tax bill of PRW causes its cost per bus kilometre to be higher than that of its counterparts in Andhra Pradesh, Rajasthan and Tamil Nadu. In the case of PRTC, however, interest costs explain a large part of the difference. Notwithstanding all this, the physical and financial performances of PRW and PRTC do not compare favourably with Haryana Roadways, especially when we consider the fact that the routes covered by the three Undertakings are not dissimilar and that the burden of taxes is heavier on Haryana Roadways. The difference between them are mainly attributable to staff costs and costs of material inputs. Staff costs in Punjab are higher than in all other States except Rajasthan among the selected States, and between the two Undertakings in Punjab, in PRTC. Another striking difference between costs of Haryana Roadways on the one hand and of PRW and PRTC on the other, is the difference in fuel and other material input costs. Since driving conditions are more or less similar in the two States, the differences have to be attributed to overaged buses, technical inefficiency and/or pilferage.

A more important issue is the question of the extent of State government intervention desired in providing passenger transportation services. The usual rationale advanced for public supply of a good service is that it is a 'meritorious' service having social benefits larger than private benefits. But this argument can be applied to passenger transport in the case of Punjab only with many qualifications. It is generally

Table 18

Cost Indicators of State Road Transport Undertakings

	1985-86	1986-87	1987-88	1988-89	1989-90
1. Andhra Pradesh					
Operating Ratio (per cent)	71	71	67	70	74
Cost per bus km. (paise)	-	-	-	-	5.09
Vehicle Productivity (kms)	284	288	293	291	296
Load Factor (per cent)	76	76	73	74	76
2. Haryana					
Operating Ratio (per cent)	54	52	56	56	58
Cost per bus km. (paise)	-	-	-	-	5.44
Vehicle Productivity (kms)	291	299	305	304	304
Load Factor (per cent)	76	81	82	78	80
3. Orissa					
Operating Ratio (per cent)	110	84	85	90	88
Cost per bus km. (paise)	-	-	-	-	5.31
Vehicle Productivity (kms)	179	189	197	207	214
Load Factor (per cent)	71	67	70	70	72
4. Punjab Roadways					
Operating Ratio (per cent)	87	85	71	81	84
Cost per bus km. (paise)	-	-	-	-	5.31
Vehicle Productivity (kms)	225	223	237	235	251
Load Factor (per cent)	81	79	75	77	78
5. PEPSU Road Transport Corpn.					
Operating Ratio (per cent)	92	87	78	94	82
Cost per bus km. (paise)	-	-	-	-	6.77
Vehicle Productivity (kms)	211	204	223	223	244
Load Factor (per cent)	85	82	76	78	79
6. Rajasthan					
Operating Ratio (per cent)	65	67	68	71	74
Cost per bus km. (paise)	-	-	-	-	5.91
Vehicle Productivity (kms)	238	243	253	253	252
Load Factor (per cent)	70	71	70	72	76
7. Tamil Nadu					
Operating Ratio (per cent)	71	72	73	75	77
Cost per bus km. (paise)	-	-	-	-	4.70
Vehicle Productivity (kms)	311	322	33	346	330
Load Factor (per cent)	74	75	71	73	72
8. Uttar Pradesh					
Operating Ratio (per cent)	76	71	65	70	73
Cost per bus km. (paise)	-	-	-	-	5.39
Vehicle Productivity (kms)	169	190	209	219	222
Load Factor (per cent)	73	74	64	64	66
ALL STATES					
Operating Ratio (per cent)	75	74	71	75	77
Cost per bus km. (paise)	-	-	-	-	5.56
Vehicle Productivity (kms)	230	239	249	256	257
Load Factor (per cent)	73	74	72	73	74

Notes:

1. Cost per bus kilometre includes taxes and depreciation.
2. Vehicle productivity is defined as (revenue earning kilometres operated)/(average number of buses held * 365).
3. Load factor is defined as actual traffic earnings as percentage of estimated earnings at full capacity.

Source: As in Table 16.

accepted that private operators in the State can adequately provide the service and public intervention is really not necessary to ensure the service at desired levels. In fact, most of the routes are dense enough to be run profitably. PRW and PRTC, because of higher unit costs and inability to generate internal resources, actually limit the supply of the service. If some routes are indeed considered unprofitable from the private operators' point of view, only then is there a need for the government to either specifically subsidise such routes or run transportation on such routes at a loss. Of course, protection of commuters from the exploitative tendencies of private operators is an important objective; but running a public monopoly for the purpose only replaces the exploitation by private operators with that by a public enterprise. Regulation of the passenger fares and the number of trips to be taken on certain routes can be administratively done by the Transport department and for this purpose, precious resources of the State need not be wasted by way of covering losses in these Undertakings.

