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**A
THESIS ON
“PROBLEMS AND PROSPECTS OF
FISCAL BALANCE
IN GUJARAT”
[POST REFORM ANALYSIS]**

TO BE PRESENTED
TO
THE SAURASHTRA UNIVERSITY
FOR THE DEGREE
OF
DOCTOR OF PHILOSOPHY
IN
ECONOMICS
IN THE FACULTY OF ARTS

by
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2005

STATEMENT NO. – 1

C e r t i f i c a t e

I here by declare that the research work undertaken by me on the title “**PROBLEMS AND PROSPECTS OF FISCAL BALANCE IN GUJARAT [POST REFORM ANALYSIS]**” is based on the secondary data and it is my own work. I have not submitted such work previously to this University or other University for any other degree or diploma.

Place: Rajkot

Date: 04-4-2005

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STATEMENT NO. – 2

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This is to certify that the research work undertaken by **KANANI N. M.** on “**PROBLEMS AND PROSPECTS OF FISCAL BALANCE IN GUJARAT [POST REFORM ANALYSIS]**” is his own work. To the best of my knowledge he has not submitted such work previously to this or any other University for any other degree or diploma.

Place : Rajkot

Date : 04-4-2005

Name and Signature of Guide
Hathi Tushar R.

Acknowledgement

I pray to Almighty whose love and blessings have enabled me to complete this task.

I humbly remember my parents at this moment.

I express my sense of gratitude to my guide Dr. Tushar Hathi for his guidance at different stages of work.

My Pricipal Shri R. M. Fuletra has provided me encouragement and inspiration for this task. I acknowledge the same with great respect Pri. Shri T. T. Raiyani is also kind enough to have his all well wishes for my work.

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Althrough this task, My wife Darshana and my son Umang and deprived a little of the warmth and co operation . I heartily take note of their tolerance and cooperation.

ShreeShivam Computers has completed the typographic work neatly and accurately.

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Chapter – 1

Public Finance Concept and Overview

1.1 Introduction:

Public finance has attained greater importance under the new economic order in the earlier days. It was considered as dull, extremely limited and irrelevant discipline. Today it is known as one of the most exciting areas in political economy. It is also known as public sector economics or public economics.

In the history of economics it is found that the classical economist did not pay much attention to the public economics. Though Adam Smith provided broader and firm ground the study of public finance, he did not refer to unlimited power to the state. It was understood that Govt.'s intervention is necessary for law and order, apart from that no kind of Govt.'s intervention is required. Adam Smith in this regard believed that natural liberty require a frame work of security and legal rule which only Govt.'s could provide. Adam Smith did not discuss however Govt.'s necessities for market failure in general in detail. Ricardo and J.B. Say also largely subscribe to the view that, "The very best of all plans of finance is to spent little and the best of all taxes is that which is least in amount."

J.S. Mill tried to examine the proper scope of Govt., though in general he also said that absolute freedom should be the general practice but for some greater good Govt. intervention is necessary. He explained that govt. should intervene where individual are unable to evaluate the utility of certain products like elementary education for children. Secondly Govt. should intervene when because of lack of foresight, the individuals may enter into

contract, which are exploitative in nature and thirdly where there are chances of monopoly. Leading to conflicts of interest. In general basic infrastructure work is the core part where govt. should play its role.

Historically one finds clear difference in respect of public finance between the west European countries and British economy. In Britain it was generally found that the market should be accepted as the rule and public sectors as the expectation. While in a country like Germany, it was believed that public sector also be as important as the private sector. British economy is largely based on individual entitlements and free exchange. In respect of public finance much debate is also found regarding subjective value and social goods. This debate refers to the concept of social policy objective in fiscal affairs. Detailed literature is available in this regard from wicksell Jevons Pigon etc.

The fundamental changes have occurred in the field of public finance theory and policy since the Keynesian revolution. Even in those days no systematic and integrated theory of public finance appropriate for an under developed but developing economy was formulated. There were attempts being made to study the problems of public finance in underdeveloped countries. The fiscal division of the department of economic affairs of the UNO has undertaken both country-by-country and thematic studies. The USA had also dispatched several fiscal missions to many poor countries. It was because of all these efforts that the knowledge and understanding of the fiscal practices and problems of under developed countries have significantly increased. Since the end of Second World War, in the second half of the twentieth century, under developed also began to recommend the application of Keynesian tools in their own economy. It was believed that the objectives of fiscal policy are more or less the same in advanced and the

poor countries. In poor country the people in general aspire for regular and maximum flow, as development should move towards the poor groups. They also wish that let there should be economic stability to control inflammatory pressure and to reduce the extreme inequalities of wealth, income and consumption. Thus these areas are much more similar with the areas of developed economy. However this similarity in goals should not be regarded as the need for equal tools with equal approach to be applied. There is vast difference in cultural, legal and political environment between developed and under developed countries. There for to follow the same policy could not be effective solution to the problems. It is in this regard that leading economist advocate for separate policy measures in under developed countries. It is generally found that in most developing countries per capita income is very low to turn into cumulative. Therefore without public intervention market does not provide correct guidance. In order to strengthen the economy, ordinary public finance instruments like taxation; public expenditure and public borrowings are regarded more useful.

Public finance is also given due importance in under developed economy in respect of its key role for capital accumulation for the development of economy. Ragnar Nurkes throws light on the role of public finance in under developed economy with special reference to capital formation Richard Goode is also of the opinion that in an under developed country where it is determined to avoid both stagnation and inflation it would be necessary to find ways for raising large and growing amount of tax revenue.

It is largely found that there has been the rapid expansion of the public sector in recent times, and the emergence of fiscal crises during the 1980 have made public finance a greater subject of development challenge. The

world bank also clearly admits the fact that there has been growing awareness increasingly observed in both developed and under developed countries. Development economist considers the emergency of public sector as a natural and necessary part of development. It is termed as public interest view according to which Govt. are required intervention to foster development. In the World Bank report of 1988. It is clearly mentioned that market mechanism may produce insufficient growth as well as macro economic imbalances such as balance of payments deficits and unemployment. According to public interest view, these market failures need to be corrected by Govt. through public provision of goods and services, through public savings and investments and through taxes, subsidies and regulation.

Public intervention emerging out of public interest view has also led to some problems, which can be regarded as Govt. failures. It is experienced that the countries having more public intervention has led to slow growth, lagging private savings and investments high rates of inflation, huge balance of payment deficits, heavy debt burden and continued poverty and unemployment. However advocates of public interest view have expressed the opinion that these problems are not inevitable or irreversible. According to them policy and administrative reforms have been proposed to correct such Govt. failures.

The advocate of private interest view claim that there is inefficient public and private provision of goods and services, which has led to fiscal imbalances. These fiscal imbalances have placed difficulties in implementing effective stabilization and adjustment programs in developing countries from this it is concluded that there is a negative co-relation between economic growth and the share of Govt. spending in GDP.

The world bank has come forward in this regard with some concrete guide lines, according to the world bank a pragmatic view is one that considers the public & private interest view not as too opposing approaches but as complementary one to understand the significance of public sector and public finance. According to World Bank a pragmatic approach to public analysis might begin by ranking areas of economic activities, according to the extent to which Govt. intervention is desirable. The ranking should be in respect of efficiency, growth, poverty alleviation and stabilization.

1.2 Basic Concept

There are many disciplines in economics. Public finance is one of the important disciplines of economics. It involves certain basic concepts in view of making academic exercise related to particular disciplines. It is worth while to have a look at the primary concept of the said discipline concepts largely used in relation to public finance can be mentioned as under.

A. Public finance:

According to Harold grooves, “public finance is a field of inquiry that treats of the income and the out go of Govt.’s (federal state and local). In modern times this includes four major division public revenue, public expenditure, public debt and certain problems of the fiscal system as a whole such as fiscal administration and fiscal policy.”

According to Musgrave, “The complex of problems that center on the revenue expenditure process of Govt.’s is referred to traditionally as public finance.”

Thus public finance is the discipline in which largely Govt.'s economic activities are discussed. It included various aspects of Govt.'s income and expenditure.

B. Private finance:

It is the statement or analysis of individual's income and expenditure. It refers to the personal income and spending. It is private in the sense that there is no Govt.'s direct or indirect responsibility for the generation of income and spending of income.

Private finance in general is not the direct subject of economics. It has necessarily economic linkages. But it does not fall directly in the scope of economics.

C. Federal finance:

This concept is more important especially in the countries where there is a particular political structure of the state in which the union and the units forming the union are studied in view of economic activities. It refers to two tiers of governance. The state having it's own political boundary and the union having the political boundary of aggregate states. Federal finance refers to the inflow towards center from the states and out flow towards the states from the center. Constitutionally economic powers are assigned to the states and the center, and responsibility is also entrusted to the states and center. There is clean defining constitutional provision for mutual economic relations between center and the state. Federal finance assumes greater significance to understand the relationship between the center and the state in general and for economic activities in particular.

D. Fiscal policy

The term fiscal is derived from 'fisc' a Latin word it means related with Govt.'s treasury. Any Govt. is expected to undertake economic activities more or less. This demands the account of income and expenditure. Any govt. action or the policy, which leads to the balance or the management of govt. revenue and expenditure, is considered as fiscal policy. It includes several issues regarding the sources of govt. revenue and the nature and amount of govt. expenditure under federal financial structure. Fiscal policy is framed for the nation by the union govt. and the state govt., also frame certain policy measures restricted to the state activities.

E. GDP: gross domestic product

It refers to the income of the state which is generated from within the boundary of the country only, therefore it does not include the revenue accrued to the state from outside the country.

F. Public expenditure:

Total expenditure incurred to any govt. during the financial year is known as public expenditure. It incurred to the Govt.'s for undertaking different activities as part of welfare objective. It however includes expenditures like development and non-development expenditure, plan and non plan expenditure.

In context of India some new classification of expenditure is made it follow as under.

a. Development expenditure:

Any expenditure made by the govt. for the total development activities, it is regarded as development expenditure. Central. Govt. includes

expenditure on social and community services, economic services and grant in aid to the states and union territories for development purpose. All these expenditure as earlier formed the part of civil expenditure.

b. Non development expenditure

That expenditure increased to the Govt., which is not productive in nature largely form the part of non-development expenditure. Expenditures incurred to collect the tax and duties administrative services, interest payment, pension and other retirement benefit, defense expenditure all such can be included in non development expenditure.

c. Plan and non plan expenditure

From 1987-88 budgets Govt. has classified public expenditure into two categories non-plan expenditure and plan expenditure.

That expenditure which does not directly form the part of Central Govt. plan is non-plan expenditure. It is again divided in to revenue and capital expenditure.

Under revenue, expenditure generally interest payment, defense revenue expenditure, reserve subsidies, interest and other subsidy, debt relief to farmers, postal deficit, police pensions, other general services social services – economic services and grants to the states.

Under capital non-plan expenditure, defense capital expenditure, loans to public enterprises, loans to states & union territories and loans to foreign govt.

d. Plan expenditure

It is the second major items of central govt. expenditure it refers to that expenditure which necessarily forms the part of the Govt. plan central Govt.'s, plans on agriculture, rural development, irrigation and flood control, energy – industry & mineral, transport, communication, science and technology and environment, social services and others. Apart from these, central Govt. also provides assistance for plan states and union territories.

G. Capital receipts.

On one hand Govt. has to make certain capital expenditure and on the other hand govt. also receives certain capital receipts. These receipts form the part of Govt. capital activities. It refers to net recoveries of loans and advances to state Govt. and union territories and public sector enterprises, net market borrowings and net small saving collections. It however includes other capital receipts arising from provident funds special deposit etc.

H. Tax revenue

Govt. receives the income through tax revenue. It is that revenue accrued to the state by levying taxes – these taxes could be direct and indirect.

In the direct tax, taxes on income, taxes on property and capital is included. While tax revenue generated through the taxes on commodities and services form the part of indirect tax.

Non-tax revenue is that revenue which is generated through the sources other than tax. This generally includes currency, coinage and mint. Interest receipts and dividend.

I. Deficit financing

When Govt. tries to bridge the deficit between income and expenditure, it is known as deficit financing. It basically refers to additional money circulation and or Govt.'s own borrowing. It is regarded as artificial attempts to cover the natural deficit. Generally, monetary expert advice to the economy to go for deficit financing strictly in restriction. It could be used as medicine but not as regular diet. Underdeveloped countries generally fill the need for such deficit financing. There is a fear of inflation due to excessive use of deficit financing.

J. Different deficits

When govt. fails to equal the receipts with the expenditure, the problems of deficit arises. These deficits are termed differently as under.

a. Revenue deficit:

The concept of revenue deficit is a simple and straight one. When revenue expenditure is in excess to the revenue receipts. It is known as revenue deficit. On one hand Govt. incurs current revenue expenditure and it is met out of current revenue receipts. Therefore it can be said that revenue deficit reflects the failure of the Govt. to meet its current expenditure from its current revenue. In India the deficit has become a special trait of Govt. budgeting from the 1970s.

b. Budget deficit:

When govt.'s total expenditure is more than the total receipts it becomes budget deficit. Here all expenditure includes revenue and capital

expenditure. Similarly all revenues refer to revenue and capital receipts. Actually deficit financing by the Govt. of India is to meet this deficit.

c. Fiscal deficit:

Fiscal deficit is technically budgetary deficit + market borrowing and other liabilities of the Govt. of India. It is the most important deficit; it shows the gap between Govt. receipts and Govt. expenditure. It reflects the true extent of borrowing. All international institutions consider fiscal deficit as the efficiency criteria for Govt. financial performance.

d. Primary deficit

It is the most recently introduced kind of deficit. It refers to fiscal deficit interest payments.

However this concept of primary deficit is not more recognized or more popular in other countries of the world.

e. Grant in aid

It is constitutional provision made under the constitution. The states are expected to perform some welfare functions but state Govt.'s may not be having adequate revenue to perform such functions. It was to over come this problem that the constitution provided for a mechanism of grants from the center to the state. It is a kind of assistance in amount, which is not to be returned to the center. It is provided generally to over come current revenue deficit, or to correct inter state disparities in resource. It may be for specific purposes such as the promotion of education in a back ward state or for toning up of administration.

f. Subsidy

It is a kind of direct assistance, provided by the central to the state, or in follow through by the state to the local governing institutions. It refers to the assistance provided by the Govt. to over come the loss incurred for meeting welfare requirements. Subsidy is also found of different nature, when food or fertilizer provided to the consumer at the price lower than the Govt. procurement price, it is called cash subsidy. When small-scale industries or priority sector loans provided to the individuals at the rate lower than the market rate, it is called interest or credit subsidy.

Free medical services provided at Govt. hospitals, equipments provided to the physically handicap persons, all these is kind subsidy.

There is also regulatory subsidy when prices of goods produced by public sector is fixed less than its cost it is regulatory subsidy – such subsidy is provided as purpose for inputs to industry for helping certain other categories of consumers.

K. Privatization

It is the concept, which has attained greater significance under new economy. When govt. is determined to withdraw from any of its own undertaking. It refers to the privatization. When govt. finds that the greater amount of public interest can well be served through handling over govt. activities to the private it is regarded as privatization. Generally it is said that privatization of public enterprises is justified when it leads to an increase in social welfare. It is generally made to improve the performance of public enterprises in respect of production and allocation of resources. It is also made to reduce the budget deficit. It has become more important in context of changing economic environment.

L. Disinvestments

When govt. is determined to sale out it's equity, it is known as disinvestments. When any public sector unit fail to maintain the efficiency and it incurred burden of loss on Govt. It is decided to have the policy of disinvestments. It is an indicator of basic change that is taking place in economic operations. It provides greater scope for private sector initiation development process.

1.3 PURE THEORY OF PUBLIC EXPENDITURE

The pure theory of public expenditure relates to those principles, which govern the "optimal" provision of public goods. Two principles are generally considered in this context. They are "ability-to-pay" principle and the "benefit" principle

1.3.1 Pigou and Ability-to-pay Theory

The use of the ability -to-pay theory to the determination of the optimum level of public expenditure has received most comprehensive treatment in the hand of Pigou¹. He says that goods and services, which are provided by government departments and can be sold for fees so arranged as to cover cost of production pose no problem. The amount of resources, which should be devoted to these purposes is determined automatically by public demand. But fees can cover neither bulk of non-transfer expenditure of government such as defence, civil administration and so forth nor transfer expenditure. "Hence there is no automatic machinery to determine how far expenditure shall be carried; and some other method has to be employed."

Bulk of current transfer expenditure—debt services, war pensions, old age pensions—is regulated by practically irrevocable contracts. But

large parts of non-transfer expenditure are optional. The optional parts of public outlay—transfer as well as non-transfer need to be "regulated with some reference to the burden involved in raising funds to finance them" Pigou propounds the principle of balance based on the concept of margin. The optimum amount of government expenditure is determined at the point at which the satisfaction obtained from the last rupee spent is equal to the satisfaction lost in respect of the last rupee called upon by government service. Pigou states the conditions when government expenditure could be larger. It is stated, the greater is the aggregate income of the community, the larger will optimum amount of the government expenditure be. Second, in case if new opportunities for expenditure by government are opened up but there is no corresponding opportunity for private expenditure, the balance between marginal benefit of expenditure and marginal disutility of revenue will be struck at a higher point. Third, given aggregate income and population, greater the concentration of income in the hands of a few rich persons, higher the optimum level of public expenditure. It is for the simple reasons that tax scheme can be so framed as to raise A given revenue with lower marginal sacrifice.

The principle of balance—equality of marginal satisfaction of expenditure with the marginal sacrifice of raising revenue—can be applied to the distribution of government resources "between battle-ships and poor relief," that is, between different types of expenditure by the Government. As Pigou states, "... just as an individual will get more satisfaction out of his income by maintaining a certain balance between different sorts of expenditure, so also will community through its government."⁴ Expenditure should be so distributed among different

heads that the last rupee "devoted to each of them yields the same return or satisfaction."⁵

1.3.2 Voluntary Exchange Theory of Lindahl for determination of Public Expenditure

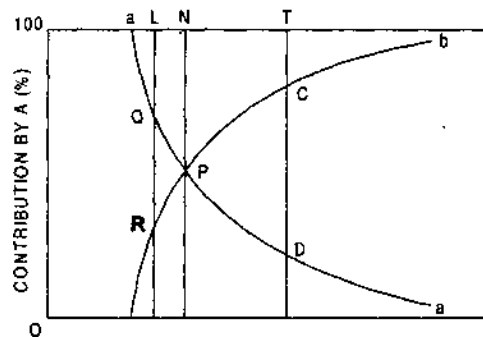
It is understood that the price mechanism, which can lead to the realization of Pareto optimality, does not exist for the provision of public goods and services because they are jointly consumed. Hence, they cannot be split up and sold to individual buyers. Further once these goods and services, are supplied, all members of the society consume them—those who pay for them as well as those who do not (i.e., the free-riders). In spite of these difficulties attempts have been made to construct a theory of public expenditure based on price mechanism as applicable to private consumption. The first clear statement of this theory was provided by the Swedish economist Erik Lindahl in 1919. The relevant portion of this theory is printed in English in the book

entitled "Classics in the Theory of Public Finance" edited by R.A. Musgrave and Allan T. Peacock.

The fundamental point of Lindahl's theory is that "he regards the determination of public expenditure in connection with the distribution of the corresponding tax burden among the groups within the community. The distribution ratio for this burden will then play a role similar to that of prices in the adjustment between supply and demand in any ordinary market.

In this theory the revenue-expenditure process, as a phenomenon of economic value and price, is arrived at in a threefold decision. (1) Before determining the relative distribution of tax shares between various taxpayers, a choice must be made between the satisfaction of alternative wants by private households. Suppose a given sum is to be raised from the taxpayers A and B jointly. Now if B pays a larger share of the total tax, A's curtailment of his own private outlays will be smaller (that is, A pays less tax) and vice versa. (2) A second choice is now required. It is between the satisfaction of alternative wants in the public sector. If more is spent on defense, less can be spent on education. (3) In order to determine the total revenue to be collected and spent, a third choice is to be made between the satisfaction of public wants and private wants. If Public expenditures are lower, taxes will be required in smaller quantity and there will be less curtailment of private spending. "This third decision cannot be rendered without a knowledge of the relative distribution of tax shares and the expenditure allocation corresponding to varying revenue expenditure totals. The three decisions, therefore, are mutually interdependent and must be rendered jointly."⁸

In Lindahl's theory, the same process is followed for public economy too. Hence, the allocation of the total cost of production of two joint products X and Y is done according to the respective supply prices of the two products based on the demand prevailing for the two products respectively, and not according to cost imputation. Suppose A is the purchaser of X, while B is the buyer of Y. If A is willing to share only a small portion of the total cost of producing both X and Y, then B will be required to contribute a correspondingly larger share. In the opposite case when B is willing to contribute a smaller portion, A will be called upon to contribute a larger share. A's dependence upon B is due to the fact that benefits derived from the supply of public services are not divisible into individual benefits; they are received jointly by all members of the community. This is presented in Following figure.



Lindahl.

In the figure we continue to assume two taxpayers, A and B. Percentages of total cost contributed by A are measured along the vertical line, while the quantities of public goods which they purchase (in equal quantities) are measured on the horizontal axis. Curve aa shows the varying percentages of total costs incurred in providing these goods which A is willing to contribute. Similarly, curve bb indicates the percentages of

total costs which B will be willing to share. The figure shows that the maximum amount of the public good that can be produced is OM. For this quantity A is willing to contribute PM percentage of the total cost of production. B is, willing to share the remaining portion of the total cost, that is, PN percentage. For any other amount, the total cost is either over-contributed or under-contributed. If, for instance, the good is produced in OK quantity, A is willing to contribute KQ percentage of the total cost, while B shows his willingness to pay LR percentages. Their joint contribution comes to $KQ + LR$ which is more than the total cost LK. In the situation when OS quantity is produced, the entire cost ' of production will not be contributed by A and B together. A is willing to pay only DS percentages while B is not willing to contribute more than TC percentages. Thus CD portion of the total cost remains uncovered,

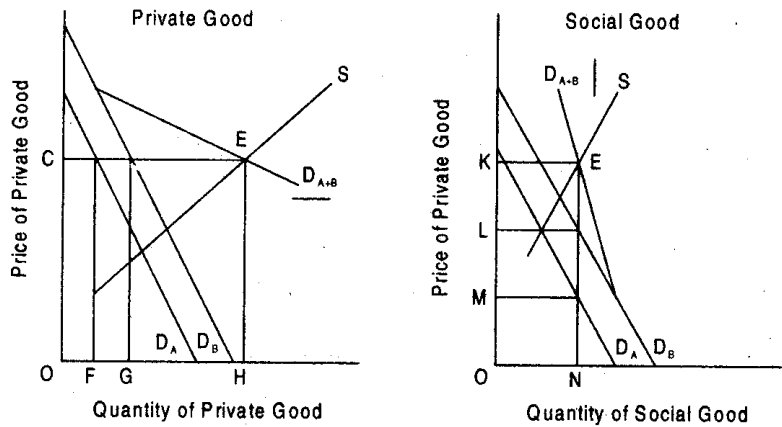
1.3.3 Samuelson's Pure Theory

Samuelson states that his exposition of the pure theory of public expenditure goes back to Italian, Austrian and Scandinavian writers who are responsible for the renaissance of the benefit approach.

Public goods are provided collectively. They cannot be provided by private enterprise. Private goods are provided on the basis of preferences revealed freely by individuals in the market. Individual preferences are not known in the case of public goods. So how can the market principle be applied to the provision of public goods? Answer to it is that in "a democratic society.... The ultimate justification of the governmental provision of public goods or other activities is the desire of the members of society for such goods and activities, rather than an authoritarian determination that such action is desirable."⁹ Though government may

largely influence individual preferences for public goods, it may yet be assumed that such preferences are the ultimate source of justification for governmental activities. On this assumption let us analyse how the market principle can be applied to the determination of the optimal provision and financing of public goods. In order to do this we take the familiar supply and demand diagram. Its application to social goods is not realistic but it may serve as a good starting point.

Figure shows the demand for a private good and a social good for two individuals A and B under a given distribution of income and given prices for other goods. Left side of the figure shows D_A and D_B as demand curves for a private good X for A and B. D_{A+B} is the market demand for X which is obtained by horizontal addition of D_A and D_B . S is the supply curve of X. Price of X is OC for both A and B which is determined by the intersection of market demand D_{A+B} with market supply S at the point E. Quantity purchased by A and B together is OH. A will purchase OF while B buys OG so that $OF + OG = OH$.



Quantity of Private Good Quantity of Social Good

Right side of Figure shows that D_A and D_B are demand schedules for A and B and D_{A+B} which is obtained by vertical addition of D_A and D_B , is the market demand for the social good, G. Since all taxpayer-consumers consume G in the same quantity, market demand for social good requires vertical addition of individual demand curves. S is the supply schedule of G. Equilibrium between demand for and supply of G is given at E. Consumption of G by both A and B is ON and the combined price is OK, of which OM is paid by A and OL by B so that $OK = OM + OL$.

It should be clear from the above that the production of social good and its pricing are determined by the same principle which applies to the case of a private good. However, one important difference should be noted. Samuelson says that efficiency requirement in the case of private good is one in which marginal benefit from such good for each individual equals its marginal cost. In the case of a social good this rule requires that marginal benefit for each individual differs and the sum of such marginal benefits equals marginal cost. Consequently, application of the same pricing principle

to both social and private goods gives us different results'. Each individual purchases the same amount of a social good but pays different prices for it depending on his valuation of the good. In the case of private good, each consumer pays the same price but purchases different amounts of this commodity. Here in this curve marginal benefit derived by A and B in consuming OF and OG respectively is equal to the marginal cost HE (case of private good). Each individual consumes ON quantity of the social good but A pays OM price for it while B pays a price equal to OL. Yet in both cases, the same pricing rule is applied. Each consumer pays a single price for successive units of the good purchased while the price equals the marginal benefit that the purchaser derives.

1.4 Global economy at glance.

Public expenditure plays important role in development of economy. It is found that public expenditure has its task both in the developed and less developed countries. However variation is found in the extent and the nature of public expenditure with changes in the status of economic development. The amount of public expenditure is largely determined in respect of economic and non-economic fact. Musgrave explains this as “the theory of public expenditure developments.”

With the process of development, the needs of the economy get changed. With this change there is a change related to both the allocation and distribution aspects of expenditure. Allocation is more related with the level of public expenditure. The distribution aspect is related with the question weather there is an increasing or decreasing need for distributional measures with the growth of economy. These questions are part of economic factors.

Generally economic factors influence the allocation and distributional aspects. However existing social and economic factors also influence the state finance. It depends on demographic changes, technological environment and some other non-economic elements. Non-economic factors and economic factors are basically different in nature but these have close interdependence. Therefore a strict divide would not be more effective in smooth functioning of public expenditure.

In economic factors there is allocation and distribution, which have strong influence in shaping the economy. In any economy public expenditure is also lead by some other determinants. These could be social cultural and political. Generally we find difference in the volume of public expenditure between developed countries and less developed countries. There may be some variations in the heads of public expenditure. Close examination of the pattern of public expenditure both in the developed and less developed countries leads us to conclude that the basic expenditure is common to country at all levels of development. Important things is found with regard to the share of public expenditure is that there is found greater difference in the volume of public expenditure in relation to the GDP of economy. It is observed that the developed countries or the richer countries, generally spent more on defense and on the public debt. In less developed countries or in poor countries more amount is spent on the providing of social securities health – education etc.

The richer countries spend for more on defense. Public Dept. and Agri. subsidies. At global level the cost of public debt is found highest in UK. Followed by Newzeland. Newzeland leads in the field of social insurance, while in USA much is spent on defense.

In respect of public expenditure capital expenditure is less easy to compare than is basic current expenditure. It is less easy because there is a problem of working out variations in the budget. Initially in the year 1953-54, India spent 2.3% of GNP while a capitalist country like Sweden the expenditure was 14.0%. It reflects a wide range of variation. Generally the extent of public capital expenditures depends on the dependence of productive sectors like agriculture – transport, industry on Govt. for finance. On the other hand it is experienced that in different countries importance of public saving is also increasing. This could be attributed to the several factors like very less private saving in poor countries, inadequate private international investment, budget surplus by way of excess in investment over saving and move to create new capital in the public sector.

The pattern of Public expenditure as reflected in between 1950-60 tends to reveal the facts that there is very little difference in the amount on spending on education as % of national income or as % of total expenditure between poor and rich countries. A similar trend is also observed in respect of health and some other primary expenditure. Broadly it can be said that Asian countries spend more on defense as % of GNP.

Looking at the public expenditure of various countries it is also found that there are differences between functional expenditure and economic expenditure. Functional expenditure, included general public service—defense, educational, health, housing, Agri. and allied activities, running electricity, roads, communications, water etc. While economic expenditure includes spending on goods and services, interest payment subsidies and capital expenditure like fixed capital assets and capital transfers.

The last two-decade of the twentieth century express relatively significant changes in the pattern of public expenditure. The changing trend

is found more in the developing countries rather than developed countries. With the dimensional changes in the international economic order the nature and volume of public expenditure is also influenced.

The resources with Govt.'s to meet the demand are found scarce in less developed countries. Public undertaking in such countries has also proved less efficient in respect of revenue generation. It is the poor performance of public sector, which led to the deficit. Because of this deficit basically the increasing Govt. expenditure has not remained productive as much as expected. Therefore the issue of public debt. becomes more significant. After the completion of Second World War many small countries had began to borrow. In the last two decades the changes are found mainly because of the changes in the conditionality of international institution. In respect of public finance the issue of public dept. needs to be examined separately. It is true that the countries depending on external borrowing did get command over there current produced goods. It makes possible for the borrowing countries to finance its self without displacing household and enter prize spending. But a matter of concern for less developed countries is that the payment of interest on foreign borrowing and repayment of the principal has not reduced in the transfer of resources. Therefore it is found that the less developed countries do find immediate gain to balance the resources but the future real cost of debt services and debt repayment causes a challenge. Debt service ratio is the ratio of debt service (interest and amortization) to the value of exports of goods and services. This ratio measures the burden of debt in the short term in the medium terms or in the long run a better indicator of debt burden is the ratio of debt to GNP.

This debt service ratio to exports is found to have increased for all developing countries. After 1980 there has been a shift in industrial countries toward anti inflationary macro economic policy leading to rapid rise in nominal interest rate. Policy changes, at the international level have severely heat the developing countries in the last two decades. As per the world development report of 2003, the total external debt. of chine in the year 2000 was 149800 million dollars, which was 13% of GNP. It was found 99062 million dollars in India. One of the seriously heat country is Ethiopia where in the external debt was 5481 million dollars that was 52% of the GNP. Malaysia also was facing the problem with 52% of GNP amounting to 41797 million dollars. In aggregate the total external debt burden of law income countries was 552095 million dollars. While it was 1798508 million dollars in middle-income countries. This data reveal the picture of document, the share of debt burden, as resource component of public finance amongst the less developed countries.

Global economic scenario definitely indicates global slowdown. This global slowdown virtually reflects down fall of the economy in respect of spending of the economy. It is important to note that slowdown is common characteristics found in most of the countries of the world. However the ground for slowdown that which exists in the developed economy and which is found in under developed economy is distinct from the each other. One of the major causes for the slowdown in poor countries is declining purchasing power. It means that drastic policy changes at the Govt. level have resulted into the crises. It is in this regard that once again global scenario Indicate the necessity of an increasing public expenditure in different form with different angles.

1.5 Federal financial structure of Indian economy:

India became independent on 15th August, 1947. Indian constitution as republic nation comes in to force from 26th January 1950. As a nation India is formed of different states with the central union. Therefore federal structure of Indian economy is constitutional one. However the present federal system of finance in India has been achieved through an evolutionary process spread over the last 100 years or so.

1.5.1. Historical Look

Under the colonial rule finances of British India were highly centralized. William Massey made an effective scheme of federal finance in British Indian administration. It was implemented in 1858. However successful and modest scheme for financial centralization was drafted by lord mayo and was adopted in 1871, in 1877 heads of revenue were de marketed in to central and provinces. The system of consolidated federal finance was implemented through the Govt. of India in 1919 under that act, for the first time some sort of financial autonomy was awarded to the provincial Govt.'s Again in 1935 the govt. of India passed the act for the formation of federal form of govt. at the center with autonomy to provinces. This situation regarding financial relations between the center and the provinces- continued till 1947. In the very beginning of independence C.D. Deshmukh gave the final shape of decentralized finance in 1949. That recommended a new scheme of distribution of the revenue between the center & the state. The constitution of India adopted in 1950 opted for federal financial arrangement.

1.5.2. Fiscal federalism

India has clearly chosen a federal structure in which constitutional distinction is made between the union and state functions and sources of revenue, but the residual power belong to the center. The transfer of resource from the central Govt. to the state is an essential feature of the present financial system.

Under this system the union is assigned with the power to collect mainly the following taxes.

1. Taxes on income except agri. income
2. Corporation duties
3. Custom duties
4. Excise duties with some exceptions
5. Estate and succession duties other than on agriland
6. Taxes on the capital value of assets
7. Rate of stamp duties on financial documents
8. Taxes on railway freight & fares
9. Terminal taxes on passengers carried by railways, sea or air
10. Taxes on the sale or purchase of Govt.'s in the course of inter state trade

Certain taxes fall within the boundaries of the state like land revenue. Taxes on the sales and purchase of goods except newspaper. Taxes on certain agri-income, Taxes on land and building succession and state duty on agri-land state excise- Taxes on mineral rights.

Taxes on electricity stamp duties, except financial documents. Taxes on vehicles taxes on luxuries, tolls, Professional Tax, capitation tax etc. In general the essential features of Indian federal finance exhibit A federation with 'strong centralizing tendency'. In India in federal finance we find

horizontal imbalance and vertical imbalance, horizontal imbalance refers to inter states different in budgetary receipts and expenditure arising out of differential per capita fiscal capacities. Vertical imbalances is between the center and the state. It indicates high degree of concentration of economic power on the one hand, and diminution in the degree of freedom enjoyed by the state.

1.5.3. Comparison with other federal countries

Vithal BPR and Shastri M.L. has tried to provide a comparative picture of inter governmental fiscal relations existing in different countries. They have tried to compare India's federal relation with those of Canada, Australia and USA in respect of certain parameters.

It is observed that as long as divisions of functions is concerned there is similarity found between the four country referred to in all these country important functions like defense foreign affairs. Communications are with center and certain functions relating to education, law and order, health is with the state. In respect of tax power important and elastic taxes are with center in all these country, but center has over riding power over the states is found in India & Australia. However India is an exceptional country where center can not levy all taxes. Inter governmental fiscal relations are found formal in India & Australia informal in Canada & USA. Large degree of vertical imbalances is found in all the four countries and high horizontal imbalances is found in all four countries how ever one finds strong centralizing tendency in respect of revenue rising in India. It is observed that roughly 85% of direct taxes and 55% of indirect taxes on commodities are collected by the center on the other hand expenditure responsibility of the states is found more. It was about 50% in 1975 and in the early 1990 it was

60% while the share of the state was hardly 50% (in total income of center) Amresh bagachi and M.G. Rao also subscribe to the view that in India the financial dependence of the states on the center to meet their rising expenditure was the highest among the federations compared.

1.5.4. Institutional Provisions

In India under federal financial structure there are certain constitution provisions for healthier and concrete financial relation between the center the states. There are two main institutions which influences the financial functioning of center & the state under the provisions of Article 280 of the constitutions the precedence is required to appoint a finance commission for the specific purpose of devolution of non plan revenue resources finance commission generally make recommendation to the president in respect of the distribution of net proceeds of taxes to be shared between union and the states to recommend the principles which should govern the payment by the union of grants in aid to the revenue of the states and recommend for any other matter related between the union and the state.

The appointment of the finance commission is of great importance. It enables the financial relation between the center & the states to be altered in accordance with changes in need and circumstances. Right from 1951 the country has received awards from eleven financial commissions. Currently twelfth financial commission is under operation. The report is just released. Generally the recommendation of the finance commission can be grouped under different heads, like (1) Division and distribution at income tax (2) Center's Loans to the states.

Planning commission is another institutional set up. Planning commission is led by the prime minister of India. There are some important differences between the finance commission and the planning commission.

Finance commission is a statutory body appointed by the president, every five years. The planning commission of India a non statutory permanent body. Members of the planning commission are like full time govt.'s employee holding their position at the pleasure of the govt.

The finance commission helps to transfer non plan resources from the center to the states. While planning commission has discretion to transfer plan resources from the center to the states. The finance commission recommendation are in from of award and the central govt. is bound to accept them. On the other hand the planning commission's transfer of fund is only discretionary. Planning commission is only an instrument of the center. The finance commission get their authority from the constitution. They are not the instrument of the central govt.

General experience is that there has been long standing need for co-ordination between plan transfer and non plan revenue transfer from the central to the state.

Finance commissions award are given in respect of certain criteria and weights to determine the relative share of states. There is general feeling that as long as development view point is concerned and fiscal balance is concerned there is a need to have permanent kind of finance commission. It is demanded largely to avoid devolution of funds by the center to the state on ad-hoc basis. It is also experienced that in India transfers of funds are not always designed purely on economic considerations. More often they are made through political bargains. An important pre condition for a successful inter governmental transfer system is that, besides being equitable and

generating proper incentives, it should be transparent, adaptable to the changing need of the center and individual states and should be distributed in objective manner.

1.5.5. Fiscal federation under liberalization:

The traditional federal financial structure in India provides concentrated powers of revenue to the center and more expenditure responsibility to the state. It is important to study the federal financial relations under the period of new economic policy after implementation of the forces like Liberalization, privatization and globalization. The economic structure of the country is changed considerably. It is in this regard that the quality of fiscal management under liberalization has gained more significance.

The changing pattern of central transfers, and or average annual resources mobilization are the important points to understand the changes in fiscal management. The changing composition of the central transfer during the period of 1991 to 2001 broadly expresses the shift in the nature of transfers. In 1991 states received 35% of the total transfer as tax share that share after some fluctuation rose to 43% by the year 1996-97. However this share was declined in 2000-2001 for less than 32%. The share of grants behaved more or less in similar fashion to share of loan which was more than in 1990-91, came down to the lowest share of about ¼ by 1993-94. In 1998-99 this share again stood at more than 38%. It means that, in India the total resources transfer from center to states suggest that, the share of tax and grants are on the decline in recent years.

Indian states are characterized by varying degrees of development. It is found that the average per capita SDP of the richest state like GOA was

Rs. 14589 for the period 1990 to 1996. It is 4.33 times that the per capita SDP of the poorest state of Bihar Rs. 3369. One of the major objectives of planning and fiscal measures was to put the states at a minimum level of socio – economic development.

The states in this regard put in to five categories, such as - very poor, poor, middle, rich and very rich. It is found that the poor states can be said as more favored in the devolution of central transfers inclusive of loans to highest per capita of Rs 9300 received by the poor states. Very poor states received little less than that Rs 8850. Coming to the high income and middle income state, the per capita received was very close to the average of very poor states. It was Rs. 8700 by rich states and Rs 8600 by the middle income states. Similarly the highest per capita grants was received by the low income states. Which was 30% higher than the per capita receipt of very poor states on an average. It is also found that the high income states received an average per capita grants more or less of the some size of the very poor states. (Rs. 2658 by very poor states and Rs 2630 by the rich states.) Thus the pattern does not seem progressive in respect of provisioning of resources.

Fiscal management between the center & the states can also be looked in terms of plan and capita expenditure. It is found that the share had shown some improvement in the initial years of reform. In case of the center it has slept down considerably, down fall is more reported in the case of capital expenditure it was declined over the years from 30.2% in 1990-91 to 14.7% percent in 2000-2001. In the case of states also the plan expenditure in 2000-2001. Declined from 21.3% to 17.8%. This fall was much more sharp in the case of the center.

The last important parameter in respect of the fiscal management is the deficit angel. It is found in this regard that revenue deficit rose in comparison to their previous years. The size of growth in revenue deficit was also found high in the case of states. The average annual growth rate during the period was around 35% but it was less than 20% in the case of the center. Regarding fiscal deficit, it is found that the average annual growth rate was 13% in case of center while it was 19% in case of states. Thus it is clearly revealed that the fiscal conditions of the states have got much more worsened in the last decade. Thus it can be also said that the fiscal management of nether the center nor the state have made any qualitative improvement in the liberalization period, While the finances especially that at the states leaves much to be desired, though there is considerable devolution of resources to the state, it is less progressive in allocation among the state.

1.6 Prob. of imbalance between fiscal needs and capacity

It is generally observed that in many of the countries, where there is existence of federal financial structure, there appears to be a wide gap between the earning of the state through various sources and their responsibility to full fill fiscal needs. This imbalance is generally found of two types. One is known as vertical imbalance and the other is known as horizontal imbalance. When states have the resources adequate in relation to their requirement it is called vertical imbalance. Some times states may be having homogeneity in respect of functions and resources but it is because of difference in the economic conditions that there tend to be gap between fiscal needs and fiscal capacity. It is known as horizontal imbalance. This

prob. of fiscal imbalance is found not only in India but it is also found in Australia, Canada and America.

Causes of fiscal imbalance.

In a federal structure fiscal imbalance is found in the form of increasing budgetary deficit and this trend of budgetary deficit is varied from state to state. Such imbalance is largely attributed to two of the causes - first is the maximum weighted given in practice to the theory of efficiency. Theory of efficiency is not consistent with the principle of adequacy. State are generally designed of devoid functions and resource on the ground of efficiency. Center does have more productive and all elastic monetary sources against its requirement, hence center experiences more the state of balance over expenditure, while in reverse to that the states do have less productive and less elastic monetary sources, which results into imbalance in the form of deficits.

Second important reason for fiscal imbalance is the difference in economic condition of the state. Generally all the states affiliated to union govts do not have equal economic development or condition some states are highly progressive and prosper us while some are very slow in development and some remaining are more backward. It is this difference in economic condition, which leads to the gap between fiscal needs and fiscal capacity.

A state like Gujarat is industrially and commercially more developed state while neighboring state like Rajasthan is relatively poor. Therefore resources are found in plenty in a state like Gujarat while Rajsthan experiences the scares in source.

Similarly there happens to be sizable gap in the per capita expenditure between the different states. For the same kind of function backward states have to spend more for the fulfillment of the requirements. In other words

developed states have relatively more resources against the required expenditure and the backward states do experience limited resources for more requirements. It is the distinctive gap between fiscal needs and fiscal capacity.

Index of imbalance:

It is very important to have basic idea of index of imbalance. There can be genuine deficit owing to inadequate resources against the requirements. Despite states efforts for revenue mobilization, they fail to match with the requirements. The genuine deficit is because of the limitation of resources. It is at this juncture that center may provide the resources through transfer.

However central govt. deed is more dangerous, looking to the tendency of manipulating the real picture. Sometime it is found that states are making exaggerating in drawing the economic picture real state of imbalance can be known through fiscal capacity of the state. Tax efforts made by the state economy applied in non plan expenditure and the state of social and economic backwardness of the state. Prof. D.T. Lakdawala and R.N. Bhargave have made detailed exposition in respect of an inquiry in the nature and causes of fiscal imbalance and remedies to over come imbalance.

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Chapter -2

Technical Structure

2.1 The research Problem:

This research is Pertaining to the analysis of the fiscal situation in Gujarat. It has assumed greater significance particularly in context of severe financial crisis fact by the India - States during last ten years. Central Govt. has also expressed concern over deteriorating condition of state finances. It is observed in the last decade. The Worldbank has categorically asked the central govt. to reduce the transfer to the states to consolidate central's own fiscal strength. In the report of the tenth finance commission it was stated that the primary responsibility for strengthening the resource based is that of the states. Thus in general there is around pressures on the states to find out ways to earn larger revenue for meeting their expenditure needs. It indicates the importance of nontax revenues besides the tax revenue.

It is true that fiscal position of most of the states has worsened. Looking at the performance of certain standard indicators like revenue deficit, fiscal deficit, debt – GDP ratio – the clear judgment can be made regarding states' fiscal health. But in a federal financial structure like our's it is equally important to inquire into the states receipts from center over the period of time. Broadly it can be said that currently there does not exist one to one correspondence between the states contribution to the center and in reciprocity center flow to the states. Constitutionally, as noted earlier, the responsibility of carrying out developmental activities largely rests on the state govt. Besides at the center there is tendency to declare number of populist schemes from the center. These schemes are more political motivated. It is in this context that the states are required to spare financial

as well as real resources in terms of man power and infrastructure facilities. It is also observed that because of fast industrialization in various states there is faster rate of urbanization and high growth of population resulting from high rate of migration amounting to increase in the demand for basic amenities like water, sewerage & housing. The important area of loud thinking is that from the various taxes collected by the center, only two namely income tax and excise tax is shared by the center. Two important taxes – i.e. corporate tax and custom duties, more elastic in nature are not shared at all by the center. To add to the problems of the states, it is observed that the proportionate sharing of excise revenue is to be shared with the states and it is exclusively left at the discretion of the finance commission. It is because of this fact that the center has never shared more than 45% of the total excise revenue.

The states in India are not found balanced in economic nature. Some of the states are found to have managed fiscal operations with little more care and prudence. Gujarat state is one of those states having relatively better fiscal performance till economic reforms. There are some other states where fiscal position is not smooth.

With this background finance commission awards for the devolution of the funds are not in tune with the functioning of the good performing. There is found indifference and apathy towards the efficient states. In this situation largely the efficient states are loser and the inefficient are gainers. Gujarat is one of the loser states. As per the eleventh finance commission award Gujarat was the third largest loser state from amongst ten such states.

When the central govt. does not show inclination to levy various taxes under article 269, it is direct loss to the states. Changes in the criterion by the finance commission have also worsened the situation. Various reports also

indicate that the state of economic growth in the 1990's shows declining trends leading to the resource requirement gap and virtually it is this gap that lead to fiscal disparity or fiscal mess and fiscal stress. It is this clear discrimination, which has made the good performing states more inefficient in respect of fiscal deficits. Allocation design adopted by the planning commission is also equally responsible for the current fiscal problem of several states including Gujarat. Most of the economist, scholars and researchers have virtually found that there prevails in general the approach of penalizing the efficient states and rewarding the inefficient states through subjective approach of devolution. Many a economist have been insisting for certain specific prudent fiscal norms to determine the devolution of funds from center to states. Looking at the economy it can also be found that the states do not enjoy the power and the freedom for collecting revenues as much as the center enjoys. It is in light of this background that it would be worthwhile to examine the actual performance of the states toward meeting the challenges of total fiscal balance. – Gujarat economy, particularly Gujarat state finances require to be studied in this regard.

There has been in general the deteriorating state of fiscal in Gujarat. It can be observed through various indicators like revenue deficit & fiscal deficit. Though the growth of the real income of the state during the period 1990-91-1997 was found more significant, this can be compared with that of the miraculous growth of south – east, Asian countries. How ever there has been considerable fall in the growth of the state after 1997. The state, which was at the top with 9% growth rate per annum, could muster only 4.4% growth rate between 1997 to 2000. Fiscal deficit in relation to GDP and the monetary volume of it expresses deep concern. The other factors like increasing burden of non-interest payment have worsened the situation.

There is found clear shift in rise of expenditure for present consumption on to expenditure for capital assets.

A matter of serious concern is found more in respect of tax network. The state is not able to collect revenue from the non-tax sources. Subsidizations both in quantum and nature have added fuel to the problem.

In aggregate one time progressive and dynamic state is lagging far behind to other states as long as the financial strength is concerned. Is it the state, experiencing scarce of resources for revenue generation ? Is there any possibility of prudence in down sizing the expenditure? Can govt. do implement progressive taxation mechanism? Is it because of the intervention that the response for revenue is slow and less? What is the scope for implementation of VAT specially in respect of revenue generation? Given the political environment, would it be possible for any govt. to restore fiscal discipline?

These are the several issues demanding an inquiry in context of the existing financial structure. There fore an attempt is made to study these issues with broad microscopic look at the fiscal state of Gujarat.

2.2 objectives

This research work is undertaken in context of the following broad objectives.

- (1) To have broader look at the fiscal condition of the state after the reforms period – more specially after 1997.
- (2) To under stand the on going fiscal trends in context of Indian public finance.
- (3) To point out silent feature – merits & demerits of the state finance trends

- (4) To examine fiscal imbalance that largely prevails in context of non-tax revenue & subsidies.
- (5) To work out the likely future trend in consideration of the existing fiscal norms.

2.3 Research methodology:

This research work is exclusively based on secondary data. The subject being related with the state finance, it would be worth while to focus on the available govt. data & examine this data in accordance with the objectives framed for the study. An attempt is made to inquire in detail, state's own revenue and expenditure during the last decade. This exercise is necessarily linked with the Indian govt. finance, therefore efforts are made to look in to the criterion determined by the tenth and eleventh finance commission for the devolution of certain funds from the center to the state. The last twelfth commission report is also overviewed. Thus a-part of the research work also throws the light on state receipts from the central govt.

In this research study emphasis is laid on non tax revenue and subsidies. This is exposed in detail that is i.e. sectoral subsidies and merit non merit subsidies – To understand the problem, data is also referred with that of the total states. To that extent a comparative view is presented. This research study is based on analytical approach.

The data collected and compiled is arranged in to different tables and accordingly tabulation analysis is furnished. This is also explained graphically, average index and or maxi-mini-ratio which ever is applicable to strengthen the analysis. In view of having a look at the fiscal trends of the state an attempt is made to refer certain books and periodicals, which is related with the research work. Past studies in context of public finance

revealing theoretical ground in relation to exiting scenario is also referred to. Besides critical comment, analytical studies undertaken by different economist and economic journalists is also taken into consideration for the purpose of review of research.

Sources of data

This study is based on secondary data made available through the different sources as under

- (1) Govt.'s report on govt.'s finance
- (2) Budget document of different years
- (3) Annual reports and monthly bulletin published by RBI
- (4) Socio – economic review published by directorate of economics & statistics govt. of Gujarat – Gandhinagar
- (5) Special volume on public finance published by center for monitoring Indian economy - November 2004.

2.4 Hypothesis:

This research study is aimed at examining the following hypothesis as null and void.

- (1) Gujarat govt.'s Financial condition is found to have improved in the second half of the reforms.
- (2) The state accrues large chunk of revenue from the non tax sources.
- (3) Volume of subsidy is found to have decreased and there prevails sectoral balance in subsidization.
- (4) State Govt. is benefited in terms of transfer from union govt. because of the change criterion.

2.5 Chapter Plan:

This research work is basically divided into six chapters. This research largely incorporates the following areas into the different chapters.

It begins with an introduction to public finance in general. It refers to certain basic concepts, which are necessarily the part of this research work. In following through the global economic scenario in terms of public finance is highlighted and an attempt is made to provide an overview of Indian federal financial structure and the fiscal trends under Liberalization.

The second chapter deals with necessary technical details on which this research work is based. It includes the research problem, objectives, methodology, hypothesis, and limitations etc.

The third chapter presents exclusively the review of past research in brief. It broadly includes the researches made in theories and comments and evaluations on the finances of the state over a period of time.

The fourth chapter largely focuses on the fiscal reforms applied both at national as well as state level. It also provides birds' views on Indian and state experience of fiscal reforms.

The fifth chapter is the fundamental or the core part of the research work. It examines in detail the general view of the state finance, behavioral trends of income & expenditure, sectoral variation, that of and implications of reforms on the state fiscal position. This chapter is partially narrative but more analytical. It highlights in general the reform period and in particular the ninth five year plan period.

In sixth and the last chapter, the first part is devoted to the comments on the hypothesis followed by conclusion derived from the tabulation analysis. Apart from these, suggestions for future planning are also mentioned, the

research work technically ends with the indication of the scope of further research.

2.6 Limitations of the study

Efforts are made to provide systematic presentation of the areas involved in the research work. Detailed literature is also referred to in consideration of the proposed research work; however the study can not be regarded as the perfect one. Broad limitations can be highlight as under.

- (1) This research work is not a comparative one. It is not a comparative study either with union govt. or with other states.
- (2) This research study also does not compare the trends of the past, i.e. this is not exactly a comparative study of present reforms period with the previous period.
- (3) Though all efforts are made to collect and compile the data, however the state finance is in it self very vast area covering relative transactions with other countries – states – union govt.’s And also local govt.’s Here the analysis is restricted to the broad and basic data only.
- (4) This research study is simple analytical study.