Two specific issues must be taken note of in this context. First, the issue is not whether the enterprise makes a profit or loss, but whether the Government should use its scarce organisational skills and resources in running enterprises rather than providing administrative, social and economic infrastructure. If private enterprise is able to provide the services within the prescribed regulatory framework, there is no need for public participation. However, it is important to emphasize the need for a proper regulatory framework. Further, to the extent that private enterprise finds it not very profitable to run on certain routes, the public sector may play a supplementary role to ensure the supply of the service at required levels or directly subsidise the private sector or give route permits jointly by mixing more profitable and less profitable routes as joint products. Nevertheless, reduction in the role of PRW and PRTC over a period of time in a phased manner is absolutely necessary.

The above suggestions would be worth adopting even if the two undertakings have been making profits but when they erode the resources of the State to the tune of Rs.36 crore per year, the case for reducing their role becomes even stronger.

It is thus clear that the role of PRW and PRTC in the provision of passenger transportation in Punjab should be drastically reduced over a period of time. This can be achieved by not replacing the overaged buses and not recruiting new employees into positions falling vacant, giving a bus along with the route permits to groups of employees and through such other administrative measures as are found appropriate. In our view, over the next five years, the role of PRW and PRTC should be brought down to 25 per cent of the allotted kilometreage. The public sector can be given the first

Table 19

Cost per Bus Kilometre on Different Components (1989-90): Selected States

(paise)

State	Total	Staff	Fuel	Tyres & Tubes	Other Mate-rials	Depre-ciation	Taxes	Interest	Misc. Expenses
1. Andhra Pradesh	5.09	2.03	0.84	0.37	0.32	0.65	0.52	0.18	0.18
2. Haryana	5.44	1.45	0.92	0.30	0.38	0.24	1.86	0.15	0.14
3. Orissa	5.31	1.64	1.00	0.33	0.43	0.46	0.53	0.71	0.21
4. Punjab Roadways	5.87	1.94	1.05	0.32	0.42	0.30	1.61	0.14	0.09
5. PEPSU RT Corporation	6.77	2.10	1.02	0.28	0.38	0.29	1.71	0.81	0.18
6. Rajasthan	5.91	2.31	0.97	0.36	0.42	0.31	1.14	0.22	0.18
7. Tamil Nadu	4.70	1.72	1.03	0.31	0.34	0.52	0.44	0.16	0.18
8. Uttar Pradesh	5.39	1.88	0.93	0.27	0.43	0.65	0.78	0.30	0.15
ALL STATES	5.56	2.05	0.98	0.36	0.34	0.55	0.80	0.26	0.22

Source: As in Table 16.

choice of routes including inter-State routes. There is, however, no case for giving monopolistic power to the public sector transport to run on any route. At the same time, the regulatory and supervisory system should be adequately strengthened to ensure that (i) the prescribed fare structure is strictly enforced; (ii) the private operators run the services as stipulated in the route permit; and (iii) there is no collusion or unhealthy competition in providing the service so that the commuters' interests are adequately protected. The decision to allow private operators to ply on 75 per cent of route kilometres is crucial and should not be reversed even if the PRW and PRTC make profits consequent on the recent hike in bus fares. The financial provision already made under the Plan for public sector transport can be diverted to various public promotional agencies to provide loans on concessional terms for the purchase of buses to run on privatised routes to deserving sections like Ex-servicemen, persons belonging to the Scheduled castes and tribes and surplus employees willing to take voluntary retirement.

Another important issue is the need to organise and operate PRW and PRTC on more efficient lines. With the reduced scale of operations, PRW can be merged with PRTC. The slimmer PRTC can run the fewer routes assigned to it. The PRTC must adhere to the norms relating to staff-bus ratio, kilometreage per bus and cost per bus kilometre. The remuneration to the staff must have built-in incentives for efficiency (e.g., a share in ticket sales, punctuality bonus, no-accident bonus). The system followed in Tamil Nadu can be introduced by letting the employees share in the profitability of the enterprise. Further, it must be ensured that the number of overaged buses do not cross a small percentage (say, 5 per cent). The other specific suggestions that may be considered by the Government are: (i) lumpsum payment made by police personnel to the PRW and PRTC in lieu of free bus travel needs to be enhanced adequately to take care of increase in costs. The present scale of payment is unduly low having been fixed long time ago; (ii) some workshops can be leased out or handed over to the cooperatives formed by the employees declared surplus. Such employees can be encouraged to take voluntary retirement and form cooperatives which can undertake maintenance work on a commercial basis. Similarly, as already mentioned, groups of employees taking voluntary retirement can be given the buses to be disposed of (overaged buses) as compensation subject to certain norm regarding the number of years of service left; (iii) the bus-stations can be leased out to private parties for maintenance with ceiling rates fixed on usage fees (Adda fees). Alternatively, business houses can be asked to look after the maintenance of bus stations in exchange for exclusive advertisement rights. In the latter case, it should not be necessary to levy the usage fees on the bus operators.

c. Other Non-Departmental Public Enterprises in Punjab: The State government's investment in other 25 public enterprises and their subsidiaries was about Rs.240 crore by the end of March, 1991. Of the 25 enterprises, seven made profits totalling Rs.9.74 crore and eleven made losses amounting to Rs.7.84 crore. The final position of the other enterprises cannot be determined as accounts for them have not been finalised. Although the interest due to the State government in 1990-91 on the loans given to these enterprises was close to Rs.40 crore, they actually paid only Rs.7.73 crore. The total amount of dividend paid to the State government was just about Rs.75 lakh. The accumulated losses in these enterprises amounted to about Rs.230 crore, whereas their total paid up capital was only about Rs.80 crore and the total capital invested (equity plus loan) was Rs.240 crore. The capital investment, profitability and accumulated losses of these enterprises are shown in Table 20.

The listing of the various enterprises shows that the State government has, in the name of fulfilling various social objectives, involved itself in numerous types of enterprises. While the State government surely has an important promotional role, it cannot and should not waste its limited skills and resources through incurring losses in producing private goods with no worthwhile externalities. The PUNSEED, for example, provides only five per cent of the seed requirement of farmers, yet makes huge losses year after year and has an accumulated loss 3.5 times its paid up capital.

The private sector which supplies 95 per cent of the seed requirements of farmers finds the business remunerative enough. Other examples of the State government providing private goods through its enterprises include investment in tanneries, footwear, consumer electronics, bio-medical equipment, hosiery and knitwear, production of films and running of hotels. The State government need not invest its resources in these activities even if they can make profits. Unfortunately, most of these activities make losses and remuneration received by the employees has nothing to do with the financial performance of these enterprises. Bonus is paid to the employees drawing a monthly salary of less than Rs.2000 irrespective of whether the enterprise makes profits or not. Even those drawing above Rs.2000 per month are given ex-gratia payment equivalent to 20 per cent of the profit. Also, the reported profits cannot be attributed to productive activities, for, there are instances of enterprises using the subsidised loans received from the State government for making deposits in commercial banks and show profits in their books through the interest rate differential.

Given the ground situation, mere disinvestment of equity of these enterprises will not solve the problem. Nothing short of total winding up of many of these enterprises can be an answer to the problem of resource erosion. The method of divesting should, however, be decided on a case by case basis. The enterprises providing goods and services with no externalities should be divested even if they are making profits. If the objective is to undertake some welfare activities, the intended beneficiaries could be organised into cooperatives and direct subsidy may be given to these cooperatives with an action plan to make them viable over time.

The State should create a renewal fund with a contribution to the seed capital. The sale proceeds of the enterprises should be put in the fund which should be used to provide compensation to displaced employees, retrain the employees and even to give loans for viable self-employment schemes of these employees. Under no circumstances should the State government arrange to absorb the displaced employees of these enterprises in the Government, for, that would only amount to internalising the losses in the budget.

There must be a complete ban on starting any new enterprises. We would like to specifically draw attention to the proposed "Hotel-cum-Convention Centre" in Chandigarh at the cost of Rs.16 crore of which Punjab Tourism Development Corporation is a promoter. Even after India Tourism Development Corporation has

Table 20

Financial Working of State Level Public Undertakings in Punjab in 1990-91

(Rs lakh)