Review of Literature

There is vast Literature available in context of public finance & its relative components. Economist has explored this subject in detail both from the theoretical perspectives and imperial observation of the countries across. Attempts are made to make an objective assessment of the system prevailing in different countries in respect of public finance. Following is the gist of the several studies referred to in context of the proposed research work. This have been classified into two sections as under.

3.1 The theoretical perspectives

- (1) Robert Dorfman, “The Price System”, Prentice Hall, New Delhi 1965: has tried to analysis various economic systems to solve economic problems. He has emphasized more on market oriented economy. He has opined that like public economic intervention, market oriented system focuses on resource allocation on the basis of consumers choice, hence it is preferable to public economics intervention.
- (2) Boumol W.J. “Welfare economics & the theory of state.” Harvad University press, 1965.

Boumol has analyzed in detail the social and private costs and benefit in respect of the spill over advantages. He explains that there exists external diseconomies where spill over benefit is available and there is external is economic where spill over cost is there.

- (3) R.A. Musgrave, “The theory of public finances.” International student addition

He has examined in detailed several issues emerged in public finance and he explains that govt.’s expenditure largely grows more in relative terms rather than absolute terms.

- (4) Masgrave D. Rostow, Political and stages at growth

Musgrave and Rostow argues that in the initial stage of economic development, public sector investment tends to be very high largely due to infrastructure and social overhead. They both express the opinion that with the space of development public sector investment gradually declines.

- (5) Allen Pecoock & Jack Wisemen The growth of public expenditure in Great Brittan

Pecoock & Wisemen have analyzed in detail the rising trends of public expenditure in Great Britain. They have proved with the evidences of public expenditure statistics that rise in public expenditure is the type of step like development unlike the continuous development process. Their study reveal the fact that public expenditure in Great Britain had attend new height along with certain crisis period they found that it is because of the inspiration effect and or concentration effect.

- (6) Geraid Scully, The size of the state, economic growth and efficient utilization of national resource, public choice page No.63-1989.

Scully has studied about hundred countries data in relation to the level of govt. spending and economic growth. He has derived the conclusion that there is a functional relationship between economic growth and the level of govt. spending. He is of the opinion that because of the provision of public goods by Govt. the over all efficiency of private sector also increases. It is because of the positive externalities emerging through public provisioning, which leads to unpaid benefits.

- (7) D.J. Lakdawala ,Union state financial relations 1976 page-45

Prof. Lakdawala has exposed in detail the horizontal and vertical imbalances between fiscal needs and fiscal capacities. He has categorically observed that like Australia, Canada & America, Indian federal finance is experiencing the problem at fiscal imbalances.

- (8) George break & Lieon keyserling, “Revenue sharing its implications for present & future inter govt. fiscal system. The case for and against” published in “National Tax Journal vol. 24 No.3 page No.307 321

They have tried to present argument for and against the tax partnership system according to Break un conditional grant is the second best solution, top most is to share the taxes between the center and the states – He has advocated for this largely in context of USA. However it is equally applicable to all union Govt. While keyserling expressed the view that sharing in the tax system is constraint to achieve the objective of full employment.

- (9) R.N. Bhargave, “Theory and working of union finance in India.” 1967.

Prof. Bhargave has largely discussed in theory of federal finance. The same concepts which have been presented by Prof. A.C. Pigon in his “A study in public finance.” According to Bhargave the federal govt. should not content it self merely by following the principles of public finance in the limited fear of functions and resources assigned to it. It should act in a co-coordinating capacity to effect such transfer so that the principles of public finance is not violated for the nation as a whole.

- (10) World development report 1988, “On the very first page of the report it is categorically marked that public finance is no longer and extremely limited irrelevant discipline. Its activity now extend to almost all aspects of the life of and individual as also of the whole society.

- (11) Deviti Marco – first principles of public finance Jonathan cap- 1950, page-52.

Macro has discussed the feudal system of public finance with medieval period. He acclaims that the system in Germany is patrimonial in Germany financial advisor of prince also took a paternalistic view of state, according to them state is conceived as “A magnified family with a

big farm as it property” and there was hardly any difference between the welfare at the people and the welfare at the prince.

- (12) H.M. Groves, “Financing govt.” Henry Holt and Company Network 1958 – page 514.

Groves has described in detail the changes in emphasis in the study at public finance. According to him, financing govt. involves three basic functions, Taxing, spending and debt management. Fiscal theory and fiscal policy which derives from theory deals with all the problems relating to those functions.

- (13) W.W. Heller, “Fiscal policies for under developed countries.” In Bird and Oldman (ed) “Reading on taxation in developing countries. Third edition, 1975, page 586.

Heller observe that the pursuit of the aspiration of the people of poor countries involves acceptance of the objectives of tax and budgetary policy. They are mainly to make available for economic development the maximum flow of human and material resources to maintain reasonable economic activities in face of long run inflationary pressure and to reduce the extreme inequalities in wealth-income and consumption standard.

- (14) Arthur Smithies: federal budgeting & fiscal policy In a survey of contemporary economic volume – 1 – 1949 page 144.

Smithies have tried to explain the roots of fiscal policy. According to him it is the policy under which the govt. uses its expenditure & revenue programmes to produce desirable effects and avoid undesirable effects on the national income, production & employment.

- (15) K.K. Kurihara: The Keynesian theory of Economic Development p-153.

Kurihara observed that fiscal policy is a branch of economics which has undergone revolutionary changes with historical shift of

emphasis from revenue to welfare and more recently from cyclical stabilization to secular growth.

- (16) David Fand: Some issues in monetary economics fiscal policy assumption & related multiplier in John T Boorman and Thomas M. Haverilesky, Money supply, money demand & macro economics models – Allyn & Bacon INC – Boston 1974 p 474.

Fiscal deficits are often associated with it not directly responsible for substantial increase in monetary aggregate. The experience is that fiscal deficit finance by the banking system will tend to accelerate the growth in money stock, while a fiscal surplus weather impounded or used to retire debt. Will tend to decelerate the money stock, growth.

- (17) Semualson- “Summery of the friedman type monetarism in readings on economics. TATA Mc gro Hill New Delhi – 1973 p.120-121.

Semualson has tried to briefly explain the monetarism of Friedman. According to Friedman fiscal policy as such has no independent systematic effect upon aggregate dollar demand – increasing tax rate, but with the understanding that money growth remains unchanged, will have no effect in lessening the degree of inflation. He is of the view that the rate of growth of money supply is vastly more important than any changes in taxes or govt. expenditure.

- (18) W.Arther Levis: The theory of economic growth P.N. 236

Arther lewis observe that the central problem in the theory of economic development is regarding raising the consumption level which could be misused for tax evasion. The rise of the capitalist class might take a century. Since no developing countries can afford to wait along the alternative path of public saving, like taxation has to be chosen and it is of greater significance in the early stage of development.

- (19) K.K. George & I.S. Gulati ,Central state resource transfers 1951-84 EPW February 16, 1984 p.290.

Regarding fiscal transfers George & Gulati have remarked that only 2/5 of the central transfer are effected within the framework of the constitutional provision governing the role of the finance commission can be said to reflect on how the constitution at scheme has been side stepped in actual practice.

- (20) Amres bagachi: TAPAS SEN and V.B. Tulsidas, “Issues before ninth finance commission EPW may 7, 1988 p.956.

These critics have strongly commented regarding the terms of reference for the ninth commission. They have explained that removal of the distinction between plan and non plan together. With the direction to ensure generation of surpluses for investment indicates that the finance commission would have to assess the dimension of the revenue component of the next plan. It is feared that there could be an overlap of the function of the planning commission and the finance commission and under mining of the Gadgil formula.

3.2 Some Imperial observations

- (1) Pramatanath Banerjea: “The future of Indian finance” published in P.Jagdish Gandhi (Ed) Economic development and policies in India – Haranand publications 1994 P.N. 152 to 155.

In the presidential address delivered at the annual conference of the IEA (Indian Economic ass.) held at Lahore in 1931 – Mr. Banerjea had expressed deep concern regarding the British govt. approach toward Indian public finance. He reported that about fifty lacks pound (50 Lacks) was subtracted from the wealth of India and added to the wealth of England, which was the most serious injury, which India suffered from its connection with England. The than British govt. had paid too much attention to the defense and internal order with very little care for the health happiness and progress of the people depend. In those days the

central British govt. did not reallocate much to make it possible for the provinces to achieve substantial progress in the development of primary secondary or social sector.

- (2) M.V. Mathur: “Institutional framework of planning and union – state financial relations.” Published in R.K. Sinha (E.D.) “planning and development in India.” Haranand pub. 1994 page No. 116 to 128.

In the presidential address delivered at the annual conference of the I.E.A. held at Madras – December 1967.

According to Mr. Mathur along with the union level planning commission the state level planning commissions are required to set up with significant role. He has expressed a matter of concerned over the tendency of Indian states to be little active for the revenue generation. He firmly believes that the negative attitude on the part of the govt. has put economic and political health of the nation.

- (3) Kamta Prasad: “Planning in India some basic issues relating to operational & strategic aspect.” Published in Rajkumar Sen (ed) from diamond to platinum – I.E.A. presidential addresses. I.E.A. trust for research and development page No. 270 to 301.

In his detailed analytical presidential address, Kamta Prasad expressed the view that the gadgil formula for the inter state allocation of plan funds which had been in force from 1969 had not given adequate weightage to consideration related to backwardness. The working pattern of financial institutions is not found consistent with the objective of more equitable regional development.

The central funds should be distributed primarily with respect to the developmental needs of state which in tern should be determined on the basis of the gap between their existing and projected per capita incomes. There is also a need for the states to be provided some incentive for greater mobilization of resources under their jurisdiction.

- (1) B.P.R. Vithal: Federal financial relations the plan/non plan conundrum. Published in EPW February 13, 1999 page 431 to 436.

Mr. Vithal has tried to expose in detail the division of total revenue expenditure in to plan & non plan and the division of functions and responsibilities between the planning commission and finance commission; he has suggested various changes, according to which there should be changes in the role of planning commission in the past, the plan process had either built in a certain amount of deficit in its calculations or had, at least condoned it after the event in order to enter in to the period of fiscal discipline the primary and undisputed objective has to be that there can be no deficit on the revenue account what ever the fiscal deficit may be.

- (2) N.J. Kurian: "State govt. finances a survey of recent trends." EPW may 8, 1999, page No.1115 to 1125.

Mr. Kurian has attempted to bring out the deteriorating trend in state finances in recent years, in particular during the 1996-1999 he has observed that failure to control wasteful expenditure and reluctant to raise additional resources on the part of the states are main causes. Secondly tax wars among state govt. to attract private investment in the wars of economic reforms as well as competitive populism on the part of ruling parties for power is also responsible. The last blow has been the pay revision of employee forced upon the state govt. by the centers unilateral decision to implement pay commission report. As a result the essential investment need in social and infrastructure sectors. Large borrowing are resorted to by several states just to meet the current expenditure. Almost all the indicators of fiscal health of the state economics are steadily deteriorating. In the concluding part he has warned that unless drastic measures to correct the situation are not implemented in time, finances of several states may collapse.

- (3) NIPEP – 1981 Treurs & issues in Indian federal finance – Allied Publication Delhi

The impact of union resource transfers on tax effort was specifically examined for the first time by a study team from NIPEP under the leadership of R.J. Chelliah. This study taken in to account 15 major states for the period from 1965-66 to 1974-75. The study concluded that federal transfer as a whole, seem to be having a dampening effect on the tax efforts of the states, though the effect may not be specifically attributed to the policies proposed by the finance commission.

- (4) Ranjana 1984, “Allocative effects of inter governmental flows in India – A new perspective 1952 to 1977.” Margin April 1984.

Ranjana & Thimmaiah made separate attempt to analyze the allocative effect of inter government flows. They did not take into consideration the inter temporal effect and the individual characteristic of different states. They largely concluded that in aggregate large variations are found in respect of the effect of inter govt. mental flows and allocations have influenced the tax efforts of the states.

- (5) Rao Hemlatta – 1981 center state financial relations – Allied Pub – New Delhi

She has used different analytical techniques to analyze the effect of transfer of finance commission and planning commission – She concluded that both of them measurably failed to achieve their objectives of augmenting state resources in and equitable manner.

- (6) M- Nagnathan & K.Shivgnanam, “Federal transfers and tax efforts of the states in India.”

The Indian economic journal April – June 1999-2000 page 101 to 111. These two have made an attempt to highlight the impacts of union resource transfers at the tax efforts of the state. The relationship between

union transfer & the tax efforts of the states are interlinked as the transfer policy may encourage or discourage the tax efforts of the states in order to overcome the controversy and to get a comparative picture. The study used both time series & cross section data. The study in general concluded that the finance commission transfer have discouraged the revenue efforts of the states. However the existence of negative implications in it self may not be a cause for concern. If there exist and efficient and equitable mechanism of inter government transfers strongly linked to revenue effort as criterion to encourage the revenue mobilization efforts of the states.

- (7) Emmanuel Anoruo & Sanjay Ram Chander, “Current account and fiscal deficits evedence from India.”

Indian economic journal – Jaun – March – 1997 – 98 – page No. 66 to 75. This paper examined the relationship between the current account and fiscal deficits regarding India. This issue known as the twin deficits problem has important policy implications. The study empirically investigated the twin deficit hypothesis that persistent fiscal deficit has been the prime cause increasing Indian trade deficits – The finding of the study however revealed that trade deficit is to cause budget deficit but not vi – ce – versa.

- (8) K.Shambhat, “Political economy of public expenditure and tax revenue in India.” The Indian economic journal – July – September – 1996 – 97 Page No. 108 to 114.

This paper is a systematic effort to examine the main factors governing the Govt. expenditure and tax revenue of India during 1960-61 to 1990-91 and to test weather the changes in the political rule will have influence on public expenditure but not on tax revenue. The analysis reveled that the size of public expenditure of the central Govt. of India is positively influenced by degree of openness and unemployment rate of

the lagged one year and negatively determined by the density of population. It is also found that politicians tendency for populist measures lead to increased the size of public expenditure but it does not result into more tax revenue.

- (9) Govind Rao M – 1981, “Political economy of tax and expenditure determinants” A case study of for India states.” Allied publishers private limited New Delhi.

This research work was undertaken specially in Indian context. The study exposed that the ideological learning of the party in power do not affect significantly the level of expenditure in the state but intend to creates imaginary out put differentiation on this stability consideration. Less stable govt. tended to increase significantly higher levels of govt. expenditures particularly on social & economic services.

- (10) Mihir Rakshit, “Restoring fiscal balance through legislative fiat the Indian experiment.” EPW June 9 to 15 – 2001 page 2053 to 2061-

Mihir Rakshit has made an attempt to examine the major provision and the objectives of the fiscal responsibility and budget management bill. He has observed that the bill attested to the seriousness with which the govt. seeks to take the problems of revenue & fiscal deficits and the high ratio of public debt to gross domestic product. The programs arranged in context of the bills are well designed. These programs make works as effective tools – how ever some serious doubt regarding the bill can be raised – some of the provisions of the bill are inappropriate in respect of the primary, objectives. The analysis suggest that public saving promotes inter generational equity primarily, seems along with growth in the countries per capita income and elimination of poverty and illiteracy improvements in health and quality of life. The bill poses obstacles to attainment of these objectives. It is also likely that the targets for reduction in fiscal deficit and programmes for using revenue surpluses for

the purpose of public debt. May prevent govt. investment over the next decade. The bill in general has omission of time bound target. It also does not seriously address to the problem of financing public expenditure.

- (11) Ajit Karnik, “Fiscal responsibility & budget management bill – offering credible commitment.”

Karnik has discussed in detailed the fiscal responsibility bill. He has tried to offer a credible commitment for the seriousness of the govt. about fiscal consolidation. However he has expressed disappointment and deep concerned over the attitude of the political parties with major improvement suggested in the bill. He is of the opinion that with the elimination of all targets related to gross fiscal deficit and revenue deficit. The govt. would not violet any provision of the bill. He opines that now the bill is nothing but a cheap promise. It is as a meaning full document is as good as dead.

- (12) Coondoo–Majumadar–Mukharjee & Niyogi – “Relative tak performances analysis for selected states in India.” EPW October 6 to 12, 2001 page 3869 to 3871.

This paper examines the relative tax performance of some selected states based on annual data on state tax revenue for the period 1986 – 87 to 1996- 97. The technique of cortile regression is used in the paper. This paper is a part of the results of a project on measurement of taxable capacity of the states in India – commissioned by eleventh finance commission. They have observed that the tax performance in a federal structure of governance like that of India is an extremely interesting and important issue in respect of the fiscal management of Indian economy. The results clearly show that the states in south and west India display a superior tax performance compared to the remaining states of the country. The differential performance if categories into the factors, these can be identified as economic demographic and socio – political determinants.

- (13) EPW Research foundation – “Finances of govt. of India” EPW April 13 to 19 – 2002.

EPW foundation published special statistics series to highlight the quantitative dimension of the changes which have accrued in different components of the Govt.’s of India budgetary operations aggregate picture of the center & states together show and improvement in the recent years in respect of the combined tax revenue as % of GDP it was found 16% in the early 1990 it went as low as 13.4% in 1999 but again as per the budget estimates of 2001-02 it touched 15.5%. However debt to GDP ratio is found to have increased at the center as well as the states in 2001-02 as against what it was in 1997-98.

- (14) Shikha Zha: “Strengthening local govts rural fiscal decentralization in India.” EPW June 29 to July 5, 2001 page No 2611 to 2622.

This paper is revised version of a background paper on “over view of rural decentralization in India 2000.” It reevaluates the fiscal success of recent efforts toward reforming and training rural Govt.’s in India.

His comment is that fiscal decentralization is only the first step towards achieving better living standards. In fact the Panchayati Raj institutions need substantial nourishment in the form of better institutional capacity larger resources and most importantly, higher authority to spend them on improving local services.

- (15) M.Govind rao, “State finances in India issues and changes” ,EPW August 3 to 9 2002 page 3261 to 3271.

Govind Rao has exposed in detail the areas of reform the state should focus on to impart efficiency and improve revenue of unproductive expenditure. He has tried to highlight the deteriorating fiscal condition both at the center & state level in view of this fact. He however indicates some creative efforts put in by the states like Andhrapradesh, Karnataka, Kerla, Maharashtra, Tamilnadu & Uttarpradesh. He has

referred to the emerging challenges before the state Govt.'s in respect of providing quality social & physical infrastructure. It is in this regard that he has suggested for improvement in efficiency of electric city boards, reforms in tax system – building up appropriate information system and so on the fiscal reform journey toward achieving fiscal balance and consolidation and generation of quality infrastructure would meet with strong opposition from wasted political interest.

- (16) T.Ravikumar Murlidhar Vemury, ‘Centre states transfer of resources the population factor.’ EPW August 17 to 23, 2002 page No. 3406 – 3409.

An attempt is made to evaluate the effect of statutory use of the 1971 population as a policy variable for the last four financial commission award. This strategy of freezing the population factor to 1971 levels for resource allocation has been successful in denying states with higher rate of growth of population. The benefit of a larger proportion of resources, however include most of least developed regions of India. This policy also decreases the importance of the population as an indicator of the need of a state. It is lacking in respect of encouraging state to curb high rates of growth of population.

- (17) B.P.R. Vithnal & J.V.M. Sharma,

Twelfth finance commission framing its terms of reference for the twelfth final coming. It is expressed that to make the recommendations more effective, there should be removal of artificial restriction on the financial commission scope of operation. To concentrate on macro economic stability. To streamline management of Govt. Debt, to provide appropriate incentives to induce fiscal responsibilities to take integrated view of tax assignment and to provide operational guidelines for the state level finance commissions.

- (21) S. Gurumurthy, “Twelfth finance commission and states” debt. burden. E.P.W. Oct. 5 toll, 2002 page no. 4142.

Gurumurthy has tried to study the schemes and allocations for the states formulated by the 10th & 11th finance commission – having reviewed in detail the experiences; he has suggested that the twelfth finance commission should recommend the planning commission not to approve any state plan, which is in excess of its estimated resources. Secondly it is suggested that the commission should make in depth exercise to evolve some parameters to indicate the fiscal health of the state. The Author has also warned for a green situation like Brazil, if a fresh innovation and dynamic approach is not adopted to final lasting solution to the serious debt burden of the state.

- (22) Madhav Godbole, Law on fiscal responsibility and budget management – exercise into talkenism. E.P.W. March 15 to 21, 2003 p. 1018. Giving a commentary on fiscal responsibility bill Mr. Godbole expresses deep concern over the central govt.’s lukewarm attitude towards the said bill. He fears that in democratic policy of India there is a bad tradition of the state to follow the center if it is remains the same, there is very little possibility for improvement of the fiscal health of the states. He therefore subscribed to the view that the central govt. must play positive and leading role to set an illustrious examples for fiscal discipline.
- (23) E.P.W. research foundation, Finances of Govt. of India May 10 to 16, 2003 – page no. 1887.

In the introductory remarks to the special statistics published by the foundation, it appears that there is major credibility gap in the whole process of governance. There have been dimensional changes in revenue and expenditure of the center as well as the states during the post reform period. It is expressed that there is much hype and pretence of budgetary dynamism. Every year however the broad budgetary heads have remained static in relation to the size of the national economy during the past ten to twelve years. The plan of non plan expenditure is also found relatively

high. Fiscal deficits in aggregate has remained static the radical changes that one expected in the roll of the fiscal in the national economy as a result of reforms are no were to be seemed.

- (24) D. Badopadhyay, “Twelfth finance Commission and Panchyat finances” E.P.W. June 7 to 13 2003, p. 2243.

Banopadhyay has raised some issues for the consolidation of the twelfth finance commission regard to its task of making recommendation to augment the consolidated fund of the states in order to supplement the resources of Panchayat and municipalities. He has suggested developing the devolution index which should be periodically updated. Such devolution index could work as effective instrument to allocate the resources with balance approach.

- (25) R. Kannan , S.M. Pillai, R. Kausaliya and Jay Chander. Finance Commission award and fiscal stability in states., E.P.W. January 31 to February 6 2004 p. 479

The authors have tried to examine the efficacy of finance commission award in bringing about fiscal stability among the states. An empirical analysis reveals that though transfers helped to reduce the over all gross fiscal deficits of the states. The issue of reducing horizontal fiscal in equity is yet to be addressed. They find wild inter state disparity in respect of transfer and suggest streamlining disbursement criteria on basis of individual state characteristics rather than a general approach across states.

- (26) Rajan Gopal, “Does higher fiscal deficit rend to rise in interest rates? an impirical investigation”, E.P.W. May 21 to 28, 2004 p. 2128.

The relationship between fiscal deficit and the rate of interest is still and unsettered issue. In a small research paper Goyal re examines

this issue. He argues that the absence of an apparent fiscal impact on interest rate is essentially the result of higher liquidity in the system. His findings are there is a two way relationship between long term real interest deficits tends to put upward pressure on interest rates. It is also observed that when govt. borrowing is at market related rate, rise in market interest leads to higher interest payment and higher fiscal deficit.

- (27) Acharya Sanker, “India’s macro economic management in the nineties-Indian council for research on international economic relations – New Delhi.

Shrinasan, Acharya & Ahluwalia have presented the data to show that India’s fiscal and debt indicators are comparable to or worse than in Argentina – Brazil and Turkey-Countries, which have actually experienced a serious recent macro economic crisis. Acharya argues that to consolidate the fiscal position and to eliminate the threat to sustain growth, there is a need to improve spending composition which would be conducive to faster growth and poverty reduction and reducing deficits gradually.

- (28) Brian Pinto & Farak Zahir, “Why fiscal adjustment now”, E.P.W. March 6- 2004, 1039 to 1046.

In a special article in context of fiscal adjustment, the authors argue that it is unlikely to grow out of its debt problem in spite of today’s low interest rate, to contrary a fiscal adjustment is needed to insist faster growth. The challenge is to translate Govt. efforts into a road map of fiscal adjustment. It may create a better investment climate to help to promote long run growth and poverty reduction at the accelerated pace as suggested in the tenth plan.

- (29) C. Rangrajam D. K. Shrivastav, “Fiscal transfer in Canada Drawing comparison and lessons”, E.P.W. May 8 to 14, 2004, page 1897 to 1909.

In a special article the Authors examine the relevance and applicability of the Canadian system of inter governmental transfers in the Indian case. Their contention is that the source by source approach of Canada is less practical in India because of the problem of Comparable and reliable information required to apply the method. Indian macro is of course a more practical alternative but let there be the application of the indicators of fiscal capacity as against assuring availability of resources for maintaining the per capita expenditure of select basic services at certain level among states

- (30) A. Premchand, "Ethical dimensions of Public expenditure management" EPW, Feb. 21-27, 2004. page 813 to 822.

In a special article regarding Public expenditure management the Author has tried to highlight the limitations of the international financial institutions in respect of controlling public expenditure. The Author argues that it is essential to restore the credibility of Governmental system by formulating programme aimed at achieving improved public expenditure management. He refers to the inclusion of improved internal control system, restoration of balance between the executive code for Govt. establishment of effective channel for public participation. He however warns that the agenda is far wider than what is funded by the IFI. The fiscal responsibility for seeking improvement depends on the people of a country. External stimulus has many limitations of its own.

- (31) Bok Derek, The trouble with govt., "Harward University Press, Cambridge 2001, page no. 384 – 390.

With reference to the observance of fiscal norms by the govt. Bok has raised a critical question "how much effort citizens are prepared to

make to help their Govt. function effectively. He opines that largely there prevails a large gap between peoples expectation from the govt. & peoples performance for the govt. He therefore concludes that let the communities role be accepted as key tool to achieve fiscal efficiency. It is only through bringing them directly into the channel at development that their own expectation priorities and action would change.

- (32) C. Rangrajan, “Issues before the twelfth finance commission” paper presented at the seminar organized by NIPFP at Delhi published in EPW June 26, July 2- 2004 P.No. 2707-2717

Rangrajan has exposed in detail the prevailing fiscal trends and the factors responsible for that. He has focused on sustainability issues, different dimension of fiscal transfer and restructuring the fiscal mechanism. He expresses the hope that a good transfer system must be established and appropriate balance between equity and efficiency a system in which, fiscal disadvantage is taken care of but fiscal imprudent is effectively discouraged.

- (33) RBI annual report – 2002-03 on Govt. Finances – P. 52.