Name of Enterprises	Equity Capital	Loan from Govt.	Loan from others	Profit before tax and interest	Profit after tax and interest	Interest due to govt.	Interest actually paid	Divid-end paid	Accum-ulated loss
I. Enterprises Making Losses									
a. Punjab State Seeds Corpn.	480.77	-	470.00	-236.54	-	-	-	-	1237.83
b. Punjab Land Development and Reclamation Corpn.	145.00	149.00	515.96	-	-	-	-	-	78.62
c. Punjab State Hosiery and Knitwear Corpn.	350.70	1.09	389.65	95.34	-	1.39	-	-	462.11
d. PUNWAC	361.32	-	-	-28.90	-	-	-	-	213.36
e. PWSSB (Water Supply and Sewerage Board)	658.33	13.33	3367.78	-45.06	-	-	-	-	2021.51
f. Punjab Films & News Corpn.	128.22	-	-	-14.63	-	-	-	-	166.84
g. Punjab Ex-Servicemen Corpn.	155.00	-	-	-9.65	-	-	-	-	38.47
h. Goindwal Ind. & Invest-ment Corpn.	327.45	122.39	-	-13.78	-	-	-	-	154.16
Sub-Total	*2606.79*	*283.81*	*4743.39*	*-443.90*	-	*1.39*	-	-	*4372.90*
II. Enterprises Making Profits									
a. Punjab State Warehousing Corpn.	400.00	2000.73	615.01	342.35	340.57	-	-	48.00	-
b. Punjab Financial Corpn.	973.93	1633.00	18048.14	63.04	32.50	-	-		23.10
c. PSIDC(Industrial Dev. Corpn.)	7822.50	1318.90	5124.08	353.56	310.96	-	-	-	
d. PSIEC	451.57	827.91	825.16	237.14	112.14	436.53	-	227.10	-
e. ELTOP	1317.78	102.20	5.94	27.14	11.14	-	-	-	-
f. Punjab Scheduled Caste Land Dev. & Financial Corpn.	2108.19	-	-	90.92	90.92	-	-	-	2.38
g. BACKFINCO	686.00	-	-	6.87	3.97	-	-	-	-
h. Punjab Agro-Ind.Corpn.	4666.36	295.25	-	301.64	166.64	12.25	11.18	-	-
i. Punjab Forest Dev.Corpn.	25.00	-	-	0.04	0.02	-	-		0.05
j. PUNSUP	373.00	125.00	16212.27	27.13	27.13	27.85	-	-	140.76
Sub-Total	*18824.33*	*6302.99*	*24618.33*	*1449.83*	*1095.94*	*476.63*	*11.18*	*75.10*	*166.29*
III. Enterprises for which Details not Available									
a. Punjab Housing Dev. Board	-	834.57	2382.23	96.51	96.51	95.48	-	-	-
b. Punjab State Leather Dev. Corpn.	366.90	-	300.00	-	-	-	-	-	117.27
c. Punjab Poultry Dev.Corpn.	308.99	-	-	-	77.84	77.84	-	-	156.99
d. Punjab Police Housing Corpn.	Neg.	-	-	-	-	-	-	-	21.81
e. PUNTEX	363.00	-	-		-	12.75	-	-	325.60
f. Punjab Tourism Dev. Corpn.	621.15	-	-	-	-	-	-	-	-
Sub-Total	*1660.04*	*834.57*	*2682.23*	*174.35*	*187.10*	*95.48*	-	-	*621.67*
Grand Total (I+II+III)	*23091.16*	*7241.37*	*32043.95*	*1180.28*	*1283.04*	*573.50*	*11.18*	*75.10*	*5160.86*

Note: Neg - Negligible.

Source: *Bureau of Public Enterprises*, Government of Punjab.

backed out by withdrawing its earlier commitment, the State government is vigorously pursuing the project. This surely is not a matter of priority to the State government to justify such a large outlay.

It is also necessary to stress that the scarce resources of the State government should not be fritted away in putting up luxurious buildings for various enterprises. Each public enterprise wants to have its own building and to furnish it lavishly. Already, a good deal of money is spent in furnishing the existing rented premises and when the new buildings are acquired, once again, huge additional expenditures are being incurred in furnishing them. Thus, capital expenditure meant for development work is spent on providing lavish office accommodation and furnishing it twice over.

d. Other Non-Tax Revenues: Uneconomic pricing of various services provided by the Government is another major reason for the stagnancy in non-tax revenues and proliferation of subsidies. It is very well recognised in the literature that subsidisation may be necessary to ensure that goods and services having a high degree of externalities and those considered socially desirable are provided in adequate quantities at affordable prices. Subsidisation in some cases may be needed because the commodity/service subsidised is mainly consumed by the poorer sections. But care should be taken to design the justifiable subsidies so as to ensure that they accrue only to the intended groups and do not result in significant resource distortions. However, as already noted, in Punjab, social services are provided virtually free and economic services, even those of commercial nature, are provided much below the cost. Such subsidisation cannot be claimed to serve the social objectives mentioned above.