In general most of the reports published since mid 1990’s throw light on deteriorating fiscal state of central and state, the similar conclusion is expressed in the other publication like report on currency and finance. The economic survey, World Bank etc. In this last report it is categorically mentioned that “the steady improvement in the primary deficit coupled with the fall in capital outlay during the 1990’s indicates that the burden of unrelenting expansion in interest outgoes devolves on unproductive spending. Continuous rise in public debt has introduced the Govt. Sector’s utility to generate savings and to service its internal debt. The quality of fiscal deficit has worsened with the revenue deficit having increased substantially.

- (34) International Monetary Fund (IMF) 2002 “Selected issues and Statistical appendix for India” Country report 2/193/.

Whenever a cross over of any revenue over GDP growth occurs, there is a tendency to panic and describe the situation as a debt trap or equivalent. It is pointed out in the report as a factor inducing debt unsustainability.

- (35) Raju Raman – Indira & H Mukhopadhyay – 2000. “Sustainability of Public domestic debt in India” in fiscal federation in India contemporary changes, D. K. Shrivastav (FD) Haranand Publications.

In a widely sighted study on debt. Stability Raju Raman & Mukhopadhyay has stated the interest rate is found to have increased since mid 1980 it crossed over nominal growth for the first time in 1997-98. The years 1996-98 thus march a cross over to a regime where the primary deficit is found no longer pos-pond able in the interest of public solvency.

- (36) “Survey of state finances”, It is stated in the report that the eleventh finance commission has recommended the establishment of an incentive fund for purpose of encouraging fiscal reforms in the states on the basis of a mentionable fiscal programme. As per the recommendation incentive fund of about Rs. 1000/- crore was created to reward the states that achieve a 5% point reduction in their revenue deficit to revenue receipt ratio until 2004-05.

- (37) Vivek Murthy, “India’s primary deficit and interest payments burden an assessment” EPW June 26 July 2 – 2004, p. 2711.

The researcher has made an attempt to present the comment over the “Consensus” view that a worse revenue deficit and debt situation have

prevented fiscal consolidation. He has tried to explain the distinction between worsened deficit and debt condition with using time period approach. It shows that a rising debt ration, which might appear to be due to un favorable interest rate dynamics fund to related to a previous rise in the primary deficit.

- (38) Abha Prasad – Rajan Goal, Anupam Prakash – “States debt and relief”
A paper presented at the seminar on “issues before the twelvth finance commission organized at Delhi by NIPFP – represented organized at Delhi by NIPFP represented in EPW June 26 – July 2, 2004, p. 2726.

In this paper an attempt is made to highlight the deterioration in the fiscal performance of the states since the mid 1980’s. It is expressed in the paper that all indicators’ fiscal deficit, revenue deficit and debt GDP ratio reflects deteriorating situation. In view of providing some suggestions it is preferred from the study that lowering the primary deficit, besides a reduction in interest rate should be an integrated part of any policy to make sustainable at the state level.

- (39) Amresh Bagchi – Pinaki Chakraborty “Towards a rational system of center state revenue transfers” A paper presented at the national seminar on issues before the twelve finance commission – organized by NIPFP reprinted in EPW June 26 – July 2, 2004.

An in-depth exercise is made with substantial evidences to investigate into the center states revenue transforms. They have observed that there are deficiency mainly in respect of multiplicity of transfer channel, faulty design of F.C. transfers and institutional weakness of the system. They put more emphases on reforming the scheme of center state revenue transfer to achieve the goal of efficiency and equity. They also

suggested for integration of transfers provisioning for special grants to equalize the level of basic services.

- (40) Tapas K. Sen Christo Trebesch, “Use of socio economic criteria for inter governmental transfers” Paper presented at the national seminar on issues before the twelfth finance commission.

The Authors have tried to examine the transfer system that operates in India through the institution of finance commission. The paper focuses on an evaluation of the need, appropriateness and manner of use of various socio-economic creations, in the design transforms mandated by finance commissions over the years. The paper considers these issues in context of international experiences.

Their general conclusion is that the F.C. have super imposed performance indicators on the other type of indicator. They stand by the opinion that any significant transfers based on the origin of tax revenue is not logically maintainable.

- (41) Bird and Tarasov 2002, Alm & Martinez 2002, “Closing the gap fiscal imbalances and inter governmental transfers in developed federation – working paper II. International studies programme, Georgia State University, on the use of budgetary norms as a tool for fiscal management. Working paper 15 et. al.

In context of working out different Criteria of expenditure needs, these scholars have tried to examine the area indicator. They are of the view that the cost of delivering public services tend to be higher in very densely populated areas. In fact in Germany, city state receives higher allocation due to the disadvantages of urbanization. Similar arrangement can be found in koria and again Japan

- (42) Rao Govind M. 2002, "State level fiscal reforms in India". Working paper.

In respect of non-plan expenditure he observes the reduction in non plan expenditure as % of GDP, but not in nominal terms. He is in agreement with the observation that increased provision to social sectors and physical infrastructure can be made only when the size in revenue GDP ratio is reversed.

- (43) Anupam Rastogi – restructuring public finance. Paper presented at the national seminar on issues before the twelfth finance commission organized by NIPFP. Reprinted in EPW June 26 to July 2, 2004, p. 2756. The scholar has tried to inquire into the possibilities of restructuring public finance with the help of the analysis of past data, he shows no improvement on any of major fiscal indicators. Performance based sectors specific transfer could set an example for state finance commission. He expresses the hope that in the coming years as states are expected to raise part of the resources from the capital market. The roles of state plans and central planning commission need to be reexamined.
- (44) Archana Dhodakiya, "Problems and prospects of fiscal balance in Gujarat" occasional paper No. 3 published by Dr. Lakdawala memorial trust GIDR Ahmedabad June 2000.

In a paper presented at the Lakdawala memorial seminar the scholar tried to examine and analyze the fiscal situation in Gujarat. After reviewing in detail it is concluded that the center should take the steps like developing a normative approach to determine the states resources requirement and resources capacity. Making them more accountable for their expenditure decision – appropriate weights could be given to revenue collection efforts with allowing greater degree of freedom for direct and indirect tax collection.

- (45) Archana Dhidakiya, Fiscal imbalance in Gujarat non tax revenue & subsidies EPW, August 26 to Sep 2 , 2000, page 3217.

In a research article she has analyzed Gujarat non tax revenue & subsidies find possibilities of improvement. She has found that contrary to the spirit of economic reforms, the state in Gujarat is more active in areas from which it should withdraw as shown by high economic subsidies, and it is less active in areas where intervention is called for as shown by low social sector subsidies.

3.3 Summary

Detailed studies pertaining to the theories of public finance and empirical observations of applied practices in general suggest very clearly that the states have frequently changed their approach towards finance. Most importantly it is found that in democratic nations, it is the political ideology which has by enlarge influenced the policy of public expenditure and revenue. Very few studies reveal that governments have become the right task master in order to regularize public finance mechanism. Studies in respect of central Govt. transferred to states also have raised some important issues, which are likely to affect the future political economy in a country like India.

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Chapter – 4

Fiscal Condition and Reforms

4.1 Indian experience at glance

Indian economy is a mixed economy. Fiscal policy in a country like India plays crucial and multidimensional roll in trying to satisfy the twin objectives of growth and social justice. The traditional keynsian approach for judicious use of public spending and taxation attained greater significance in economic operations of different countries. Indian economy was not an exception to that phenomenon. The economy has under gone radical changes since July 1991. These changes are mainly centered round the issues of both stabilization and structural reforms, the poor health of our fiscal system, the inadequate resource generation, increasing inefficiency of state owned enterprises, the adverse capital output ratio both in public and private sector and the acute misery of balance of payment, let us to take new and bold initiative for improving efficiency and productivity to put the economy back on the path of self sustained growth.

One can have the better understanding of the fiscal crisis by making a distinction between macro economic stabilization and structural adjustment. Stabilization basically refers to short term problems while structural adjustment deals with obstacle to recent macro economic crisis has been closely linked with the imbalances in the fiscal sector. The central govt. gross fiscal deficit was equal to 8.4% of GDP at current prices during 1990-91 as against 6% in beginning of 1980's and 3 to 4% in mid 70's. In 1997-98 it was 6.3% and as per the budget estimate of 2003-04 it is again 5.6%. The fiscal deficit has resulted in growing indebtedness. The internal and external debt constituted about 57% of GDP in around 1993-94 external debt. Figures were Rs. 150760 crores in

1997-98 which increased to Rs. 230000 crores in the year 2002-03 the external debt GDP ratio declined from 5.5% in 1990-91 to 3% in 2001-02 and was estimated to decline further to 2.8 in 2002-03. The debt position of the state of Govt. of India was also found deteriorating. The interest burden of the govt. of India in 1980-81 was Rs. 3500 crores. It was Rs. 21500 crores in the year 1990-91 and as per the estimate at 2003-04 it is Rs. 120 crores. RBI has correctly observed in general that the continuous increase in govt. expenditure, potentially on budgetary subsidy together with an inadequately elastic response from the tax system and continuous losses of the public sector has contributed to the budgetary gap. It is because of the spill over of fiscal imbalances and excessively protected and sheltered market. That it resulted in to adversely affected efficiency, technological up gradation and export competitiveness.

Broadly considered fiscal adjustment program through the majors in the area of direct taxes with simplification and rationalization of the structure and widening its base has encouraged the competitiveness of the economy as existing customer rates are now in line with those in competitive countries there is reduction in tariff rate excise duty structure is rationalize.

The other important dimension of fiscal health of Govt. of India is in respect of growing conflict and tension between the Indian union and the states in the matter of finance. This conflict is often aggravated by political and ideological differences between the different parties governing the center and the states.

Attempts have been made in the last thirty years to have comprehensive review of center states relation in general and center states financial relation in particular. The J.K. Thavaraj Committee report of the taxation inquiry committed Kerala govt. The Rajamannar Committee on center state relation appointed by the DMK govt. at Tamilnadu and the document on center state

relation (1978) adopted by the west Bengal cabinet. All these have the same theme that is political and financial autonomy for the states and drastic restriction of the popular and financial resource of the center.

One important thing is observe in respect of responsibility and resources of the center and the states. It is found that as against the endowment of resources the states do have more responsibility constitutionally financial strange center and week states are found in common – The states in general have pointed out that the center has not taken sufficient initiative to impose all the taxes under article 269 whose proceed would go to the states. The states have also opposed the exclusion of corporate tax. The states also represent the fact that central excise duties have been expanded by way of inclusion of growing numbers of items, previously taxed by the states.

In general in India there is too much dependence of the states on the center in the form of grant-in-aid and loans. This has serious adverse consequences. It has resulted in to humiliation of the states. It has resulted in to uncertainty in the budgeting of the states. The states at large face difficulty in fulfilling electoral promises and there is increasing tendency for unauthorized over draft to finance plan projects of the states.

Under the reforms the states experience regional imbalances as a source of conflict. Progressive states have experience center in different toward resource allocation with the changing scenario there is an increase of planning process in the form of responsibilities and commitment of the state how ever there is not corresponding rise in the financial resources. The financial power of the states are much limited in relation to their clearly define responsibilities.

There is growing demand by the states for strengthening the state through greater degree of state autonomy. The fact is that all states currently do not hold ideological harmony amongst them self. There are some states whose demand

for the autonomy is in different context. The ideology of DMK in Tamilnadu Akalidal in Punjab regional parties in Nagaland and Assam are notable example in this regard. The history proves that it was the presence of common political ideology and supreme central authority, which held together the culturally diverse autonomous states in the USSR. When that common political ideology and the stranger central authority disappear, USSR disintegrated. It is a matter of concern in this regard that state autonomy can be dangerous to national integrity. The current status of political economy reveals the fact that in general states do enjoy considerable autonomy. States have exclusive control over such key sectors as agriculture, irrigation and power, administration, social welfare law and order etc. but all the states have not performed these functions properly in any appreciable degree. The advanced states have continued to march ahead and the backward states have remained backward.

Under the reforms it is the argument put forward by the center to the states to fully exploit the resources at the command. The states are still reluctant to tax agricultural income but they are abolishing land levy. Center has expressed a matter of concerned over state tax administration particularly in some of the states where the administration is hopeless current inefficient. The massive indebting of the state had led to a kind of creditor debtor relationship between the center and the states bridging a sense of irresponsibility among the borrowing states.

4.2 Venkat Raman's study on fiscal responsibility index.

K. Venkat Raman a noted expert on public finance has made some important observations in his analytical paper on fiscal responsibility index. He has tried to highlight gross fiscal deficit as a % of total expenditure, primary

fiscal deficit as a % of NSDP, Revenue deficit as a % of aggregate expenditure, interest payment a % of revenue receipts and debt of a % of NSDP.

He has covered 17 states in his study and figures for 1990-1995 and 1995-2000 are presented. He has categories 17 states in to four of the following categories.

1. High income states – Gujarat, Haryana, Maharashtra and Punjab
2. Middle income states – Andhra, Karnataka, Kerala, Tamilnadu and West Bengal.
3. Low income states – Bihar, Madhyapradesh, Orissa, Rajasthan and Uttar Pradesh.
4. Special Category states – Assam, Himachal Pradesh, Jammu and Kashmir

He has observed that in respect of Gross fiscal deficit as a % of total expenditure in the first half Assam – Hariyana, Jammu and Kashmir, Madhya Pradesh, Maharashtra and Tamilnadu where the states with lowest % in average. While in the second half he observed that only Madhyapradesh and Tamilnadu retain their position- Hariyana and Maharashtra have slipped out, while Andhra and Karnataka entered the group.

About the states with highest % in average it is observed that U.P., Orissa , W. Bengal and Kerala could not improve in the last decade. More important the ratio is found to have increase over the years for all the states.

He examined the position of the states in accordance with % of premium deficit to NSDP. This indicates budgetary flexibility. The lower the %, the flexibility for discretionary spending. Jammu-Kashmir, Assam, Bihar, Tamilnadu are the states found more flexible all through out the decade.

While Haryana and Maharashtra were found more flexible in the first half while Punjab and Tamilnadu were found more flexible in second half.

About the least flexible states. Himachal Pradesh, U.P. and Orissa are found least flexible all through out the decade. Punjab Gujarat and Tamilnadu were found least flexible in first half. Maharashtra, W. Bengal and Kerala could not improve in the last decade. More important the ratio is found to have increase over the years for all the states.

The third indicator of revenue deficit as % of gross fiscal deficit highlight the fact that all states have revenue deficits and that has increased dramatically in the second half. It is found from the table that the states like Tamilnadu, W.Bengal and Punjab have continued to have a high revenue deficit syndron. It is because of less scope for capital expenditure and the use of borrowing for current consumption.

States own resources as a % of aggregate expenditure state that six states are more self reliant they are Haryana, Maharashtra, Gujarat, Karnataka, Punjab and Tamilnadu while the states like Jammu-Kashmir, Himachal pradesh, Assam, Orissa, Bihar and UP fall in the category of least self reliant state.

About interest payments as a % of revenue resources Tamilnadu, Karnataka, Maharashtra and Madhya pradesh are the states found with lowest burden all through out the decade. Andhra and Haryana had lowest burden in the first half, but they slipped out in the second half. While Jammu-Kashmir and Assam entered in to the second half. The states like Bihar , Orissa, UP continued to have a high burden – J & K improved the position.

The percentage of debt to NSDP – state that Maharashtra, Tamilnadu maintain the first and second rank respectively while Gujarat improved the ranking from six in the first half to three in the second half – Madhya pradesh also improved the rank from seven to five respectively while Andhra could not

maintain the performance and went down from four to six. Hariyana also met with the some result and went down from five to seven.

Venkant Raman has in conclusion provided the aggregate score card based on this six indicators – according to his analysis Gujarat was 8th in the ranks with forty seven score average of 7.8 in the first half and in the second half the state improved a position little with the score of 42 7th in the rank with average of 7.0.

He has also analyzed that all through out the reform period total development expenditure of states in general has decline from 1999-2000 there has been little increase in the total development expenditure how ever after 2002-03 in the last two years it again shows declining trend.

Development expenditure if segregated it is reveled that the expenditure has never crossed 1.9% of GDP on capital account and on revenue account it was maximum in the year 1991-92 (0.1%) and minimum in the budget estimates of 2003-04 (7.3%) thus, it is a matter of great concerned for all the states as the development expenditure tends to have decline.

He has revealed revenue and capital expenditure of the states which if examined in respect of percentage expresses the fact that all through out the period of reform revenue expenditure is proportionately more than that of capital expenditure. Right from 1995 to 2001-02 capital expenditure has remained around 2.7% while during the same period revenue expenditure has remained around 12.2 to 13.8%. Thus it is very clear that aggregate situation is much alarming.

States fiscal deficit in aggregate was 3.3% of GDP in 1990-91 and it decline to 2.7% in 1996-97. There after it again expressed a rising trend to reach 4.7% of GDP in 1999-2000. It had declined a little near about 3.9% in 2000-01 and 2001-02. But it again shot up to 4.7% of GDP in 2002-03.

4.3 Fiscal position

Fiscal position of the central and states combined indicated the following picture.

In the year 1999-2000 fiscal deficit as % of GDP was 10.4% it went up to 10.7% in 2000-01 again increased to 11.1 in the year 2001-02 as per the revised estimates of 2002-03 it is 10.4% and budget estimates of 2003-04 mention a little fall up 9.4%.

Revenue deficit in combined was 69% of GDP in 1999-2000. Which increased to 7.3% in 2000-01 and again to 7.6% in 2001-02. Here also a little declined is reported in the revised estimates of 2002-03 that is 7.5% and less in the budget estimates of 2003-04 up to 5.9%.

Having a look at primary deficit it is found that the deficit was 3.4% of GDP in 1999-2000 – 3.0% in 2000-01, 3.2% in 2001-02 revised estimates of 2002-03 indicated 2.5% and budget estimates of 2003-04 reflected 1.6% of GDP.

A matter of concerned is found more in respect of public debt as % of GDP it has continuously increased. It was 81.8% in 1999-2000, 87.6% in 2000-01, 93.4% in 2001-02, as per the revised estimates of 2002-03 it is 100% and revised estimates of 2003-04 indicates 102.2%.

In general it appears therefore that fiscal position in aggregate is not just red, but it is the deepest red, central and state govt. finances are in complete disarray.

As per the report of RBI out standing liabilities of states in aggregate as % of GDP is indicating continuous rise from the year 1997-98. It was 18.5% in 1997-98 which increased to 19.6% in 1998-99, went high to 21.7% in 1999-

2000, 23.8% in 2000-01, 25.7% in 2001-2002 – 27.9% in revised estimates of 2002-03 and 28.7% in the budget estimates of 2003-04.

Combined receipts and disbursement of the central and state govt. also provide a picture not healthy in conformity to the aggregate trend. Total receipts as % of GDP was 26.8% in the year 1990-91. It was found 26.4% in the year 1998-99, 28.0% in 1999-2000, again 28.6% in 2000-01, 29.5% in 2001-02, 30.2% in the revised estimates of 2002-03 and 29.6% in the budget estimates of 2003-04. The disbursement as % of GDP was 28.8% in the year 1990-01, 26.6% in 1998-99, 28.2% in 1999-2000, 28.5% in 2000-01, 28.6% in 2001-02, revised estimates of 2002-03 shows 30.4% and budget estimates of 2003-04 indicated 29.9%.

In other words the states of large tried to keep them self away from taking in popular tax majors and to attribute their inefficiency and failure to the center with the major recommendation of at the tenth finance commission being accepted the issues of conflict between the center and the states is getting disappear.

4.4 Review of recommendation of 12th finance commission

Review of recommendation of finance commission was constituted by the presented on November 1, 2002 to give recommendations of specified aspect center states financial relation during year 2005. The commission has submitted its report covering all aspects of its Mandate on December 17, 2004. This report is to come in implementation from April 7, 2005.

In the 11th finance commission it was recommended to devolve 29.5% of the total central tax revenue to the states as against the 29% level prevailing earlier in the 12th commissions report. It is recommended that 30.5% of the net proceeds of sharable central takes may be distributed amongst all such states

where any such central tax is livable. The commission has allowed the states to levy sales tax or VAT on textiles, tobacco and sugar.

The eleventh finance commission had provided 13.5% to be given as grants in aids to all the states, the amount was 58587 crores rupees. The twelfth finance commission has in total recommended 142639 crore rupees as grants in aid. From this grants in aid non plan revenue deficit grants was of 35359 crore rupees in the 11th finance commission this grant in 12th finance commission is suggested to Rs. 56855-89 crores.

In the 11th finance commissions report. Maharashtra, Tamilnadu, Gujarat, Kerala, Andhra pradesh, Karnataka, Panjab, Hariyana, Rajsthan and Himachal pradesh were the losers because of changing the criterion for development of taxes and duties. While with certain changes in the criterion again Gujarat, Panjab, Maharashtra and Himachal pradesh are the major beneficiaries of the recommendation of 12th finance commission. Their share in total transfers has gone up as compared to their share in the five year period of 2000-05.

Talking about Gujarat the state is to receive the benefit of 10285 crore rupees as part of the development in comparison with 11th finance commission in respect of the grant the state is get benefit of Rs. 2324 crores rupees against 11th finance commissions award in total the state is to benefited of Rs. 13608-53 crore rupees.

The states, which are likely to get less than the average increase, include Jammu and Kashmir and Sikkim, which are likely to be compensated through other funding mechanism.

Against the 11th finance commission weighted of 10% for population, the 12th F.C. has increased the weight to 25% as it is the basic indicator of the need for public, goods and services and as a certain an it ensures equal per capital transfer cross states.

In respect of the use of area of a state as a criterion for deterring its share the 12th F.C. has assigned a weight for 10% against 7.5% suggested by the 11th F.C.

Per capita income distance was 62.5% under the 11th F.C., which has been assigned a weight of 50% by 12th F.C.

The weighted for tax afford has been in increase to 7.5% from 5% under the 11th F.C. as the need for fiscal consolidation has become more urgent while the weighted for fiscal discipline has been retained at 7.5%

The center has accepted the 12th F.C. recommendations to increase the resources of municipalities and panchayat through grants in aid of Rs. 25000 crores from the consolidate funds of states for the period 2005—10.

This amount may be divided in to a 80:20 ratio between panchayat and municipalities panchayat was institutions will be given Rs. 20,000 crores and municipalities will get Rs. 5000 crores, which are a substantial increased over the level recommended by the previous commissions.

Important observations is made by 12th F.C. with regard to the short fall in the release of grants of states due to under utilization of funds and the enable of states or local bodies to raise matching contribution.

However the commission emphasis the important of states raising their own resources but it has not imposed such conditionality. The commission has category remarks that local bodies should not be deprived of funds by the central govt. as this grants are in the nature of a correction of vertical imbalance between the center and states.

In respect of the panchayat utter pradesh will get the highest allocation of up to Rs. 2928 crores or 14.64% of total allocation, followed by Maharashtra with Rs 1983 crores or 9.91% of the total allocation during the period 2005-10.

The municipalities in Maharashtra and Gujarat stand to gain the maximum share of allocation with 15.2% or Rs 791 crores and 8.2% or Rs 414 crores during 2005-10 respectively.

The commission has recommended that the scheme of fiscal reform facility may be replaced by scheme of debt relief over the period 2005-10. In this regard it is suggested that the rescheduling of all central loan contracted till 31st March, 2004 and outstanding as on 31st March, 2005 in to fresh loans for twenty years carrying 75% interest from the year which a states enacts the fiscal responsibility legislation.

In general 12th F.C. report is well come all over more importantly by the states making honest efforts to mobilize resources. It is remarked that 12th finance commission has taken in to consideration the strong filling of honest states. Who were otherwise get punished for their honesty. The govt. has done well to accept the recommendation that will pass on external assistance to states on a back to back basis provided that all service costs and exchange rate fluctuations are born by the state, this has been a major source of patronage in the past as favored states have found it easier to negotiate world bank loan – restricting the level of grants to states, and saying that this would be linked to the absorption capacity of the state is another good move.

It is also well coming that the commission has asked all the states that the salary bill of state should not exceed 35% of there revenue expenditure. It has also recommended that states should reduce the size of their work force decrease in the average salary per employee and increase the level of revenue receipts without increasing the revenue deficit.

The 12th F.C. has projected a compounded annual growth rate of 14% in the center gross tax revenue, while the central govt. spending is expected to record to a compounded annual growth rate of around 10% over 2005-10.

The commission aspects the services tax to have a much higher rise than projected by the central govt. because of the significant growth in the service sector.

As per the commissions estimates the center tax GDP ratio is projected to improve by 0.92% points by 2009-10 compared to 2004-05 level and 1.68% points over the level in 2003-04. The commission has assumed a nominal growth of 12% over its reference period.

However the center's non-tax revenue as a % of GDP is not expected to rise substantially and will reach 2.45% of the GDP in 2009-10 compared to 2.21% in 2004-05. The gross revenue receipts of the center is projected to rise 12.16% of the GDP in 2004-05 to 13.33% in the concluding year, while net revenue receipts are projected to increase to 10.39% of the GDP from 9.55% of GDP.

The commission has put a word of caution for greater discipline in the area of that govt. public sector undertaking and said that govt. should ensured higher dividend receipts from the states own company as some of than did not follows govt. directors.

The fiscal deficit is estimated to reduced to 3% of GDP in line with the projections from 2008-09 in line with the targets laid down in the fiscal responsibility management act revenue deficit is assumed at zero, while primary deficit is expected to touch of 0.15%.

About non-tax revenue it was 15.69% per year in the pre reform period, which declined to 8.55% per year during the reform period.

4.4.1. What did the states get

Rs. Crore	Devolution		Grants		Total	
Andhra Pradesh	28930.25	45138.68	2030.93	5214.58	31011.18	50353.26
Aruhachal	.918.22	1767.34	1396.96	1758.22	2315.18	3525.56
Assam	12362.05	19850.69	918.81	4478.71	13280.86	24329.4
Bihar	54934.9	67671.04	1 793	7975.79	56727.9	75646.83
Chhattisgarh	0	16285.76	0	1987.94	0	18273.7
Goa	775.22	1589.14	4634	135.39	821.56	172' 53
Gujarat	10615.33	21900.47	1384.29	3708.28	12000.22	25608.75
Haryana	3552.44	6596.46	653.33	1445.98	4208.77	8042.44
Himachal Pradesh	2570.25	3203.22	4890.18	11247.14	7460.43	14450.36
Jammu & Kashmir	4854.5	7441.71	11573.72	13438.57	10428.22	20880.28
Jharkhand	0	20624.02	0	3032.82	0	23656.84
Karnataka	18552. 18	27361.88	1139.5	4054.4	19691.98	31 416.28
Kerala	11504.04	16353.21	812.68	3^54.51	12316.72	19607.72
Madhya Pradesh	33258.9a	41180:59	1739.4	5141.37	34998.38	46321.96
Maharashtra	17431.05	30663.19	1956.44	5531.06	9387.49	36194.25
Manipur	1377.32	2221^44	1838.59	4648.76	3215.91	6870.2
Meghalaya	1287.01	2276.61	1674.4	2091.16	2961.41	4367.77
Mizoram	: .745,11	1466.52	1790.16	3194.39	2535.27	4660.91
Nagaland	827.9	1613.67	3621.86	5839.74	4449.76	7453.41
Orissa	19026.64	31669.47	1727.86	5273.3	20754.5	36942.77
Punjab	4316.37	7971	1112.16	4913.59	5428.53	12884.59
Kajasthan	20595.88	34418.56	2992.75	4643.91	23588.63	39062.47
Sikkim	692.43	1392.94	941.49	436.2	1533^92	1829.14
Tamil Nadu	20264.72	32552.74	1336.71	4135.39	21601.43	36688.13
Tripura	1832.67	2626.09	2528.37	5790.91	1361.04	8417
Uttar Pradesh	74501,56	118209.45	4007.74	15262	78509.3	133471.45
Uttaranchal	0	5762.22	0	6432.12	0	12194.34
West Bengal	30540.09	43303.91	4679.76	7573.37	35219.85	50877.28
TOTAL	376318.01	613112.02	58587.43	142639.6	434905.44	755751.62

Source : Business standard 26th Feb. 2005

**Table No. : 4.4.2
States stake**

State	Share (all shareable taxes excluding service tax) (percent)	Share of Service Tax
Andhra Pradesh	7.356	
Arunachal Pradesh	0.288	0.292
Assam	3.235	3.777
Bihar	11.028	11.173
Chhattisgarh	2.654	2.689
Goa	0.259	0.262
Gujarat	3.559	3.616
Haryana	1.075	1.089
Himachal Pradesh	0.522	0.529
Janimu S Kashmir	1.297	nil
Jhatkhand	3.361	3.405
Karnataka	4.459	4.518
Kerala	2.665	2.700
Madhya Pradesh	6.711	6.799
Maharashtra	4.897	5.063
Manipur	0.362	0.367
Meghal?ya	0.371	0.376
Mizoram	0.239	0.242
Nagaland	0.263	0.266
Orissa	5.161	5.229
Punjab	1.299	1.316
Rajasthan	5.609	5.683
Sikkim	0.227	0.230
Tamil Nadu	5.305	5.374
Tripura	0.428	0.433
Uttar Pradesh	19.264	19.517
Uttaranchal	0.939	0.952
West Bengal	7.057	7.150
All States	100.000	100.000

Source : Business standard 26th Feb. 2005

4.5 Central and States outlook

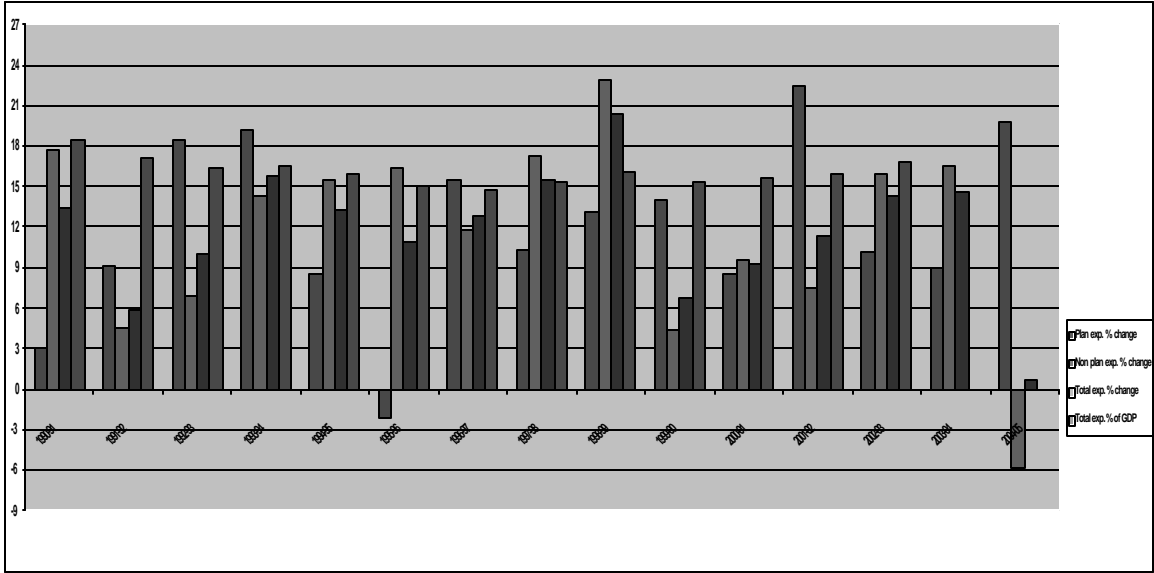
Table No. 4.5.1

Central Government Expenditure

	Plan exp. (Rs. Crore)	Non Plan exp. (Rs. Crore)	Total exp. (Rs. crore)	Plan exp. % change	Non plan exp. % change	Total exp. % change	Total exp. % of GDP
1990-91	28365	76933	105298	3.07	17.66	13.34	18.52
1991-92	30961	80453	111414	9.15	4.58	5.81	17.06
1992-93	36661	85958	122619	18.41	6.84	10.06	16.38
1993-94	43662	98191	141853	19.10	14.23	15.69	16.51
1994-95	47378	113361	160739	8.51	15.45	13.31	15.87
1995-96	46374	131901	178275	-2.12	16.35	10.91	15.01
1996-97	53534	147473	201007	15.44	11.81	12.75	14.69
1997-98	59077	172976	232053	10.35	17.29	15.45	15.24
1998-99	66818	212522	279340	13.10	22.86	20.38	16.04
1999-00	76182	221871	298053	14.01	4.40	6.70	15.39
2000-01	82669	242923	325592	8.52	9.49	9.24	15.58
2001-02	101194	261116	362310	22.41	7.49	11.28	15.88
2002-03	111455	302708	414162	10.14	15.93	14.31	16.77
2003-04	121507	352748	474255	9.02	16.53	14.51	
2004-05	145590	332239	477829	19.82	-5.81	0.75	

Source: Public Finance- Center for Monitoring Indian Economy (CMIE), Nov.

2004, page no. 2.



As presented in the table there has been sharp variations found in respect of percentage change both of plan expenditure and non plan expenditure. It is observed clearly that plan expenditure is found to have increased maximum in the year 2001-02 while non plan expenditure percentage change is found highest in the year 1998-99. Negative percentage change in case of planned expenditure is observed in the year 1995-96 while in case of non plan expenditure it is observed in the current financial year budgets estimates.

Looking at the total expenditure % change is found in varying degree minimum is reported in the year 2004-05 budget estimates while maximum is observed in the year 1998-99. It is also reflected that the year in which non plan expenditure in % is changed maximum in the same year total expenditure in % has increased maximum.

The inter relationship between % change in plan and non plan expenditure if examined states considerable gap between the two. The year in which planned expenditure in % change is maximum (2001-02) in that year non plan expenditure is less than that about 14.92% point. Similarly the budget estimate of the current financial year indicates sizeable rise in plan expenditure % against which non plan expenditure % change is found negative. The year in which planned expenditure % change is negative (1995-96) the non plan expenditure % change is of 16.35.

Looking at the graph of total expenditure as % of GDP it is observed that right from 1991-92 too the year 1996-97 i.e. during the period of 8th five year plan it has been declining. While there after there are little fluctuations over the period.

In general looking at the segregation of total expenditure non plan expenditure tends to be higher than planned expenditure in almost all years of study. Thus it reveals the fact that central government has not been able to control the non plan expenditure.

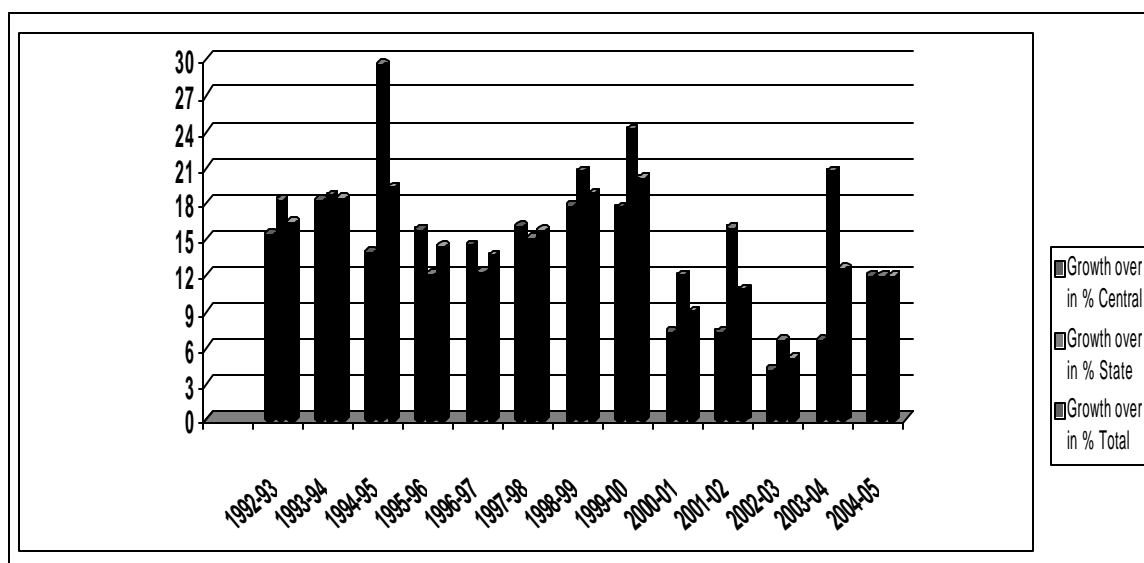
Table No. : 4.5.2

Central & State Government Expenditure General Services

Year	Central Govt. (Rs. Crore)	State Govt. (Rs. Crore)	Total (C & S govt.) (Rs. Crore)	Central % to the Total	State % to the Total	Growth over in % Central	Growth over in % State	Growth over in % Total
1991-92	51464	26900	78364	65.67	34.33			
1992-93	59384	31816	91200	65.11	34.89	15.39	18.28	16.38
1993-94	70225	37766	107991	65.03	34.97	18.26	18.70	18.41
1994-95	79961	48919	128880	62.04	37.96	13.86	29.53	19.34
1995-96	92584	54845	147429	62.80	37.20	15.79	12.11	14.39
1996-97	106019	61576	167595	63.26	36.74	14.51	12.27	13.68
1997-98	123066	70854	193920	63.46	36.54	16.08	15.07	15.71
1998-99	144945	85515	230460	62.89	37.11	17.78	20.69	18.84
1999-00	170593	106259	276852	61.62	38.38	17.69	24.26	20.13
2000-01	183126	118956	302082	60.62	39.38	7.35	11.95	9.11
2001-02	196673	137958	334631	58.77	41.23	7.40	15.97	10.77
2002-03	204832	147111	351943	58.20	41.80	4.15	6.63	5.17
2003-04	218458	177601	396059	55.16	44.84	6.65	20.73	12.53
2004-05	244485	198759	443244	55.16	44.84	11.91	11.91	11.91

N.B. : 2003-04 is revised estimate and 2004-05 is budget estimate.

Source: India Public Finance – November 2004 – Center Monitoring Indian Economy (CMIE) page no. 15



This table provides data on expenditure on general services of central government all states and total expenditure. Looking at the total of revenue and capital expenditure following picture is revealed. It is highlighted from the table that.

1. Central government expenditure on general services indicates declining trend all through out the period of study. It is only during the years of 1995-96 to 1998 that there has been increase in the percentage point. On the other hand it is evidently found that general expenditure of all states shows increasing trend except the year 1996-97 and 1997-98.
2. Considering the percentage in comparison with 1991-92 the year 2004-05 expresses 10.51% point rise in the expenditure of states while it expresses – 10.51% point difference in the expenditure of central government.
3. Percentage growth over the year in respect of central government expenditure indicates greater amount of change during the period of 1992-93 to 1999-2000. After that it shows less amount of change over the previous years in percentage. However the budget estimates of 2004-05 of central government indicates again more change over revised of 03-04.
4. Coming about the trend of expenditures by the states again it is observed that there have been fluctuating trends in respect of the percentage over the previous years. In comparison with the period 8th five year plan fluctuations are found less in degree during the period of 9th five year plan.
5. The aggregate expenditure on general services reflects sharp variations over the previous years. It also expresses up and downs all throughout the period of study.
6. Maximum percentage point change in respect of central government expenditure is found in the year 1998-99 over the previous year. While minimum change is reported in 2002-03.

To talk about the states highest variations in percentage over the year is found in the year 1994-95 over the previous year of 1993-94 and minimum variation is found in the year 2002-03 over the previous year.

Considering the trend of aggregate expenditure it is revealed from the table that in the year 1999-2000 this variations was maximum amongst the entire period of study and it was minimum in the year 2002-03.

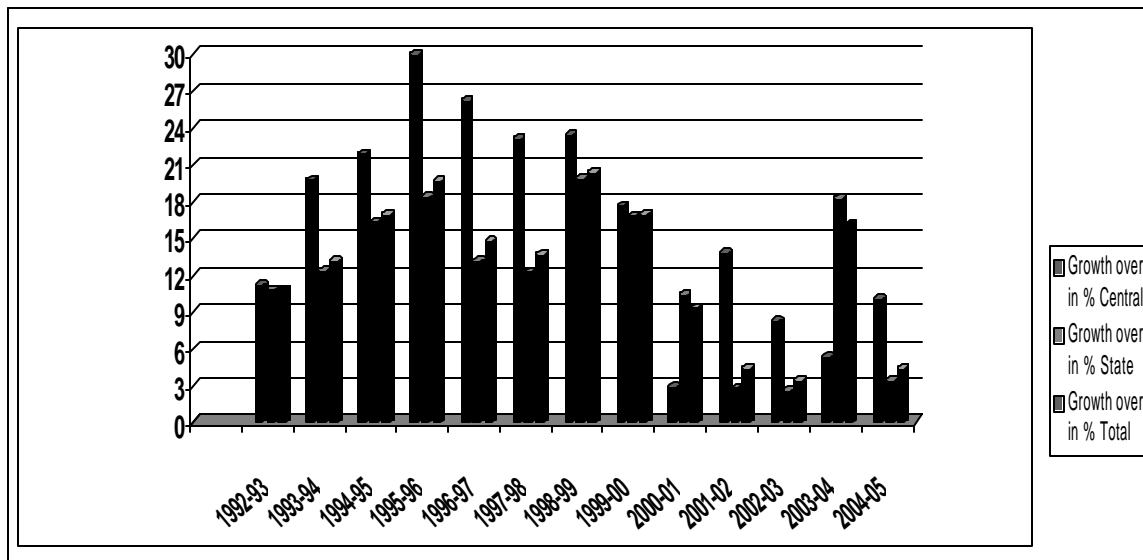
7. The gape between the maximum and minimum in respect of aggregate expenditure is found of 14.96% point.

Table No. : 4.5.3

Central & State Government Expenditure Social Services

Year	Central Govt. (Rs. Crore)	State Govt. (Rs. Crore)	Total (C & S govt.) (Rs. Crore)	Central % to the Total	State % to the Total	Growth over in % Central	Growth over in % State	Growth over in % Total
1991-92	3644	33683	37327	9.76	90.24			
1992-93	4055	37332	41387	9.80	90.20	11.28	10.83	10.88
1993-94	4856	41979	46835	10.37	89.63	19.75	12.45	13.16
1994-95	5922	48872	54794	10.81	89.19	21.95	16.42	16.99
1995-96	7695	57836	65531	11.74	88.26	29.94	18.34	19.60
1996-97	9708	65460	75168	12.92	87.08	26.16	13.18	14.71
1997-98	11953	73521	85474	13.98	86.02	23.13	12.31	13.71
1998-99	14750	88092	102842	14.34	85.66	23.40	19.82	20.32
1999-00	17355	102981	120336	14.42	85.58	17.66	16.90	17.01
2000-01	17859	113690	131549	13.58	86.42	2.90	10.40	9.32
2001-02	20325	116961	137286	14.80	85.20	13.81	2.88	4.36
2002-03	22007	120019	142026	15.50	84.50	8.28	2.61	3.45
2003-04	23162	141934	165096	14.03	85.97	5.25	18.26	16.24
2004-05	25485	146803	172286	14.79	85.21	10.03	3.43	4.36

Source: Public Finance- Center for Monitoring Indian Economy (CMIE), Nov. 2004, page no. 34



N.B.: 2003-04 is revised estimate and 2004-05 is budget estimate.

Source: India Public Finance – November 2004 – Center Monitoring Indian Economy (CMIE)

This table highlights government’s expenditure trends on social services. It is inferred from the table that

1. States are playing dominant role towards spending for social services. As it falls within the states to carry on development activities. States are found to have more spending in comparison with the central government.

However is important to note that the table indicates in general more downfall of expenditure by the states. Considering the beginning year of the study it expresses continuous down fall till the period of 2001-02 in respect of the percentage spent to by the states to the total spending.

2. Growth over the previous year in percentage by the central government expresses more variations during the second half of the decade in comparison with the first half. In terms of planning period if the trend is examined it is observed that rise in spending in percentage was more in 8th five year plan period which declined during 9th five year plan period and in the beginning of 10th five year plan period.
3. To talk about the states tendency for spending towards social sector it is expressed from the table that growth over in percentage for the previous years is by enlarge found more in the first half of the reform, however in 9th five year plan also there has been considerable growth in percentage. However the last 2 years of 9th five year plan period does not indicate much rise in respect of growth in percentage. The revised estimates of 2003-04 are again indicating brighter spot in relation to percentage growth.
4. Aggregate spending for social services clearly indicates greater amount of growth in percentage from the period of 1992-93 to the year 1999-2000. While it expresses declining growth in percentage over the previous years in the ending of the 20th century.
5. Maximum percentage growth in aggregate spending is reported in the year 1999-2000 over the previous year and minimum growth is found in the year 2002-03 over the year of 2001-02. Gape between the maximum percentage growth and minimum growth is of about 16.82% point.
6. In respect of all states the gape between the maximum and minimum is found of 16.94% point. While that in case of central government it happens to be of 25.30% point.

Table No. : 4.5.4

Central & State Government Expenditure Economic Services

Year	Central Govt. (Rs. Crore)	State Govt. (Rs. Crore)	Total (C & S govt.) (Rs. Crore)	Central % to the Total	State % to the Total	Growth over in % Central	Growth over in % State	Growth over in % Total
1991-92	26685	40900	67585	39.48	60.52			
1992-93	28580	43235	71815	39.80	60.20	7.10	5.71	6.26
1993-94	32613	47409	80022	40.76	59.24	14.11	9.65	11.43
1994-95	37883	55476	93359	40.58	59.42	16.16	17.02	16.67
1995-96	39411	56984	96395	40.88	59.12	4.03	2.72	3.25
1996-97	41494	66548	108042	38.41	61.59	5.29	16.78	12.08
1997-98	48449	71748	120197	40.31	59.69	16.76	7.81	11.25
1998-99	59235	76412	135647	43.67	56.33	22.26	6.50	12.85
1999-00	65378	84316	149694	43.67	56.33	10.37	10.34	10.36
2000-01	76167	96853	173020	44.02	55.98	16.50	14.87	15.58
2001-02	87224	99737	186961	46.65	53.35	14.52	2.98	8.06
2002-03	102111	104415	206526	49.44	50.56	17.07	4.69	10.46
2003-04	111155	158562	269717	41.21	58.79	8.86	51.86	30.60
2004-05	118838	137163	256001	46.42	53.58	6.91	-13.50	-5.09

Source: Public Finance- Center for Monitoring Indian Economy (CMIE), Nov. 2004, page no. 54

This table indicates central state governments expenditure on economic services.

The table reveals the following facts.

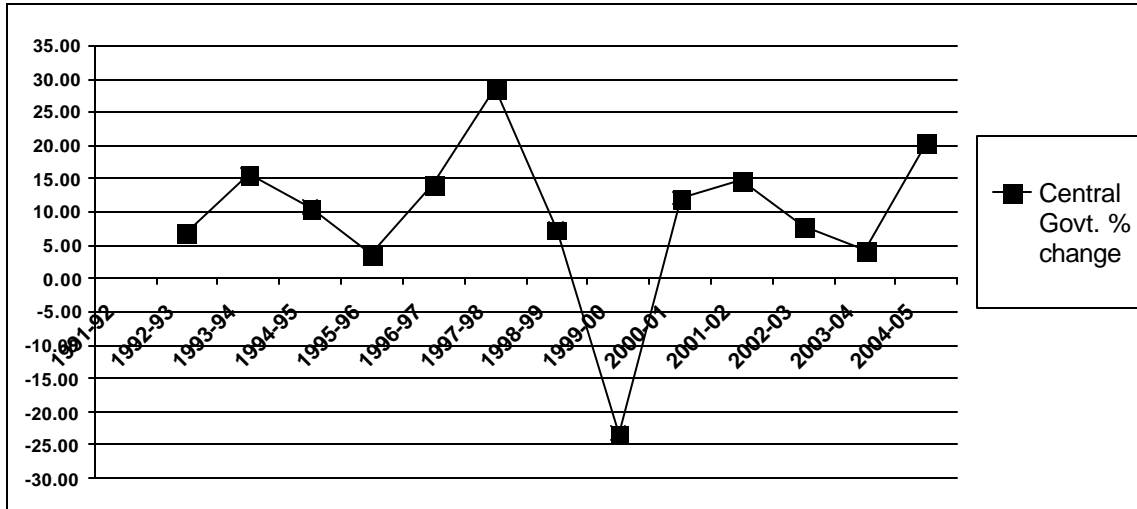
1. The state center ratio in spending for economic services is very close in comparison with social services. Central government spending for economic services in percentage to the total spending indicates that in general there is increasing trend. This percentage to the total spending is found declining only in the year 1996-97 and the revised estimates of 2003-04. It is obvious therefore that the trend for the same by the states expresses decline in general except for the year 1996-97 and revised estimates of 2003-04.
2. The data in respect of percentage growth expresses more rise during the period of 1996-97 to the year 2002-03 in case of central government spending. However revised estimates and budget estimate respectively indicates declining growth. To talk about the states spending percentage growth expresses sharp variations over the previous years. Unlike the central government this trend refers to more degree of fluctuations. It is only during the year of 1993-94, 1996-97, 2000-01 and 2003-04 that there has been considerable growth in percentage over the previous years. Most shocking and surprising is the fact found in respect of the year 2003-04 budget estimates which indicates negative change in percentage growth.
3. Aggregate spending in economic services reveals that there was more growth in percentage in the year 1993-94, 1999-02 and exceptional rise in the revised estimate 2003-04 and in aggregate the budget estimates of 2004-05 shows negative growth in percentage.
4. This last two years is a major turning point as the maximum gape between highest percentage growths and lowest is reported in the last two years. The same is reflected in case of states spending.
5. Taking into consideration the combined growth right from the period of 1991-92 to 2004-05 it is found much more (345.33) in case of central government

against state (235.36). Average of the entire period also reflects much gap between the center and the state as long as spending on economic services concerned.

Table No. : 4.5.5
Central Government Aid to State Government

Year	Rs. Crore	% change
1991-92	27976	
1992-93	29917	6.94
1993-94	34626	15.74
1994-95	38273	10.53
1995-96	39719	3.78
1996-97	45282	14.01
1997-98	58146	28.41
1998-99	62466	7.43
1999-00	47955	-23.23
2000-01	53762	12.11
2001-02	61671	14.71
2002-03	66492	7.82
2003-04	69169	4.03
2004-05	83300	20.43

Source: Public Finance- Center for Monitoring Indian Economy (CMIE), Nov. 2004, page no. 89



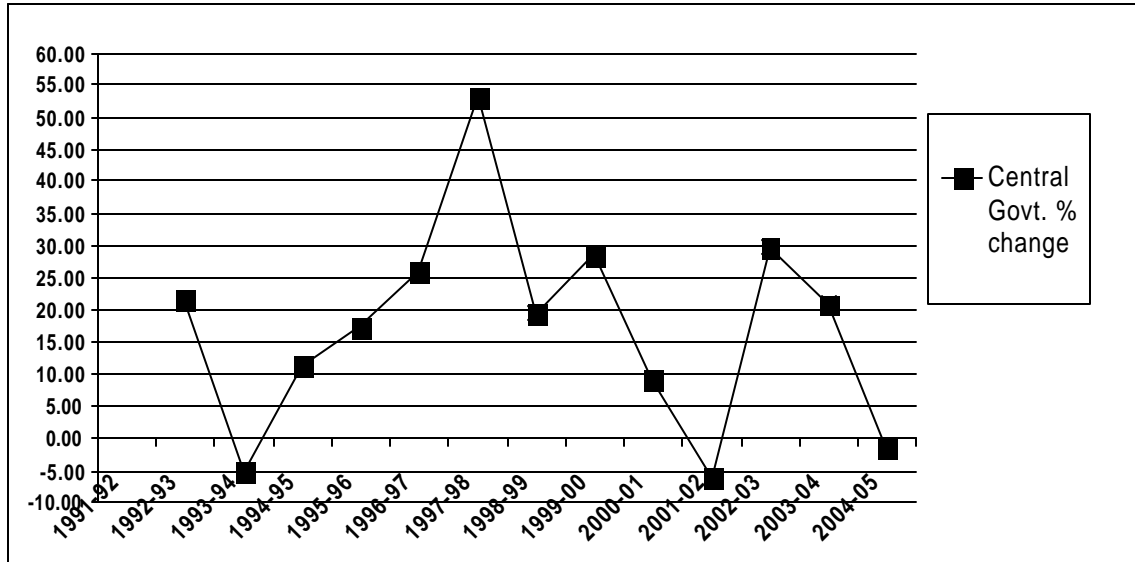
As presented in the table and curve it is reflected that central government's aid to the states has increased but the degree of an increase in the same is varied over in percentage. Exceptional is the year 1999-2000 in which the aid had declined over the previous year and maximum had increased in the year 1997-98 by 28.41%. Thus in general there is found an even degree of variations in respect of aid to the states governments.