The Committee of Secretaries under the chairmanship of the Chief Secretary has identified a number of areas in the departments of Transport, Local government, Irrigation, Education and Technical education where additional mobilisation of resources is feasible. These suggestions (Table 21) are important and the Government must consider implementing them. In respect of these Departments we have very little to add to what has been suggested. The only additional suggestion we would like to make is that, even in regard to medical services, in addition to a small entry fee, it should be possible to charge reasonable fees for services like pathology tests, X-rays and E.C.G. At present, in many of the States, the hospitals are unable to properly maintain the equipment due to paucity of funds and therefore, the patients have to run to private agencies to get these services at very high cost of time and money. If

Table 21

Non-Tax Revenue Measures Suggested by the Committee of Secretaries

Sl. No.	Department		Specific Item	Estimated Additional Revenue (Rs crore)
1.	Transport		Increase in licence and registration fees for motor vehicles	12.00
			Increase in bus fares	34.78
			Increase in 'Adda' fees	1.00
2.	Local government	a.	Increase in domestic water rates from 0.35 p/kl to Rs 1.35/kl	15.00
		b.	Imposition of a fire cess	2.00
3.	Irrigation	a.	Increase in canal water rates by 300 per cent	25.00
		b.	Increase in tubewell water rates by 100 per cent	1.50
4.	Technical education	a.	Increase of fees in a phased manner over five years to make the institutions self-sufficient. Students from yellow card families to pay fees at concessional rates. Involving financial institutions to provide assistance at concessional rates to meritorious students for yellow card families	
		b.	Cess on industry in Punjab for technical education	
		c.	Reduction in the extent of support to private polytechnics from the present level of 95 per cent.	
5.	Education	a.	All children except from yellow card families to pay a nominal fee of Rs.5.00 per month - to be used by Village Education Committee to provide amenities to the school.	
		b.	Children from 6th standard to pay reasonable fees. Fees in respect of State-aided schools would be deposited in the State exchequer.	
		c.	Universities to enhance fees in a phased manner in five years to reduce dependence on government grants.	
6.	Power	a.	Increase in power tariff for agriculture to 50 paise per unit	200.00
		b.	Increase in power tariff for industries to Rs 1.10 per cent	45.00
		c.	Increase in domestic tariff to a maximum of of Rs.1.10 per unit	44.00

adequate recoveries from the patients is made and the amount collected is earmarked for the maintenance of this equipment, both precious time and money can be saved for them.

Before we close discussion on this subject, we would like to emphasise the need to augment the resources by enhancing charges for canal and tubewell irrigation. We have already recommended increase in electricity tariff for agricultural consumption. In order to maintain parity on charges in respect of all sources of irrigation, canal and tubewell irrigation rates too should be increased appropriately. Besides, as of now, the water rates cover only about 25 per cent of maintenance expenditure on major and medium irrigation works. Even if the rates are revised to the levels prevailing in Haryana, it should be possible to raise an additional Rs.8 crore. This should be done immediately and over the next five years the rates should be increased so as to raise the entire resources required for the maintenance of irrigation works. Equally important is the need to increase fees on post-secondary, technical (including agricultural) and medical education.

Chapter IV

Tax Revenues

It was pointed out earlier that the performance of Punjab in raising tax revenues has not been impressive. Both the level of tax revenue raised and its growth over time indicate sizeable untapped potential for raising additional revenues. At 8.6 per cent of SDP, the State's own tax revenues in Punjab in 1989-90 was lower than the average for the high income States by almost one percentage point. It was also lower than the ratio in each of the high income States. The growth of tax revenue in the State has also been equally unimpressive. The average annual growth of tax revenues at 13.7 per cent in the Eighties compares poorly with the performances of other high income States where the growth rates were higher by almost two percentage points.

The disaggregated analysis of the growth of individual taxes helps us to identify the taxes on which emphasis has to be placed. Table 22 which presents average annual growth rates computed for the Seventies and the Eighties helps us to identify the taxes which have not shown the expected buoyancy. The growth of revenue from entertainment taxes not merely decelerated during the Eighties in comparison with the Seventies, but even declined in absolute terms at the rate of 6.3 per cent per year in the Eighties. Another item which showed a decline in revenue in absolute terms was the tax on agricultural land and incomes. A matter of grave concern, however, is the low growth of revenues from stamp duty and registration fees, sales taxes and taxes on motor vehicles and passengers and goods. At a time when in all the other States these taxes have increased at 15 to 16 per cent per year, the reason for the slower growth of revenues in Punjab certainly needs to be explored (Table 23).