Table No. : 4.5.6

Compensation and assignments to local bodies and panchayat institutions

	Total (C & S govt.) (Rs. Crore)	% change
1991-92	1016	
1992-93	1235	21.56
1993-94	1171	-5.18
1994-95	1303	11.27
1995-96	1531	17.50
1996-97	1930	26.06
1997-98	2957	53.21
1998-99	3531	19.41
1999-00	4539	28.55
2000-01	4952	9.10
2001-02	4658	-5.94
2002-03	6050	29.88
2003-04	7320	20.99
2004-05	7220	-1.37

Source: Public Finance- Center for Monitoring Indian Economy (CMIE), Nov. 2004, page no. 91



It is reflected from the table and graph that all state governments grand in aid to the local government institutions is found changing over the period of time. Though in general there is an increase at the different rate it is observed that there has been negative trends found in this respect during the year 1993-94, 2001-02 and 2004-05. The highest percentage change is observed in the year 1997-98.

Chapter-5

Gujarat State Finances

5.1 The state's fiscal balance-basic over view.

Ordinarily the states fiscal prudence is judged on the basis of the performance of certain standard indicators like revenue deficit, fiscal deficit, debt GDP ratio etc. These indicators normally affect the states receipts from the center by way of tax share and grants besides the states own collection efforts. The present system of devolution of resources does not indicate one-to-one correspondence between the states contribution to the centre and in term receipt from it. It is also found that a state performing well in context of collection efforts may be pushed in to a situation of fiscal crises in our federal financial structure developmental activities in democracy central Govt. also declares. These schemes are also to be followed by the states thus the states are required to spare large sum of finance and to add to real resources thus the states burden tends to increase.

In a country like India the States finances do not provide in general a dismal picture but that also refers to large degree of differentiation between the states. Gujarat is one of the most developed states of our country. Therefore there is greater amount of at large for fulfillment of some social & economic commitment over and above the minimum task because of higher degree of development the process of urbanization also becomes faster these adds to the demand for developed infrastructure because of persistent rise in the demand for civic infrastructure. There appear to be the demand for large size of funds to meet the requirement.

Against these situation of the state there limitations is that constitutionally only two kind of taxes that is income tax and excise tax are shared by the centre, corporate tax and custom duty which are more elastic in nature are not shared by the centre at all in the tenth finance commission report it was clearly remarked that revenue from the income tax and excise tax so less buoyancy than the other two central taxes like corporate tax and custom duties. Therefore the tenth finance report it was clearly remarked that revenue from the income tax and excise tax so less buoyancy than the other two central taxes like corporate tax and custom duties. Therefore the tenth finance commission in its report in 1994 proposed to pull out all the four taxes including corporate tax and custom duties. The idea was to enable the state to share the aggregate buoyancy of all central taxes. Important point to note here is that even the proportion of excise revenue to be shared with the states is left at the discretion of the finance commission as a result fear many long years the centre never shared more than 45% of the total excise revenue through finance commission from the remaining 55% of the excise revenue some portion is developed to the staes by way of grant which makes their devolution more descretionary from the centre point of view and discriminatory from the state point of view. This type of the policy is not conducive to the dynamic and trade indencive state like Gujarat. One more suggestion of tenth finance commission to club the additional excise duties in lieu of Sales tax (lavid by the centre) on sugar, tobacco, and textile with the basic excise duties is also not favorable for a state like Gujarat as state is producing all the three items in a relatively large quantity.

Change in criterian for devolution of resource by the finance commission influence a lot to the fiscal trenth of the economy, in the earlier days the seventh finance commission had aptly chosen to distribute the additional excise revenue to the two of the thee items on the basis of the SDP only but the eighth finance commission changed the distribution criteria and it was decided 50% weightage to

be given to population and 50% was given to SDP. This also did not favour the interest of the large producers of these goods.

One more shocking fact was that both forty percent of excise and 85% of income tax are devolved are among the states largely on the basis of population as well as the so called socio-economic criteria. Planning commission largely favor to provide weightage to “fiscal management” a tax effort for devolution of the plans funds it leads to indifference and apathy towards the efficient state and over sympathy to some others. Gujarat has suffered because of this there are certain industries in Gujarat performing well and are comparable with Asian tiger. These industries have regularly contributed to the central treasury in large amount, it is also found that the income of agriculture in Gujarat is continuously declining and it has shifted to non agricultural sector in other word the state revenue to the central treasury is found increasing.

Looking at the Gujarat State Finance it is found that the Centre’s transfers as a percentage of total revenue receipts of the state decreases during 1978-1996. Some peculiarity is that income tax and excise tax of which are shared are not linked with the performance and the corporate tax and customs duty which are more buoyant are not shared at all. The Sarkaria Commission, which submitted its report in 1988 did recommend sharing of corporate tax revenue with the states but the suggestion was ignored the tenth F.C. proposal changes vertical distribution which required the constitutional amendment for its implementation is not made so far. Amrath bagchi Gulati express the view that even if this is done the ultimate outcome is not going to be substantially different from the earlier.

Criteria for devolution by resources have also caused some challenging problems. It is true that in a federal structure regional balance and regional equity should have an important place. But interestingly it is learnt that the planning communication of the finance communication over played this objectives until

sixth finance commission. Popularity was given 80 to 90% weight age for inter distribution of resources. The seventh finance commission for the first time reduced the weightage of population to 25% and gave remaining 75% to socio economic factors. The eight finance commission introduce the changes which become very crucial for the state like Gujarat. Tiroty not only income tax but even excise tax revenue which has been the major source of the revenue for the state was to be devoted on the basis of 25:75 formula second very important was the recommendation that the state having an estimation of surplus budgetary situation like Gujarat. Maharashtra Tamilnadu were to provided little help from the centre hence forth while on the other hand state like U.P., Bihar, Orissa, Rajasthan, M.P. were identified as deficit states and hands received special treatment from the centre as reported by Bagachi all sorts of grants were availed to them under specific head to cover their non plan revenue gap, to pay the addition D.A. to Govt. employee, to improve and upgrade the administrative and so on. These resulted in to reactionary thinking, the logic of uplifting the so called poor and backward states, created a lot of uncertainty, bitterness and financial crunch on the better performance on one hand and encouraged them to become deficit state on the other rational expectation certainly work in such causes and would aptly induce them to cause deficit state in future, so as to get a favor from the center. The provision of the tenth finance commission of giving debt relief proves that a state does not only gets larger found from the centre but for such fiscal indiscipline it also gets a premium in terms of debt relief.

The planning commission is also found equally responsible for the Current fiscal problems of the states. The Gadgil formula gave 60% weightage to population and later on it was introduced as modification, it resulted in to the rise in the % share of resource transfer to the states with lower per capita income and there by reduced the relative share available to the states with above average

income. Looking in the past it is found that remodification attempts were made by late Prof. D. T. Lakdawala, Madhu Dandawate and Dr. Vaidyanathan to correct the bouncer. But the members of the national development council for accepting the remodification arrived at no consensus.

Having a look at the different approaches towards allocation of the resources bon by the planning commission of finance commission, the common character is that both are panelizing the efficient states and rewarding the inettecient once through subjective approach of devolution. Vithal in 1995 aptly remain that the element of Gamble is as much there in the democratic dynamics of NDC as there is in the award by F.C. process. The differences that in one case there are 26 interested parties while in the other there are five parties. It is therefore strongly felt that some objective norm should be set off for determination the devolution formula for the states. Late Prof. Lakdawala had also suggested the some in 1993.

It is there fore clear that even today the degrees of freedom available with states economics both with respect to revenue collection as well as expenditure are quite less as compared to the centre, some times it is also found that under the name of regional equity the efficiency factore are considerably sacrifice. Therefore it would be better to examine truly the criterion adopted over a time.

In view of the above discretion the state level economy is found to have experience certain upsound downs in case of major fiscal indicators. The past in this regard has demonstrated the fact that Gujarat did not have much a problem until 1984-85. This can be explained in terms of the following indicators.

Revenue deficit

Revenue receipts excided the revenue expenditure and surplus was transformed to capital count a large part of which was usually cent for capital formation – This is indicated table No. 5.1 & 2.

Table : 5.1.1
Aggregate Fiscal Receipts and Expenditure of Gujarat 1978-1996
(Rs. in Crore)

YEAR	Revenue Receipts	Capital Receipts	Total Receipts	Revenue Expenditure	Capital Expenditure	Total Expenditure	NSDP Curp
1	2	3	2 + 3=4	5	6	5 + 6 =	8
	ARR	ACR	TOTR	AREX	ACEX	TOTEX	NSDP
1978-79	674.39	191.49	865.88	603.36	333.20	936.56	5066
1979-80	836.55	194.36	1030.91	744.25	376.24	1 120.49	5794
1980-81	1024.99	382.11	1407.10	903.26	596.20	1499.46	6585
1981-82	1 159.46	439.26	1598.72	1039.15	648.33	1687.48	8200
1982-83	1349.29	591.27	1940.56	1283.03	754.91	2037.94	8626
1983-84	1565.14	711.86	2277.00	1426.1 1	1009.33	2435.44	11269
1984-85	1769.46	542.20	2311.66	1701.20	811.97	2513.17	11757
1985-86	1902.48	791.10	2693.58	1972.39	842.05	2814.44	12037
1986-87	2159.72	1 198.78	3358.50	2469.24	1331.98	3801.22	13883
1987-88	2806.47	1379.27	4185.74	3093.07	1392.19	4485.26	13667
1988-89	3235.69	1715.97	4951.66	3362.40	1741.1 1	5103.51	19283
1989 90	3601.24	1144.86	4746.10	3727.35	1251.38	4978.73	20910
1990-91	3379.27	1333.49	4712.76	4081.92	1630.92	5712.84	23316
1991-92	4662.55	2079.40	6741.95	5238.20	2547.28	7785.48	26359
1992-93	591 1.08	2322.03	8233.11	6210.90	2477.32	8688.22	32240
1993-94	7030.01	2227.90	9257.91	6933.79	2364.35	9298.14	34762
1994-95	7806.39	1456.74	9263.13	7544.22	2068.48	9612.70	39226
1995 96	8544.05	1822.90	10366.95	8766.90	2044.49	10811.39	47869

Original Source: Budget documents and Socio economic review –
 dirctorate of economics and statistics, Govt. of Gujarat, Gandhinagar.
 Derived from: Archana Dholakiya – Problems and prospects of fiscal
 balance in Gujarat – GIDR, GOTA – Dec. 2000.

Table : 5.1.2**Revenues and Receipts As percentage of Total Expenditure 1978-96**

YEAR	Revenue Receipts	Capital Receipts	Total Receipts	Revenue Expend).	Capital Expend!.	Total Expend!.
	(ARR)	(ACR)	(TOTR)	(AREX)	(ACEX)	(TOTEX)
1	2	3	2 + 3=4	5	6	5 + 6 = 7
1978-79	72.01	20.45	92.45	64.42	35.58	100.00
1979-80	74.66	17.35	92.01	66.42	33.58	100.00
1980-81	68.36	25.48	93.84	60.24	39.76	100.00
1981-82	68.71	26.03	94.74	61.58	38.42	100.00
1982-83	66.21	29.01	95.22	62.96	37.04	100.00
1983-84	64.27	29.23	93.49	58.56	41.44	100.00
1984-85	70.41	21.57	91.98	67.69	32.31	100.00
1985-86	67.60	28.11	95.71	70.08	29.92	100.00
1986-87	56.82	31.54	88.35	64.96	35.04	100.00
1987-88	62.57	30.75	93.32	68.96	31.04	100.00
1988-89	63.40	33.62	97.02	65.88	34.12	100.00
1989-90	72.33	23.00	95.33	74.87	25.13	100.00
1990-91	59.15	23.34	82.49	71.45	28.55	100.00
1991-92	59.89	26.71	86.60	67.28	32.72	100.00
1992-93	68.04	26.73	94.76	71.49	28.51	100.00
1993-94	75.61	23.96	99.57	74.57	25.43	100.00
1994-95	81.21	15.15	96.36	78.48	21.52	100.00
1995-96	79.03	16.86	95.90	81.09	18.91	100.00

Original Source: Budget documents and Socio economic review – directorate of economics and statistics, Govt. of Gujarat, Gandhinagar.

Derived from : Archana Dholakiya – Problems and prospects of fiscal balance in Gujarat – GIDR, GOTA – Dec. 2000.

Table No. : 5.1.3
Major Fiscal Indicators 1978-96

YEAR	ACTUAL AMOUNT				AS % OF TOTAL EXPENDITURE			
	Revenue Deficit	Budgetary Deficit	Fiscal Deficit	Primary Deficit	Revenue Deficit	Budgetary Deficit	Fiscal Deficit	Primary Deficit
	RDEF	BDEF	FDEF	PDEF	RDEF	BDEF	FDEF	PDEF
(D)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1978-79	-71.03	70.68	129.33	82.29	-7.58	7.55	13.81	8.79
1979-80	92.30	89.58	223.18	178.43	-8.24	7.99	19.92	15.92
1980-81	-121.73	92.36	246.79	178.23	-8.12	6.16	16.46	11.89
1981-82	-120.31	88.76	251.64	169.92	-7.13	5.26	14.91	10.07
1982-83	-66.26	97.38	376.36	276.69	-3.25	4.78	18.47	13.58
1983-84	-139.03	158.44	407.62	290.44	-5.71	6.51	16.74	11.93
1984-85	-68.26	201.51	519.81	373.65	-2.72	8.02	20.68	14.87
1985-86	69.91	120.86	512.32	324.76	2.48	4.29	18.20	11.54
1986-87	309.52	442.72	900.57	656.58	8.14	11.65	23.69	17.27
1987-88	286.60	245.52	976.50	668.33	6.39	6.68	21.77	14.90
1988-89	126.71	151.85	733.85	344.19	2.48	2.98	14.38	6.74
1989-90	126.11	232.63	971.04	505.84	2.53	4.67	19.50	10.16
1990-91	702.65	1000.08	1789.52	1260.76	12.30	17.51	31.32	22.07
1991-92	575.65	1043.53	1790.84	1078.10	7.39	13.40	23.00	13.85
1992-93	299.82	455.11	1150.43	222.92	3.45	5.24	13.24	2.57
1993-94	-96.22	40.23	526.58	-516.09	-1.03	0.43	5.66	-5.55
1994-95	-262.17	349.57	1292.43	105.10	-2.73	3.64	13.45	1.09
1995-96	222.04	443.63	1745.47	417.40	2.05	4.10	16.15	3.86

Original Source: Budget documents and Socio economic review – Directorate of economics and statistics, Govt. of Gujarat, Gandhinagar.

Derived from: Archana Dholakiya – Problems and prospects of fiscal balance in Gujarat – GIDR, GOTA – Dec. 2000.

This situation however did not continue after 1985-86. Looking at the table no. 5.3 it can be said that Gujarat Started facing the problem of deficit on revenue account. Though revenue receipts did increase in absolute terms during this period. They bagged behind the disbursement; accept 1993-94 and 1994-95 only in those two year there was some surplus on the revenue account. Because of the continued

deficit in revenue account the state had to divert capital resources to meet requirement of current consumption this enhanced the burden of interest and debt payment along with reduction in Capital expenditure.

Incidentally like the centre the state also experienced the worst situation in the year 1990-91. It was in this year that revenue deficit in nominal terms and as % of NSDP was the highest during the last twenty years. The amount of Rs. 703 crores and in relation to NSDP it was 3% it was during the same period that amount of central taxes transferred to the state fell from Rs. 429 crores in the year 1989-90 to Rs. 280 crores in 1990-91. Thus Gujarat high revenue deficit was largely an outcome of the centre's reduction in transfers in the similar fashion it can be argued that the surplus in revenue account during 1993-94 and 1994-95 was because of adequate or enhanced transfers from the centre.

Budget deficit

A state's financial picture can well be highlighted in respect of the difference between the aggregate Govt. expenditure and aggregate receipts in other words it is the budget deficit which provides the clear picture of the state economy looking to the table No. 3 year-to-year functional are found very high in this regard. The year 1990-91 indicated budget deficit as the highest one i.e. 18% of total spending and 4.12% of NSDP incidentally this was also the year of fiscal crisis at the centre. It also reflects the inter relationship between the instability at the central and the state level. The table also provides the picture that except in the year 1990-91 and 1991-92 in remaining all the years the state's budget deficit was Moderate one, it is true that budget deficit does not necessarily reveal all the time the debt finance deficit, in ordinary course the gap between the revenue capacity and the revenue requirement is at large field with the borrowing therefore the concept of fiscal deficit holds more relevance in this regard.

Fiscal deficit

Fiscal deficit virtually reflects budget deficit, plans debt, finance deficit. Generally the state is considered self-sufficient or the wise in relation to fiscal deficit. Looking at Gujarat State, it is found from the table that the fiscal deficit has increased in nominal terms from Rs. 129 crores to Rs. 745 crores during 1978 to 1996 in other word it grew at the compound average rate of 21% per year during 1978 to 1984 but this growth rate declined to around 5.2% per annum. If examined in detail the statistical version indicates the fact that the year 1985-86 was turning point in terms of enhancing the resource problem of the state, it is important to note that volume alone of fiscal deficit is not sufficient. It is more important to analyse the composition of fiscal deficit by purpose this could be known better through primary deficit.

Primary deficit

Primary deficit is important to understand fiscal consolidation of the state. Generally the state or the centre incurs fiscal deficit for meeting interest payment and non-interest payment. When this is subtracted from the fiscal deficit this could be positive or negative. If primary deficit is zero it means that the state is borrowing only to meet its capital requirement plus interest liabilities and that remaining the picture of Gujarat state in this regard indicates the fact that its magnitude ranged between 2.57 to 7.37% of NSDP during the year 1993-94 it was negative. Primary surplus on fiscal account implies that revenue receipt of the state is enough to not only meet with the entire non-interest payment plus a part of interest payment.

5.2 Temporal behavior of Govt. expenditure and income in Gujarat

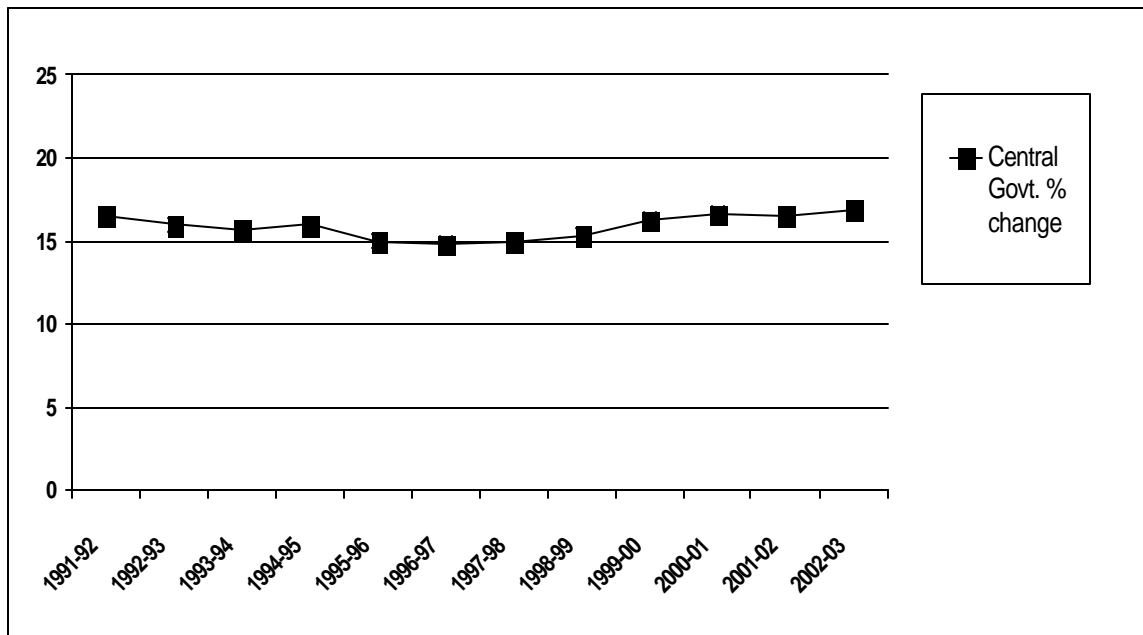
Generally Govt. expenditure is viewed from two dimensions. One is functional functional part of govt. expenditure. It is largely based on budget documents. It is more important from accounting point of view. This refers to the expenditures recorded under different purpose heads. The other is economic part of govt. expenditure, the finance department of the state prepares this document to make the data more meaningful from economic point of view, this largely refers to the consumption investment capital formation and so on.

Functional part of expenditure is reflected by way of revenue expenditure and capital expenditure. Economic dimension of govt. expenditure includes current expenditure and capital expenditure all spending of the Govt. for payment of interest, subsidy, transfers to household and so on is indicated under consumption expenditure. It is current expenditure. When Govt. spent on gross capital formation like expenditure on building machines and transfers to local bodies for capital formation is reflected as capital expenditure. It is through the data of capital expenditure that Govt. efforts for building of the physical capital can be known. Though functional and economic aspect of expenditure may be found overlapping sometimes both are categorically different.

Table No. : 5.2.4
State Government Expenditure

	Plan exp. (Rs. Crore)	Non Plan exp. (Rs. Crore)	Total exp. (Rs. crore)	Plan exp. % change	Non plan exp. % change	Total exp. % change	Total exp. % of GDP
1991-92	31084	76845	107929	13.31	20.72	18.49	16.53
1992-93	33391	85943	119335	7.42	11.84	10.57	15.95
1993-94	36730	97919	134649	10.00	13.93	12.83	15.67
1994-95	44514	114892	161554	21.19	17.33	19.98	15.95
1995-96	48450	129134	177584	8.84	12.40	9.92	14.95
1996-97	53046	149723	202769	9.49	15.94	14.18	14.82
1997-98	59260	168875	228135	11.71	12.79	12.51	14.98
1998-99	64871	201490	266361	9.47	19.31	16.76	15.30
1999-00	70321	243696	313889	8.40	20.95	17.84	16.21
2000-01	78616	268583	347198	11.80	10.21	10.61	16.62
2001-02	80139	297173	377312	1.94	10.64	8.67	16.53
2002-03			417867	-43.17	-52.76	10.75	16.92
2003-04			553923	9.60	34.62	32.56	
2004-05			552048	31.95	6.34	-0.34	

Source: Public Finance, CMIE, Nov. 2004, page no. 2.



This table highlights the total expenditure of all states inclusive of plan expenditure and non-plan expenditure. It is reflected from the table that percentage change in plan expenditure shows more unevenness in comparison with percentage change in non-plan expenditure. Non-plan expenditure reflects positive trend but the degree of variation is found relatively restricted. Year 2002-03 indicates considerable downfall in the percentage change both of plan and non-plan expenditure.

Total expenditure when examined in percentage clearly indicates positive trend except in the year 2004-05 in which there is a negative trend. Percentage change in total expenditure is found maximum in the year 2003-04 and minimum in the year 2001-02. Gape between this two tends to be of 23.89% point.

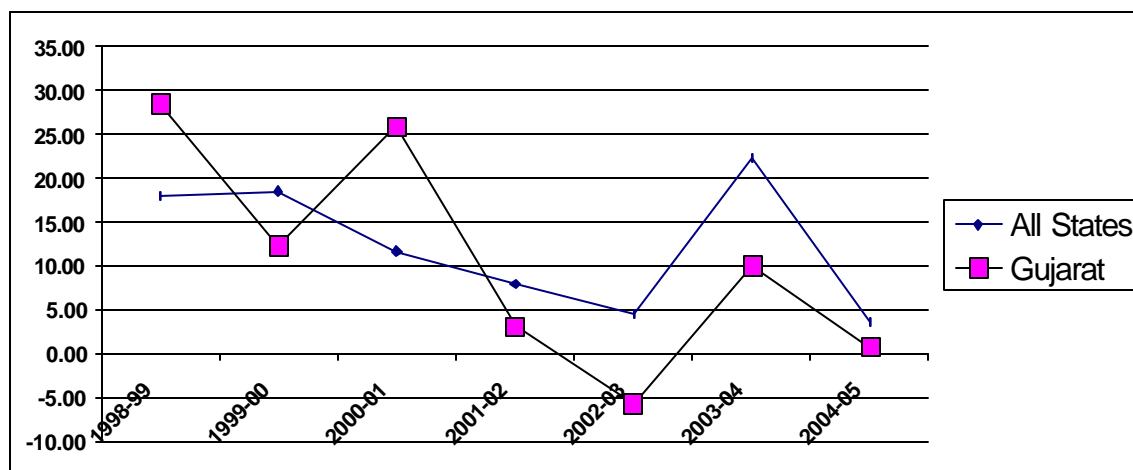
Tabular presentation along with the graphical one states that total expenditure as percentage of GDP does not show much deviation between the references it is found maximum in the year 2002-03 and minimum in the year 1995-96 the gap between the two is of about 1.97% point. It is also clearly observed that the first half of the reform period indicates less as total expenditure as percentage of GDP while the same in the second half reflects and increase in general.

Table No. : 5.2.5

**Revenue Expenditure - All states Gujarat with Percentage change
over the year**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	186634	220090	260998	291552	314863	329070	402124	416475	302725.75
Growth over the year in number and percentage		33456	40908	30554	23311	14207	73054	14351	
		17.93	18.59	11.71	8.00	4.51	22.20	3.57	
Gujarat	12143	15606	17517	22041	22718	21440	23607	23786	19857.25
% to all State	6.51	7.09	6.71	7.56	7.22	6.52	5.87	5.71	
Growth over the year in number and percentage		3463	1911	4524	677	-1278	2167	179	
		28.52	12.25	25.83	3.07	-5.63	10.11	0.76	

Source: Public Finance, CMIE, Nov. 2004, page no. 96.



Reflects revenue expenditure of Gujarat state ranging from the year 1997-98 to 2004-05. However 2003-04 is revised estimate and 2004-05 is budgetary estimate. It is reflected from table No.1 that in the year 1997-98 the state revenue expenditure to the all states revenue expenditure was 6.50% this percentage increases a little in the next year to 7.09% revenue expenditure of the state in relation to all states in percentage ratio declined in comparison with the preview

year and it was 6.71% in the year 1999-2000. This expenditure in 2000-01 again went up in percentage ratio to 7.55 in the year 2001-02 this ratio is found to have declined again to 7.21% in 2000 to 2003. It further falls to 6.51%. As per the revised estimate of 2003-04 this ratio was found still lower to 5.87% and last budget estimate indicated the lowest ratio through out the study period i.e. 5.71%. In other world it can be said that during the period of 9th five year plan revenue expenditure of the state is found to have continuous rise in number of rupees. However the some period reflected fluctuating trends in term of percentage ratio to all states. Right from the very beginning of tenth five year plan period % ratio is found continuously declining though in the last two years expenditure in numbers is increasing.

Revenue expenditure if examined in terms of temporal different it is found that in respect of number of rupees every year till 2000 indicated rise over the previous year. However growth over the previous year in percentage is again found fluctuating year-by-year. From amongst the study period growth over in revenue expenditure is found minimum in the last budgetary year that is 2004-05 over the previous year of 2003-04. It thus expresses the fact that the state has experienced significant variation in respect of revenue expenditure in terms in physical amount and percentage ratio.

Growth over the number and percentage in case all states expresses initially increasing in the second phase it is found continuously declining trend in increase. However an exceptional rise is observed in the year 2003-04 (22.20%). However the budget estimates of 2004-05 indicate falling rate of increase.

This growth over when compare with Gujarat. It is revealed that there is found greater amount of variations in case of Gujarat as against the states.

Revenue expenditure is found less than the average amount in the year 1997-98 to 2000-01. While it is found more than that after the year. Similarly in case of

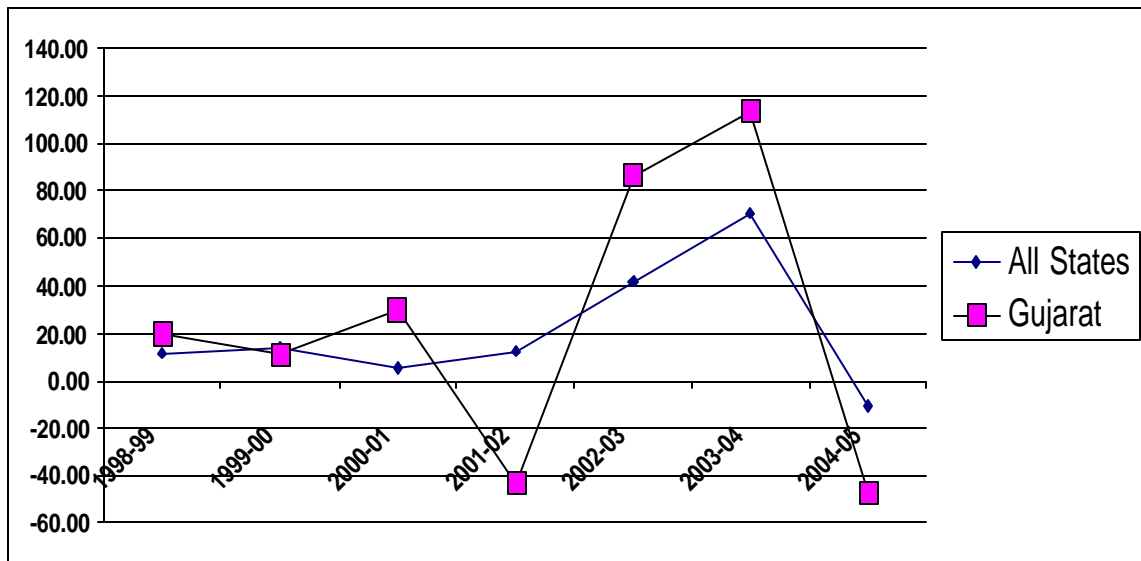
Gujarat state it is during the period from 1997-98 to 1999 that expenditure was less than the average amount while there after it is found more than the average.

Table No. : 5.2.6

Capital (incl. Loans & Advances) Expenditure - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	41501	46271	52891	55677	62448	88796	151799	135573	79369.50
Growth over the year in number and percentage		4770	6620	2786	6771	26348	63003	-16226	
		11.49	14.31	5.27	12.16	42.19	70.95	-10.69	
Gujarat	2983	3566	3948	5134	2932	5481	11696	6172	5239.00
% to all State	7.19	7.71	7.46	9.22	4.70	6.17	7.70	4.55	
Growth over the year in number and percentage		583	382	1186	-2202	2549	6215	-5524	
		19.54	10.71	30.04	-42.89	86.94	113.39	-47.23	

Source: Public Finance, CMIE, Nov. 2004, page no. 96.



The table indicates temporal behavior of capital expenditure of Gujarat state in relation to the same of all states. It is observed from this table that the

percentage ratio of Gujarat to total of all states from within the study period is found minimum in the year 2001-02 – 4.89% budget estimates it taken in to consideration than in the last completed financial year of 2004-05. It was minimum by 4.55% this expenditure in % ratio was found maximum in the year 2000-01 – 9.22%.

Physical amount tends to have increased every year from 1997-98 to 2000-01. It falls down in 2001-02 again it went up for the consecutive two years.

Capital expenditure growth rate over the previous years suggest that there has been fluctuating trends in the beginning years of 9th five years plan the first two year of 10th five year plan reflects rising rate and rising number of rupees. The table expresses phenomenal rise in the revised estimate of 2003-04 over the previous year of 2002-03. This trend is found again little falling in the amount spent in numbers and in percentage.

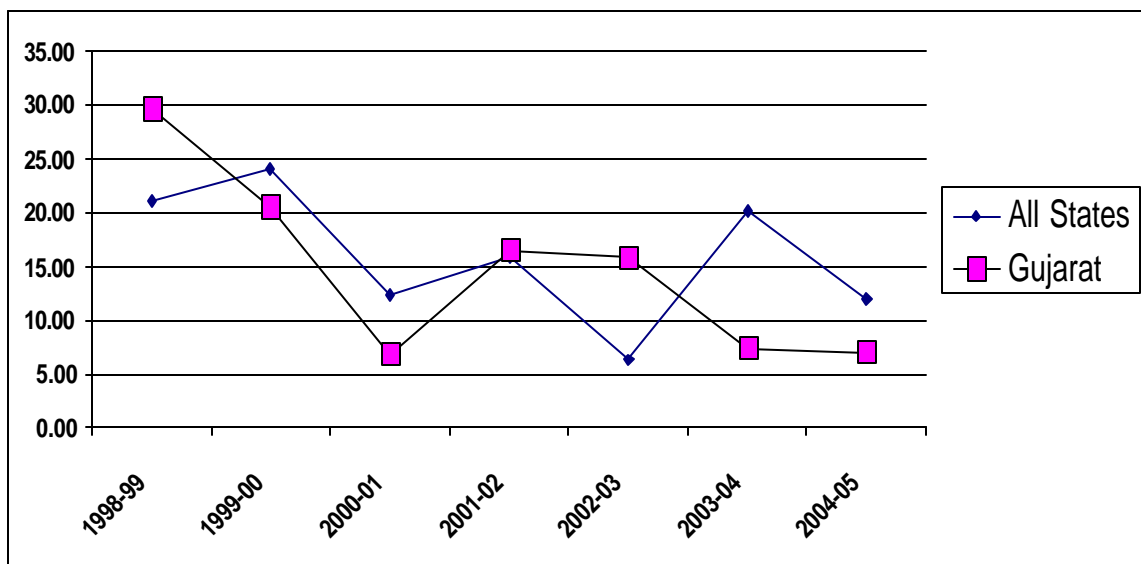
GENERAL SERVECIES

Table No: 5.2.7

Revenue Expenditure - All states - Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	69891	84701	105144	118055	136668	145231	174686	195567	128742.88
Growth over the year in number and percentage		14810	20443	12911	18613	8563	29455	20881	
		21.19	24.14	12.28	15.77	6.27	20.28	11.95	
Gujarat	3674	4769	5753	6145	7165	8302	8910	9535	6781.63
% to all State	5.26	5.63	5.47	5.21	5.24	5.72	5.10	4.88	
Growth over the year in number and percentage		1095	984	392	1020	1137	608	625	
		29.80	20.63	6.81	16.60	15.87	7.32	7.01	

Source: Public Finance, CMIE, Nov. 2004, page no. 97.



This table provides us data of revenue expenditure incurred to all states and the state of Gujarat on general services. This segment forms an important part of the total expenditure following conclusions can be derived from this table.

If temporal behavior of revenue expenditure on general services is considered than it is revealed from the table that right from first year of the 9th five year plan in Gujarat state there has been continuous rise in the amount spent for this trend is similar to the trend of all states. However if percentage ratio of Gujarat state expenditure in relation to all states is studied it is found that there has been continuous fluctuations during the years of study fluctuations during the years of study period percentage ratio of Gujarat to all the states further reveal the fact that as against the 9th plan period it shows an increase in the same.

Revenue expenditure on general services it examined from the temporal point of view suggest that there are fluctuating trend found in respect of numbers of rupees – however this tendency to have rise in revenue expenditure fluctnation but more importantly declining one right from 1998-99 to 2004-05. Thus revenue expenditure on general services suggest that significant variations are found in terms of growth over the pervious year.

Revenue expenditure for general services that of all the states as reflected in respect of growth over suggests that growth in number is uneven. There is an increase but that increase does not indicate even trend. In percentage too the some is reflected pattern of growth over in case of Gujarat State is found more un even when it is compared with all states.

First four year of all study period i.e. 1997 to 1998 to 2000-01 shows revenue expenditure both of all the states and Gujarat show the amount less than the average expenditure while in the last four years expenditure is found more than the average.

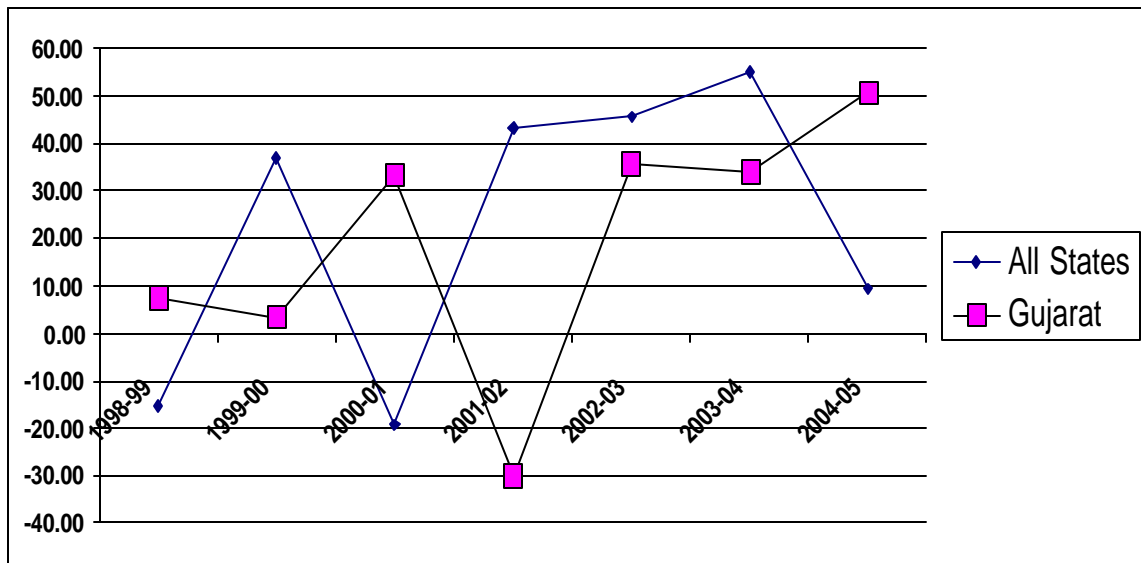
GENERAL SERVICES

Table No. : 5.2.8

**Capital (incl. Loans & Advances) Expenditure - All states Gujarat with
Percentage change over the year**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	963	814	1115	901	1290	1880	2915	3192	1633.75
Growth over the year in number and percentage		-149	301	-214	389	590	1035	277	
		-15.47	36.98	-19.19	43.17	45.74	55.05	9.50	
Gujarat	27	29	30	40	28	38	51	77	40.00
% to all State	2.80	3.56	2.69	4.44	2.17	2.02	1.75	2.41	
Growth over the year in number and percentage		2	1	10	-12	10	13	26	
		7.41	3.45	33.33	-30.00	35.71	34.21	50.98	

Source: Public Finance, CMIE, Nov. 2004, page no. 97.



This table highlights capital expenditure on general services looking to the expenditure incurred to the state in relation to all states, it is reflected from the table that there are sharp variations found over the period of time. It is observed

that the percentage ratio of expenditure to the total of all states. It found to have slightly increasing in the beginning of 9th five-year plan period. However the last year of 9th five-year plan, that is year 2001-02 indicates fall in percentage ration along with fall in number of rupees. It is important to note that during the some period expenditure of the all states has increased sizably as against fall in expenditure incurred to the state. Percentage ratio is continuously found declining in relation to the aggregate of all states.

From the temporal point of view it is found that growth over the previous year in respect of capital expenditure is found increasing a little over the previous year. This growth over in percentage was found maximum in the year 2000-01 33.33% and again in 2002-03. It increased about 35.77% budgetary estimates of the current financial year 2004-05 indicates growth over the previous revised estimates of about 50.98%. It is in the year 2001-02 that there is found exceptional decline of about 30% in growth over the previous year.

Graphical presentation is indicates more negative trend in percentage change in all states in comparison with Gujarat. Secondly percentage growth is also found more in case of all states than Gujarat in all the years except 1998-99 and 2004-05.

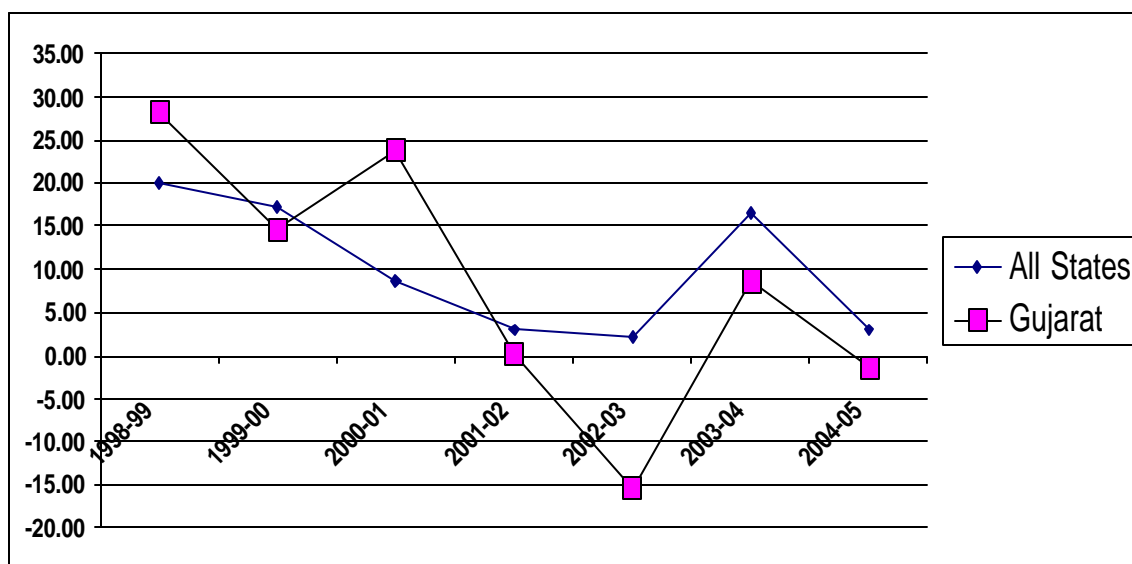
SOCIAL SERVICES

Table No. : 5.2.9

Revenue Expenditure - All states - Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	68312	82021	96138	104505	107647	109913	128114	132034	103585.50
Growth over the year in number and percentage		13709	14117	8367	3142	2266	18201	3920	
		20.07	17.21	8.70	3.01	2.11	16.56	3.06	
Gujarat	4240	5437	6229	7716	7722	6539	7109	7011	6500.38
% to all State	6.21	6.63	6.48	7.38	7.17	5.95	5.55	5.31	
Growth over the year in number and percentage		1197	792	1487	6	-1183	570	-98	
		28.23	14.57	23.87	0.08	-15.32	8.72	-1.38	

Source: Public Finance, CMIE, Nov. 2004, page no. 107.



This table highlights capital expenditure on general services looking to the expenditure incurred to the state in relation to all states, it is reflected from the table that there are sharp variations found over the period of time. It is observed that the percentage ratio of expenditure to the total of all states. It found to have slightly increasing in the beginning of 9th five-year plan period. However the last

year of 9th five-year plan, that is year 2001-02 indicates fall in percentage ration along with fall in number of rupees. It is important to note that during the some period expenditure of the all states has increased sizably as against fall in expenditure incurred to the state. Percentage ratio is continuously found declining in relation to the aggregate of all states.

From the temporal point of view it is found that growth over the previous year in respect of capital expenditure is found increasing a little over the previous year. This growth over in percentage was found maximum in the year 2000-01 33.33% and again in 2002-03. It increased about 35.77% budgetary estimates of the current financial year 2004-05 indicates growth over the previous revised estimates of about 50.98%. It is in the year 2001-02 that there is found exceptional decline of about 30% in growth over the previous year.

Growth over the year in number and percentage of capital expenditure for general services for all states indicates mixed trends. Twice it is found falling and in the remaining years it showed an increase and increase in gain found increasing rate.

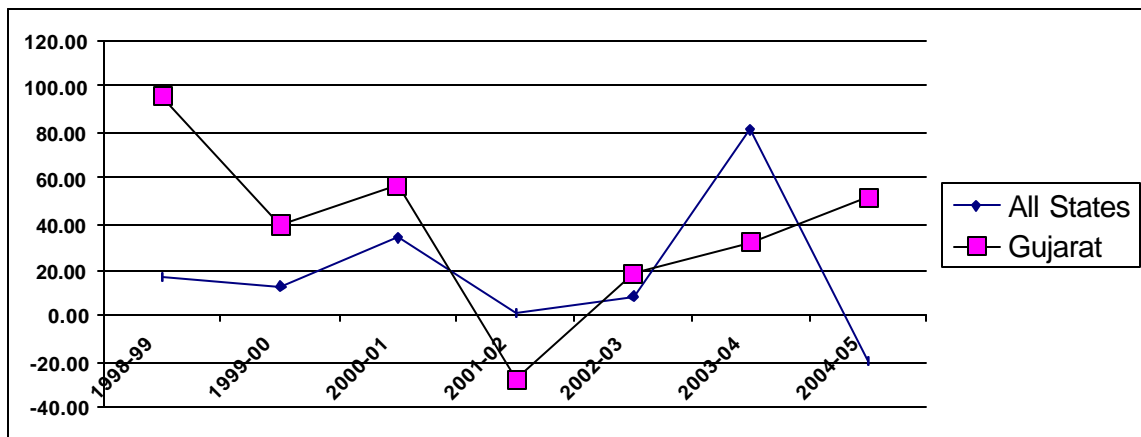
It is also found from the table that in the first year expenditure is less than the average amount while it is found more than the average in the remaining years.

Table No. : 5.2.10

**Capital (incl. Loans & Advances) Expenditure - All states - Gujarat with
Percentage change over the year**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	5209	6071	6843	9185	9314	10106	18320	14769	9977.13
Growth over the year in number and percentage		862	772	2342	129	792	8214	-3551	
		16.55	12.72	34.22	1.40	8.50	81.28	-19.38	
Gujarat	278	545	760	1190	861	1020	1346	2039	1004.88
% to all State	5.34	8.98	11.11	12.96	9.24	10.09	7.35	13.81	
Growth over the year in number and percentage		267	215	430	-329	159	326	693	
		96.04	39.45	56.58	-27.65	18.47	31.96	51.49	

Source: Public Finance, CMIE, Nov. 2004, page no. 107.



It is the table, which expresses capital expenditure on social services incurred to all the states and that of Gujarat in particular. The trend of all states suggest continuous rise in such expenditure except the current financial year budget estimation. In other word in the on going year this expenditure had decline. Coming to the percentage ratio of expenditure to the total states it is found highest in the budgetary estimates of current financial year during the period of 9th five

year plan it is found from the table that percentage ratio was maximum during the year 2000-01. In general it is evidently found that in Gujarat state this expenditure is found to have constantly increasing.

Examining the time series perspective the year 1998-99 reflects highest increase in percentage but in the year 2000-01 the expenditure in terms of Rupees was found maximum. If time series data is taken into consideration at a straight till this financial year that the physical amount is found to have highest expenditure. In general time series data reveals uneven trend from the volume and percentage point of view.

Curvature very clearly reflects that in comparison with all states, growth over the year in percentage is more positive in case of Gujarat state. Curve below the X-axis indicates negative trend that is precisely found in the year 2004-05 in case of all states and in the year 2001-02 in case of Gujarat.

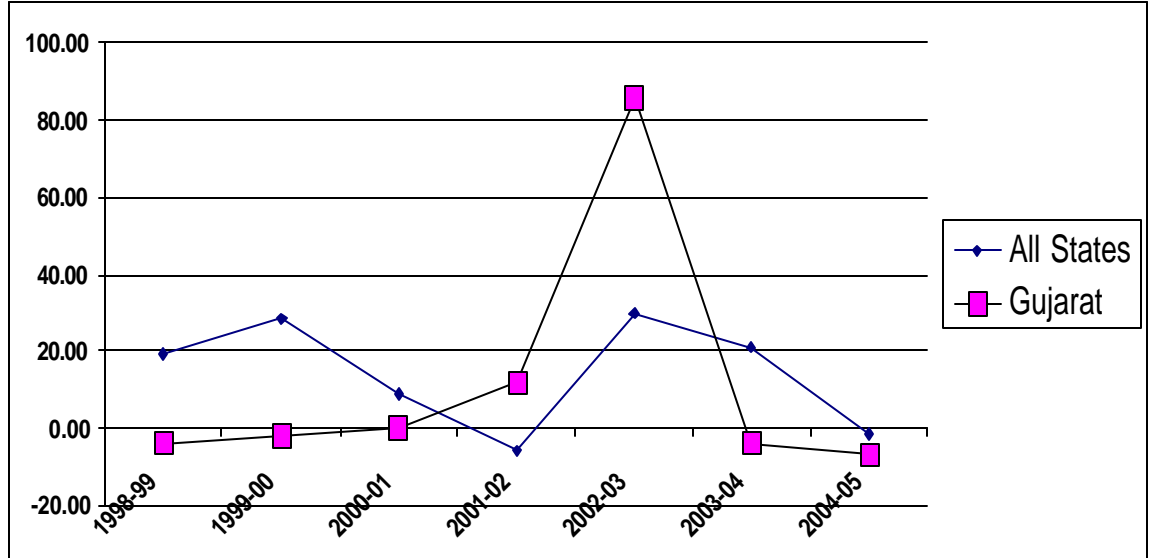
Table No. : 5.2.11

Grant in aid: Compensation & assignments to local bodies & Panchayat Raj institutions - All states - Gujarat with Percentage change over the year

Revenue Expenditure

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	2957	3531	4539	4952	4658	6050	7320	7220	5153.38
Growth over the year in number and percentage		574	1008	413	-294	1392	1270	-100	
		19.41	28.55	9.10	-5.94	29.88	20.99	-1.37	
Gujarat	53	51	50	50	56	104	100	93	69.63
% to all State	1.79	1.44	1.10	1.01	1.20	1.72	1.37	1.29	
Growth over the year in number and percentage		-2	-1	0	6	48	-4	-7	
		-3.77	-1.96	0.00	12.00	85.71	-3.85	-7.00	

Source: Public Finance, CMIE, Nov. 2004, page no. 152.



Gives us the statistical picture of grant in aid as par of revenue expenditure to local bodies and Panchayat institutions grant in aid to all states suggest that there has been continuous rise in the said expenditure except the year 2001-02 the

budget estimates of current financial year also however expresses fall in the volume against the revised estimates of the previous year.

Percentage ratio of Gujarat to the all states is by and large remained changed in the restrictive phase all through out the period except in the year 1997-98 this percentage ratio has remained within the range of 1.0 to 1.5 Volume of grants in terms of revenue expenditure is found maximum in the year 2002-03 and it was found minimum in the year 1999-2000 and year 2000-01.

Growth over in terms of revenue expenditure as grant in aid suggest that there was an exceptional change during the year 2002-03 over the period of 2001-02 however it is found that the year 2000-01 does not show any change in the amount and percentage.

All states total in General trend to have rise in the growth over the year except for the year 2001-02 and budget estimates of 2004-05. Growth over in percentage for all states also reflects the same trend. This also shows quite contrary the trend against that is observed in case of Gujarat state.

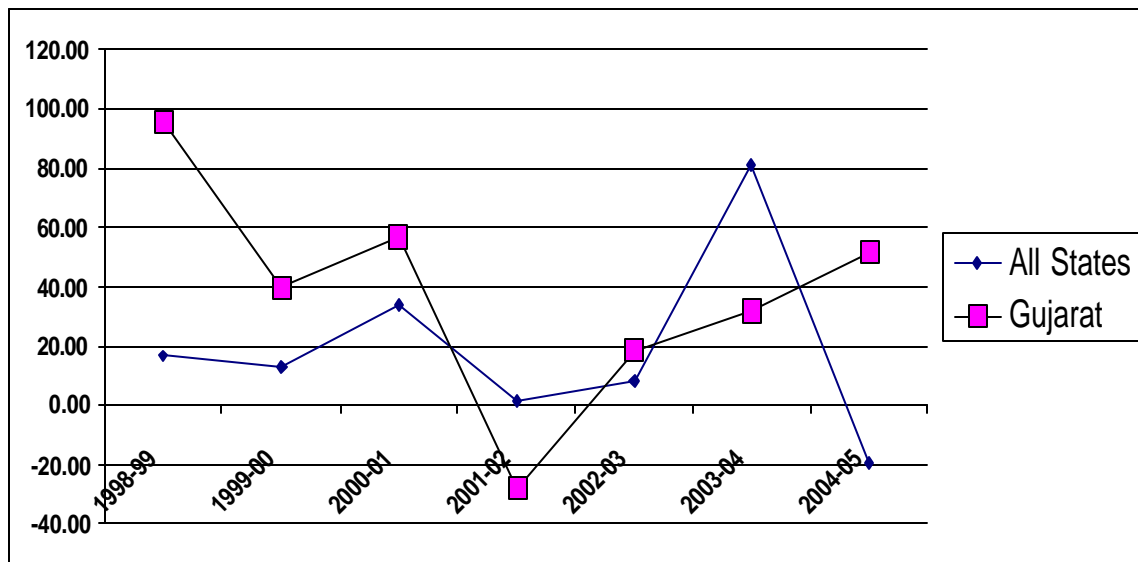
Graph regarding the granting aid to the local bodies demonstrate the very fact that in comparison with all states the performance of Gujarat is very poor except for the year 2002-03.