It must be noted that both income and consumption levels in the State during the Eighties increased at rates faster than in the country as a whole and, therefore, the taxes on commodities and services as well as those on the transfer of property should have increased at higher than the observed rates in the other States. The reason for the low growth of these taxes, therefore, has to be found in the structure and operation of taxes. In this report we have not been able to analyse these taxes in detail for want of time and will examine them in our final report. In what follows, we will only make some tentative observations and suggestions for immediate implementation on the basis of the information actually available with us and its analysis.

Table 22

Growth of States' Own Tax Revenue in Punjab

(Per cent per year)

		1975-82#	1982-91#	1975-91
I.	States' Own Tax Revenue	15.6	13.8	14.6
	a. Land Revenue	5.0	-0.1	2.0
	b. Stamps & Registration Fees	13.4	11.4	12.2
	c. State Excise Duty	16.6	16.5	16.5
	d. Sales Tax	16.5	13.8	14.9
	e. Motor Vehicle Tax and Tax on Goods and Passengers	13.7	10.4	11.7
	f. Electricity Duty	17.8	16.9	17.3
	g. Entertainment Tax	10.7	-6.3	0.4

Estimated by employing the kinked exponential model.

The Committee of Secretaries has already examined the possible means of additional resource mobilisation in respect of various taxes. The specific proposals are listed in Table 24. They include reimposition of land revenue, increases in stamp duty and registration fees, the levy of toll tax, increase in the rates of passengers and goods tax, enhancement of octroi, introduction of property tax and imposition of toll tax on transport vehicles plying through Punjab along the lines of the tax imposed in Haryana.

While, in general, the suggested reform measures show the concern for raising resources, two observations must be made. First, while raising resources is important and necessary, economic objectives of minimising distortions and ensuring equity should not be ignored, and the State should not merely pursue its short-term gains ignoring the long-term costs. Second, raising the rates of taxes is not necessarily the best method of mobilising larger revenues. In many instances, the key to raising more revenues lies in improving administration and enforcement of taxes to minimise avoidance and evasion. This strategy, besides raising larger revenues, also promotes horizontal equity, or equal treatment of equals.

Table 23

Growth of States' Own Tax Revenue in Punjab and Other High Income States (1981-82 to 1990-91)

(Per cent per year)

	Gujarat	Haryana	Maharashtra	Punjab	High Income States
a. Agricultural Income Tax and Land Revenue	10.3	-20.4	14.1	-1.0	10.5
b. Stamps & Registration Fees	15.3	18.3	23.7	11.5	17.5
c. State Excise Duty	14.5	21.2	19.0	16.3	18.4
d. Sales Tax	16.9	15.6	14.8	13.4	15.2
e. Motor Vehicle Tax and Tax on Goods and passengers	14.8	11.7	16.6	10.0	14.3
f. Electricity Duty	15.7	9.2	19.9	18.9	18.0
g. Entertainment Tax	0.6	1.0	1.3	-6.7	0.9
Total Own Tax Revenue	15.8	15.8	15.5	13.7	15.3

The proposals made by the Committee of Secretaries have to be evaluated in the light of the above observations. In particular, we are of the view that enhancing the rates of octroi and the introduction of the toll tax are measures which would have serious undesirable consequences in the long-run while they may help raise resources in the short run. These measures cause immense resource distortions, and are inimical to the national interest and to the federal spirit. It is possible to raise the required revenues from less distorting taxes. In fact, not levying distortionary taxes itself is a major form of incentive to attract capital into the State. While exploring the methods of persuading and preventing other States from indulging in such practices is beyond the scope of this Report, we can only hope that the inter-State Council and the National Development Council will realise the gravity of the situation and take action to ensure that in the name of raising resources for planning, the States' policies will not stifle the investment climate and distort its pattern and distribution in the country.

With regard to specific taxes, as already mentioned, the yield of entertainment tax and land revenue showed a significant decline even in absolute terms during the last decade. The decline in the revenue from entertainment tax is a general problem

Table 24

Tax Measures Suggested by the Committee of Secretaries

(Rs Crore)

Sl. No.	Department	Nature of Levy	Amount
1.	Transport	a. Increase in goods tax	9.00
		b. Levy of lump-sum passenger tax on the basis of seating capacity	N.E.
2.	Local government	a. Increase in octroi rates by 10 per cent across the Board	22.00
		b. Replacement of house tax with property tax	25.00
3.	Revenue	a. Reimposition of land revenue on holdings presently enjoying exemption	10.00
		b. Amendment of Indian Stamp Act	1.00
		c. Increase in Stamp duty by suitable amount	N.E.
		d. Power of attorney instruments to be treated as instruments of property transfer	N.E.
4.	Excise and taxation	Toll tax on transport vehicles plying through Punjab	36.00

Note: NE = Not Estimated

faced by most State governments on account of the invasion of home videos, video parlours and cable and other satellite based transmission network. Methods have to be found to raise revenue from these sources. A beginning may be made by collecting taxes from video parlours and from agencies providing satellite T.V. connections at compounded rates. In fact, Maharashtra has already announced a tax on cable television operators and has passed the necessary Entertainment (Amendment) Ordinance and it is expected that the rate of entertainment tax on Cable TV would be anywhere between 40 to 100 per cent of the fee paid by the subscriber. Bihar has levied a similar tax recently. It would be worthwhile for Punjab to study these ordinances, pass the necessary enabling legislation and levy the tax to augment revenue from this source.

Another item of tax revenue which has shown a decline is the tax on agricultural land and incomes. Such a decline has been witnessed in other States as well and is mainly due to the decline in land revenues and the inability of the State governments to levy taxes on agricultural incomes. The Committee of Secretaries has already suggested that the rates of land revenue should be raised and the levy should be reimposed on holdings now enjoying exemption. This is an important suggestion and the Government should implement this. Reimposition of land revenue on exempted holdings is important not merely from the point of view of revenue; payment of land revenue is an affirmation of the ownership right of the landholder, and hence, the small landholders and those in the border areas who are at present exempted, would perhaps prefer to pay it so long as the rates are reasonable. Also, given that land revenue has shown a steady decline over the years, it may be worthwhile revising the rates by at least 25 per cent. Similarly, the cess on commercial crops should also be revised. One method of ensuring better compliance of land taxes is to levy the tax at the State level and allow the local bodies to collect the revenue and use it for creating infrastructural facilities. As there will be a clear nexus between the taxes paid and benefits received, the tax compliance will be better under such an arrangement.

In regard to taxes on vehicles, goods and passengers also, the major issue seems to be one of better administration and enforcement. While the upward revision of the tax rates on vehicles, goods and passengers is an easy option which would yield some benefits in the short run, improvement in the buoyancy of the tax over a longer term can come about only with a coordinated system of collecting these taxes. Compounding of the passengers and goods tax can help in collecting both motor vehicles tax and passengers and goods tax in a coordinated manner. Further, it is preferable that these taxes are collected by a single agency, which should also periodically undertake detailed checks to minimise evasion. Penalties in cases of detection of evasion and in cases of officials colluding with the transporters, should be heavy enough to be really a deterrent.

A major form of tax competition practised by the States is through giving liberal sales tax concessions for industrialistion. The new industrial policy in Punjab announced recently has substantially liberalised the concessions and, among the neighbouring States, the concessions given in Punjab are the most liberal. In fact, tax concession has become a vehicle for the manufacturers to set the States in competition and the States have fallen a prey to this negative sum game. A free and frank discussion among officials from various States would immediately expose the fact that industrialists first decide on the location independently of tax concessions, get another State to increase concessions by dangling the bait of large investment in that State, cite this example to the first State to obtain increased concessions there as well and ultimately lower their tax liabilities substantially without altering any of their original locational decisions. In any case, it would not be correct to think that by giving more liberal concessions, more industries can be attracted to the State. Instead, in our view, better infrastructure, stable and uninterrupted supply of electricity, streamlining of various clearances required and a congenial industrial relation environment are the preconditions every manufacturer seeks. Increased investment due to liberal sales tax concessions is a myth (more so in a State with last-point sales taxation) propagated by the industrialists to feather their own nests; in the few cases that the concessions work, the costs in terms of forgone tax revenue is invariably greater than any development brought about by the additional investment. Further, the administration of concessions where the tax is levied predominantly at the last point is by no means easy and opens up additional avenues of evasion as even the products of old industries may be disguised as those from the new units. Besides, in industries where there have been appreciable technological gains and improved productivity, giving concessions puts the older units in an unfavourable circumstance. In the case of industries with high value added per unit of capital, the advantages are much larger and after the concessional period is over, these units can simply close down and start afresh as new industries. Due to the unfavourable effect on the existing units and the relative advantages accruing to low capital-high value added industries, the liberal sales tax concession of the type granted in Punjab, while not significantly contributing to the industrialisation in the State, is likely to enhance the mortality rate of the existing industries besides eroding the sales tax base and distorting the resource allocation pattern. We will make a detailed study of these issues in our final report. For the present we suggest that Punjab should forge an understanding with at least the neighbouring States of Haryana and Rajasthan to have a commonly agreed package of incentives to avoid the "beggar-my-neighbour" policy.

Chapter V

Concluding Remarks

Reversing the prevailing trend in fiscal imbalance in Punjab calls for a serious effort at decelerating the growth of revenue expenditures and accelerating the rate of growth of revenue receipts. Reduction in expenditures should be achieved in such a manner that the standards of social and economic infrastructure provided are not reduced. Similarly, enhancing revenue growth should be accomplished in a rational manner by improving tax compliance and by charging prices for public services at economic rates.

Fiscal correction without effectively reducing the level of infrastructure expenditure and distorting the allocation of resources in the State requires proper planning. Such a planned fiscal correction can be recommended after a more detailed study of the revenues and expenditures, which is presently in progress In the final report we will present a medium term fiscal policy for the State to achieve the fiscal corrective. In particular, we will make a more detailed analysis of the implicit and explicit subsidies in the State and attempt to identify certain expenditure programmes which can be discontinued or decelerated. On the revenue side, in the final report, we will attempt a more detailed study of the structure and operation of sales tax, stamp duties and registration fees as well as motor vehicles and passenger goods taxes. The study will also analyse the cost and efficacy of fiscal incentives for industrialisation. The recommendations made in this Report are only in the nature of initial measures needed to achieve fiscal correction.

However, the problem of fiscal imbalance in the State is so severe that phasing out revenue deficits by 1995-96 presents a daunting task. If the present long-term trend in revenue receipts continues, the revenue expenditure has to be frozen altogether in the next three years. Alternatively, if the prevailing trend in expenditure continues, the revenue receipts would have to increase at more than 30 per cent per year during the next three years. In this context, the decision of the State government to allow only eight per cent, seven per cent and six per cent increases in non-Plan revenue expenditures in the next three years is indeed a significant measure of fiscal correction. However, even if this is achieved, the task of phasing out revenue deficits by 1995-96 is by no means easy. If the Central transfers are assumed to grow at 15 per cent per year and Plan revenue expenditures are assumed to increase at the rate of 10 per cent, revenue deficit can be eliminated in 1995-96 only if the State's own revenue receipts increase at the rate of 23.4 per cent per year. Achieving this order of growth is clearly difficult, and therefore, enormous effort is necessary to weed out less important programmes, and decelerate non-Plan expenditure growth.

We must state that the State government has been really concerned about the fiscal situation and has taken a number of important measures to contain expenditures and enhance revenues so that a Plan of reasonable size can be achieved. The recent attempts at revising tariffs on electricity tariff and bus fares and the adoption of certain other tax and non-tax revenue measures have helped to generate Rs.100 crore of additional revenues. We are told that computerisation of treasuries has helped the Finance Department of the State to monitor the finances continuously. As already mentioned, the State has also planned to contain non-Plan expenditure growth at eight per cent, seven per cent and six per cent, respectively, in the next three years and this should, if implemented effectively, go a long way in restoring the fiscal health of the State. Another notable achievement of the State has been its attempt at decentralisation. The successful holding of elections to the urban as well as rural local bodies and allocation of significant amount of Plan funds for District Planning would help in decentralised decision making and bring about development at the grass-roots level. The attempt at privatising the loss making public enterprises and containing budgetary support to them is a move in the right direction. Similarly, the State's attempt at mobilising resources for the Plan by increasing small saving collections and impounding dearness allowance of the Government employees must also be given its due credit. While the above measures are laudable, much more remains to be done and the State government would have to adopt measures that would bring about long-term gains.

The implementation of recommendations contained in this Report, however, should go a long way in bringing about fiscal correction. It may be noted that on the assumption of continuation of the present trends in revenue and expenditure, the revenue deficit in 1993-94 is expected to reach Rs.1300 crore. The recommendations made in this Report, if implemented, could reduce the deficit by more than 50 per cent. The ban on recruitment and abolition of perquisites would result in saving of about Rs.125 crore. The rationalisation of electricity tariff would enable the State Electricity Board to pay interest to the State government amounting to Rs.425 crore. Similarly, Road transport undertakings and other public enterprises would yield interest receipts of Rs.16 crore. Other non-tax revenue measures should yield an additional revenue of Rs.110 crore. Altogether, these measures would reduce the revenue deficit by Rs.675 crore. Other measures such as deceleration in the growth of non-Plan expenditure, elimination of identified subsidies and transfers, lower expenditure on transport and on POL items, divesting of loss making public enterprises, raising of higher fees and charges on public services would bring in additional savings.