Table No. : 5.2.12

**Capital (incl. Loans & Advances) Expenditure - All states Gujarat with
Percentage change over the year**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	5209	6071	6843	9185	9314	10106	18320	14769	9977.13
Growth over the year in number and percentage		862	772	2342	129	792	8214	-3551	
		16.55	12.72	34.22	1.40	8.50	81.28	-19.38	
Gujarat	278	545	760	1190	861	1020	1346	2039	1004.88
% to all State	5.34	8.98	11.11	12.96	9.24	10.09	7.35	13.81	
Growth over the year in number and percentage		267	215	430	-329	159	326	693	
		96.04	39.45	56.58	-27.65	18.47	31.96	51.49	

Source: Public Finance, CMIE, Nov. 2004, page no. 97.



Indicates grant in aid in form of Capital expenditure is presented. It is found that capital expenditure incurred to all the states for grants purpose is found to have changing over the period of time. Volume of all the states is found maximum in the current financial year and it was minimum in 1997-98.

For Gujarat the picture revealed from the table also expresses fluctuations. However this trend is found linear right from the year 1998-99. Percentage ratio in relation to all states was exceptionally high in the year 1997-98 that is 28.53% in all the year that ratio is found very limited in comparison with the first year of study.

The trends available from the temporal point of view declining one only in the year 1998-99 were it has fallen sizably over the previous year. However the trend there after suggests that there is an increase in growth over the previous year. This growth over in percentage is however found uneven. It is the revised estimate of 2003-04 that growth over in comparison with the other year is found more. This table particularly the state part also expresses uneven rate of increase.

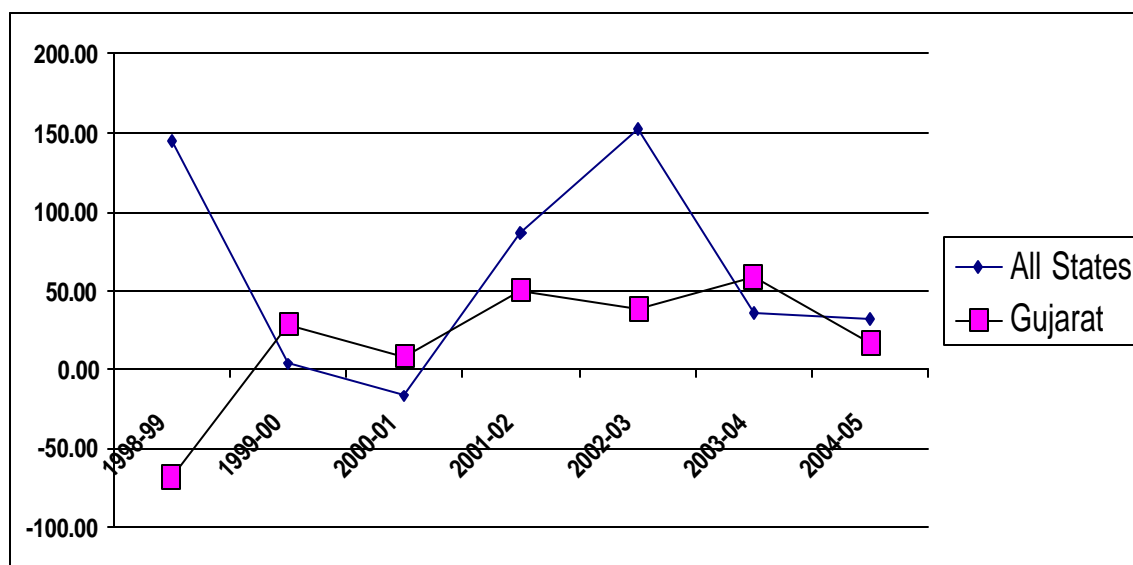
All states capital expenditure growth trend however reflects more growth in physical amount but less growth in terms of percentage in comparison with Gujarat state.

Graphical presentation clearly reflect more sound picture of the state in comparison with all states and it also reflects better position of Gujarat to all states unlike that of revenue part of Grant in aid.

Table No. : 5.2.13
Discharge of Internal Debt
Capital (incl. Loans & Advances) Expenditure - All states Gujarat with
Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	1048	2567	2666	2246	4190	10546	14332	19056	7081.38
Growth over the year in number and percentage		1519	99	-420	1944	6356	3786	4724	
		144.94	3.86	-15.75	86.55	151.69	35.90	32.96	
Gujarat	299	97	125	136	205	284	451	526	265.38
% to all State	28.53	3.78	4.69	6.06	4.89	2.69	3.15	2.76	
Growth over the year in number and percentage		-202	28	11	69	79	167	75	
		-67.56	28.87	8.80	50.74	38.54	58.80	16.63	

Source: Public Finance, CMIE, Nov. 2004, page no. 153..



Growth over in number and percentage of loans and advances for all the states indicate sharp variations. Except the year 2000-01, it is found increasing but

the rate of increase is found quite uneven. It has increased minimum Rs. 99 crores (3.86%) and maximum to the limit of Rs. 6365 crores i.e. 151.69%. This trend is more uneven when it is compared with Gujarat state. Average amount shows that in the first five years of the study period actual was less than that and in the last three years, it was more than that. In case of Gujarat State capital expenditure is found less than the average in the first four years.

Table No. : 5.2.14

Repayment of loans to the centre

Capital (incl. Loans & Advances) Expenditure - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	7095	9285	9181	10570	13686	28722	53339	42318	21774.50
Growth over the year in number and percentage		2190	-104	1389	3116	15036	24617	-11021	
		30.87	-1.12	15.13	29.48	109.86	85.71	-20.66	
Gujarat	398	446	502	1086	742	2510	4653	879	1402.00
% to all State	5.61	4.80	5.47	10.27	5.42	8.74	8.72	2.08	
Growth over the year in number and percentage		48	56	584	-344	1768	2143	-3774	
		12.06	12.56	116.33	-31.68	238.27	85.38	-81.11	

Source: Public Finance, CMIE, Nov. 2004, page no. 154.

Provides data on repayments of loan to the centre. Looking at the column of all states it is found that the total of repayments of loans to the centre by all states has increased more during the beginning of 10th five-year plan period. In general except for the year 1999-2000 the volume of the repayment indicates constant increase. The rate of increase is found to have increase right after 2001-02.

Coming to Gujarat State, trend is found more or less similar except for the year 2001. Percentage ratio of the repayment of loans to the total of all states express fluctuations over the years. From the percentage point of view it is found highest in the year 2000-01 and budget estimate of the current financial year indicates minimum percent ratio. In terms of physical amount the revenue estimate of 2003-04 indicates maximum amount.

Looking at the state picture from the percentage growth over the years that difference is found maximum in the year 2002-03 over the previous year of 2001-02. While 2001-02 and budget estimate of the current financial year indicate minus rate of percentage growth on the previous years thus regarding repayment of loans to the centre it is revealed from the table that there is found significant amount of variation over the period of time.

Repayment of loans to the center made by all the States indicates variations in growth over the years. This variation shows more positive and negative only in two years. Positive variation rate is found maximum in amount in the revised estimate of 2003-04 i.e. Rs. 24617 crores and in percentage in 2002-03 109.86%. This variation in growth is however found less in comparison with Gujarat state. It is reflected from the table that in case of Gujarat maximum growth in amount is found in 2003-04 revised estimate of Rs. 2143 crores but in percentage it is observed 238.27% in the year 2002-03.

Table No. : 5.2.15

(A) Medical & Public Health Revenue Expenditure - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	8792	10822	12184	13050	13425	13658	15695	16484	13013.75
Growth over the year in number and percentage		2030	1362	866	375	233	2037	789	
		23.09	12.59	7.11	2.87	1.74	14.91	5.03	
Gujarat	528	718	790	761	627	719	756	775	709.25
% to all State	6.01	6.63	6.48	5.83	4.67	5.26	4.82	4.70	
Growth over the year in number and percentage		190	72	-29	-134	92	37	19	
		35.98	10.03	-3.67	-17.61	14.67	5.15	2.51	

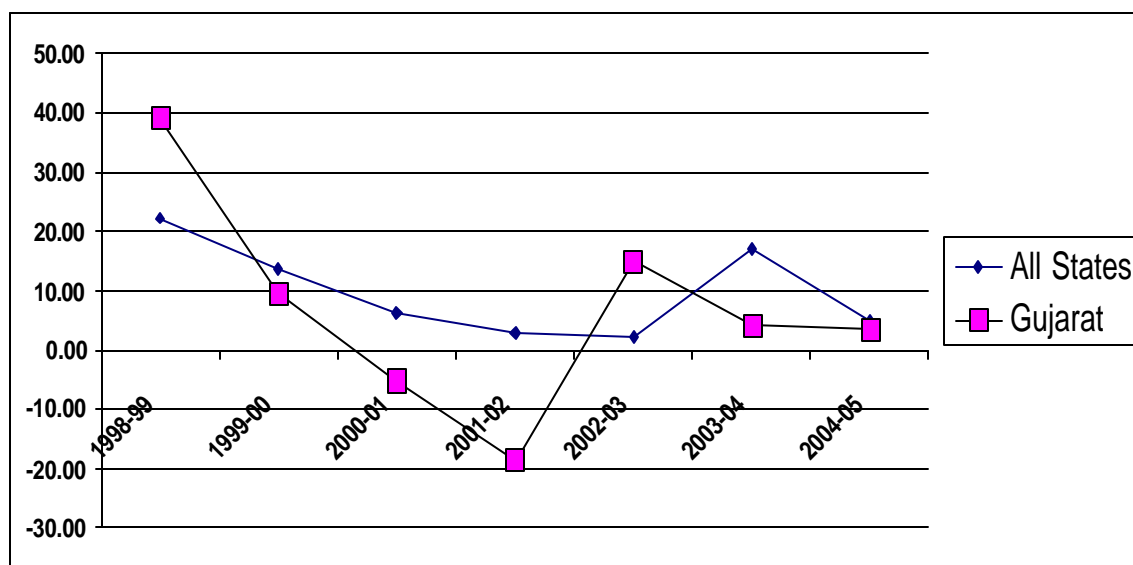
(B) Capital (incl. Loans & Advances) - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	495	528	733	692	689	763	1190	1281	796.38
Growth over the year in number and percentage		33	205	-41	-3	74	427	91	
		6.67	38.83	-5.59	-0.43	10.74	55.96	7.65	
Gujarat	14	37	38	25	13	17	11	19	21.75
% to all State	2.83	7.01	5.18	3.61	1.89	2.23	0.92	1.48	
Growth over the year in number and percentage		23	1	-13	-12	4	-6	8	
		164.29	2.70	-34.21	-48.00	30.77	-35.29	72.73	

(C) Total Expenditure medical and public health All states Gujarat with percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	9287	11350	12917	13742	14114	14421	16885	17765	13810.13
Growth over the year in number and percentage		2063	1567	825	372	307	2464	880	
		22.21	13.81	6.39	2.71	2.18	17.09	5.21	
Gujarat	542	755	828	786	640	736	767	794	731.00
% to all State	5.8361	6.652	6.4102	5.7197	4.5345	5.1037	4.5425	4.4695	
Growth over the year in number and percentage		213	73	-42	-146	96	31	27	
		39.30	9.67	-5.07	-18.58	15.00	4.21	3.52	

Source: Public Finance, CMIE, Nov. 2004, page no. 113.



It is evidently found that in respect of medical and public health much is spent on revenue part and very little is spent on capital account. Gujarat state has spent much less to the total of all states. This clearly reflected from the percentage spent to all states as capital expenditure in relation to account expenditure.

Growth trend reflects sharp variations in terms of physical amount and in percentage. This variation is found more on revenue part than on capital. Also it is

observed that in Gujarat State growth over the year is excessively more in case of Revenue expenditure.

For all states revenue expenditure is more than the average in the last five years while it is less than that in the first three years.

In case Gujarat too it is found in the year 2001-02 it was less than the average that only in the year 1997-98 and total expenditure for health and medical indicators that in all states minimum growth rate is reported in the year 2002-03 i.e. 2.18% and maximum in 1997-98 i.e. of 22.21%. While this in case of Gujarat is found minimum in 2001-02 negative i.e. -18.58% and maximum in 1997-98 and 38.30%.

Looking to the average of total expenditure in respect of all states it is less than average amount in the first four years while in Gujarat only first year (1997-98) is the year in which it shows less than the average amount.

As reflected in the curvature the trend in respect of all state total expenditure is found linier with variations in the degree, while in case of Gujarat state the degree of variation is found more with indicating negative trend in the year 2000-01 and 2001-02 respectively.

Table No. :5.2.16

**(A) Social Services : Family welfare Revenue Expenditure - All states Gujarat
with Percentage change over the year**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	1741	1862	2114	2356	2479	2265	3029	3187	2379.13
Growth over the year in number and percentage		121	252	242	123	-214	764	158	
		6.95	13.53	11.45	5.22	-8.63	33.73	5.22	
Gujarat	98	123	123	133	89	128	119	120	116.63
% to all State	5.63	6.61	5.82	5.65	3.59	5.65	3.93	3.77	
Growth over the year in number and percentage		25	0	10	-44	39	-9	1	
		25.51	0.00	8.13	-33.08	43.82	-7.03	0.84	

**(B) Capital (incl. Loans & Advances) - All states Gujarat with Percentage
change over the year**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	65	45	27	42	34	18	31	26	36.00
Growth over the year in number and percentage		-20	-18	15	-8	-16	13	-5	
		-30.77	-40.00	55.56	-19.05	-47.06	72.22	-16.13	
Gujarat	0	0	0	0	0	0	0	0	0.00
% to all State	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Growth over the year in number and percentage		0	0	0	0	0	0	0	
		0	0	0	0	0	0	0	

(C) Total Expenditure family welfare All states Gujarat with percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	1806	1907	2141	2398	2513	2283	3060	3213	2415.13
Growth over the year in number and percentage		101	234	257	115	-230	777	153	
		5.59	12.27	12.00	4.80	-9.15	34.03	5.00	
Gujarat	98	123	123	133	89	128	119	120	116.63
% to all State	5.42636	6.44992	5.74498	5.54629	3.54158	5.60666	3.88889	3.73483	
Growth over the year in number and percentage		25	0	10	-44	39	-9	1	
		25.51	0.00	8.13	-33.08	43.82	-7.03	0.84	

Source: Public Finance, CMIE, Nov. 2004, page no. 114.

This table highlights data on expenditure welfare revenue expenditure for family welfare is found proportionately more than capital expenditure. In the last 8 years capital expenditure is not incurred to Gujarat state.

Revenue expenditure trend of all states show positive growth except for the year 2002-03. The remaining years show rising trend through with variation in the degree. Revenue expenditure increase to Gujarat State for family welfare does not indicate more positive growth at least 4 times during the span.

Capital expenditure for all states show very little positive variations out of 8 years revenue expenditure at all states tend to shows more then the average for 3 years while in Gujarat growth over trend shows large decline.

Total expenditure family welfare suggest an increasing trend more in case of all states than that in case of Gujarat.

Table No. : 5.2.17**Water supply and sanitation****(A) Revenue Expenditure - All states Gujarat with Percentage change over the year**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	4574	5278	5408	5463	5579	5473	6799	7303	5734.63
Growth over the year in number and percentage		704	130	55	116	-106	1326	504	
		15.39	2.46	1.02	2.12	-1.90	24.23	7.41	
Gujarat	160	193	194	187	135	185	225	206	185.63
% to all State	3.50	3.66	3.59	3.42	2.42	3.38	3.31	2.82	
Growth over the year in number and percentage		33	1	-7	-52	50	40	-19	
		20.63	0.52	-3.61	-27.81	37.04	21.62	-8.44	

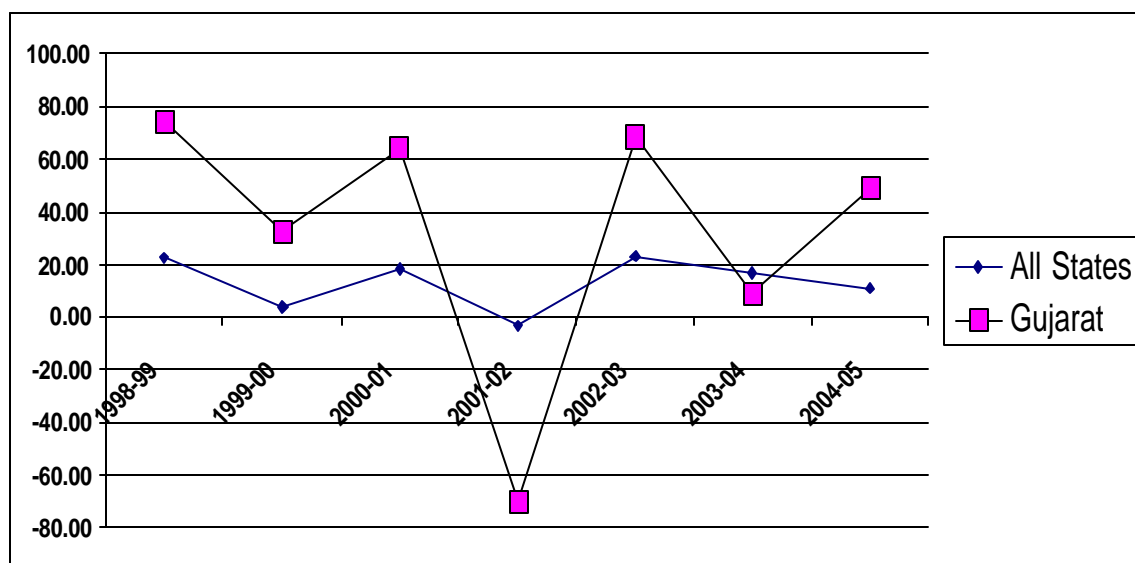
(B) Capital (incl. Loans & Advances) - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	1117	1688	1822	3069	2686	4690	5098	5892	3257.75
Growth over the year in number and percentage		571	134	1247	-383	2004	408	794	
		51.12	7.94	68.44	-12.48	74.61	8.70	15.57	
Gujarat	130	313	477	916	195	372	381	699	435.38
% to all State	11.64	18.54	26.18	29.85	7.26	7.93	7.47	11.86	
Growth over the year in number and percentage		183	164	439	-721	177	9	318	
		140.77	52.40	92.03	-78.71	90.77	2.42	83.46	

(C) Total Expenditure Water Supply and Sanitation All states Gujarat with perengtage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	5691	6966	7230	8532	8265	10163	11897	13195	8992.38
Growth over the year in number and percentage		1275	264	1302	-267	1898	1734	1298	
		22.40	3.79	18.01	-3.13	22.96	17.06	10.91	
Gujarat	290	506	671	1103	330	557	606	905	621.00
% to all State	5.09577	7.26385	9.28077	12.9278	3.99274	5.48067	5.09372	6.85866	
Growth over the year in number and percentage		216	165	432	-773	227	49	299	
		74.48	32.61	64.38	-70.08	68.79	8.80	49.34	

Source: Public Finance, CMIE, Nov. 2004, page no. 115.



It is the sector where identically the expenditure is prop ornately found more than other heads for capital account. Revenue expenditure incurred by all states indicates little variations in the growth. Minimum being -1.92% in the year 2000-01 and maximum in the revised estimates of 2003-04 the revised estimates of

2003-04. i.e. of 24.23%. In case of Gujarat growth over gets varied very little with -27.81 as minimum in 2001-02 and 37.04% in year 2002-03.

Capital expenditure tends to express more growth. It is again found minimum in the year 2001-02, -12.48% and maximum in the year 2002-03, i.e. 74.61%. For Gujarat state too this trend depicts the same pattern in the same year with a degree of -78.71% in 2001-02 but rise found more in 1998-99 of 140.77% in the year 1997-98.

Growth over in total expenditure in this regard is found minimum of -3.13% in the year 2001-02 and 22.96% as maximum in the year 2002-03. While to talk about Gujarat this growth trend is positive in general but for the year 2001-02 where in it is -70.08.

Table No. : 5.2.18

Housing

(A) Revenue Expenditure - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	926	1145	1032	1305	1262	1456	1836	1858	1352.50
Growth over the year in number and percentage		219	-113	273	-43	194	380	22	
		23.65	-9.87	26.45	-3.30	15.37	26.10	1.20	
Gujarat	107	173	203	306	159	198	423	288	232.13
% to all State	11.56	15.11	19.67	23.45	12.60	13.60	23.04	15.50	
Growth over the year in number and percentage		66	30	103	-147	39	225	-135	
		61.68	17.34	50.74	-48.04	24.53	113.64	-31.91	

(B) Capital (incl. Loans & Advances) - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	715	949	927	941	1030	1215	1564	1479	1102.50
Growth over the year in number and percentage		234	-22	14	89	185	349	-85	
		32.73	-2.32	1.51	9.46	17.96	28.72	-5.43	
Gujarat	52	97	119	80	81	59	184	141	101.63
% to all State	7.27	10.22	12.84	8.50	7.86	4.86	11.76	9.53	
Growth over the year in number and percentage		45	22	-39	1	-22	125	-43	
		86.54	22.68	-32.77	1.25	-27.16	211.86	-23.37	

(C) Total Expenditure housing. All states - Gujarat with percnegtage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	1641	2094	1959	2246	2292	2671	3400	3337	2455.00
Growth over the year in number and percentage		453	-135	287	46	379	729	-63	
		27.61	-6.45	14.65	2.05	16.54	27.29	-1.85	
Gujarat	159	270	322	386	240	257	607	429	333.75
% to all State	9.68921	12.894	16.437	17.1861	10.4712	9.62186	17.8529	12.8559	
Growth over the year in number and percentage		111	52	64	-146	17	350	-178	
		69.81	19.26	19.88	-37.82	7.08	136.19	-29.32	

Source: Public Finance, CMIE, Nov. 2004, page no. 116.

Following are the main highlights reflected from these tables (I)

1. Revenue expenditure for housing for all states tends to show more fluctuations with rise and fall in various degrees. During 8 years period in the year 1999-00 and 2001-02 it shows minus growth trend while it is observed maximum in 2000-01 with 26.45% growth. In the first five years average expenditure is found less than average.
2. While in case of Gujarat it is only during the year 2001-02 in which growth trend reflects – 48.04% and 113.54% is highest found in the year 2003-04 revised estimates. In total 5 years show expenditure less then the average.
3. Capital expenditure prorating gets more varied in degree in all states in relation to Gujarat. However percentage is more in Gujarat.
4. Housing sector expenditure for all states shows compound annual growth rate of 21% while in case of Gujarat it is reported tube of 33.75. In percentage per year average growth rate tends to be of 9.98% for all states while it comes to be of 23.13%.

Table No. : 5.2.19

Urban development

(A) Revenue Expenditure - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	2013	2515	3052	3078	3678	4054	5386	4845	3577.63
Growth over the year in number and percentage		502	537	26	600	376	1332	-541	
		24.94	21.35	0.85	19.49	10.22	32.86	-10.04	
Gujarat	129	178	233	207	213	317	399	348	253.00
% to all State	6.41	7.08	7.63	6.73	5.79	7.82	7.41	7.18	
Growth over the year in number and percentage		49	55	-26	6	104	82	-51	
		37.98	30.90	-11.16	2.90	48.83	25.87	-12.78	

(B) Capital (incl. Loans & Advances) - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	227	48	182	557	311	1279	2493	2263	920.00
Growth over the year in number and percentage		-179	134	375	-246	968	1214	-230	
		-78.85	279.17	206.04	-44.17	311.25	94.92	-9.23	
Gujarat	-2	13	18	16	13	12	24	23	14.63
% to all State	-0.88	27.08	9.89	2.87	4.18	0.94	0.96	1.02	
Growth over the year in number and percentage		15	5	-2	-3	-1	12	-1	
		-750.00	38.46	-11.11	-18.75	-7.69	100.00	-4.17	

**(C) Total Expenditure Urban development. All states - Gujarat with
percentage change over the year**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	2240	2563	3234	3635	3989	5333	7879	7108	4497.63
Growth over the year in number and percentage		323	671	401	354	1344	2546	-771	
		14.42	26.18	12.40	9.74	33.69	47.74	-9.79	
Gujarat	127	191	251	223	226	329	423	371	267.63
% to all State	5.66964	7.4522	7.76129	6.1348	5.66558	6.16914	5.3687	5.21947	
Growth over the year in number and percentage		64	60	-28	3	103	94	-52	
		50.39	31.41	-11.16	1.35	45.58	28.57	-12.29	

Source: Public Finance, CMIE, Nov. 2004, page no. 117.

Urban development is the sector for which much attention is not found especially in terms of capital account. On revenue expenditure growth trend in percentage is found negative likely as per in the budget estimates of 2004-05 and very little position in 2000-01 i.e. 0.85% only. In the remaining years for all states it is found more positive. In case of Gujarat too, revenues expenditure is negative in the year 2000-01 and budget estimates of 2004-05. In all other years it is found highly positive.

Capital expenditure growth trend reflect sharp variations over the year for all states and in Gujarat the trend reflects more negative trend and positive only for the year 1999-00 and 2003-04.

Total expenditure reflects positive growth over the period except for this current fiscal year 2004-05. While in Gujarat it appears to be negative in the year 2000-01 besides this current fiscal year budget estimates.

Table No. : 5.2.20

Welfare of SC, ST & OBC

(A) Revenue Expenditure - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	4496	5180	5519	6111	6787	7065	8348	8697	6525.38
Growth over the year in number and percentage		684	339	592	676	278	1283	349	
		15.21	6.54	10.73	11.06	4.10	18.16	4.18	
Gujarat	286	357	415	427	345	398	503	468	399.88
% to all State	6.36	6.89	7.52	6.99	5.08	5.63	6.03	5.38	
Growth over the year in number and percentage		71	58	12	-82	53	105	-35	
		24.83	16.25	2.89	-19.20	15.36	26.38	-6.96	

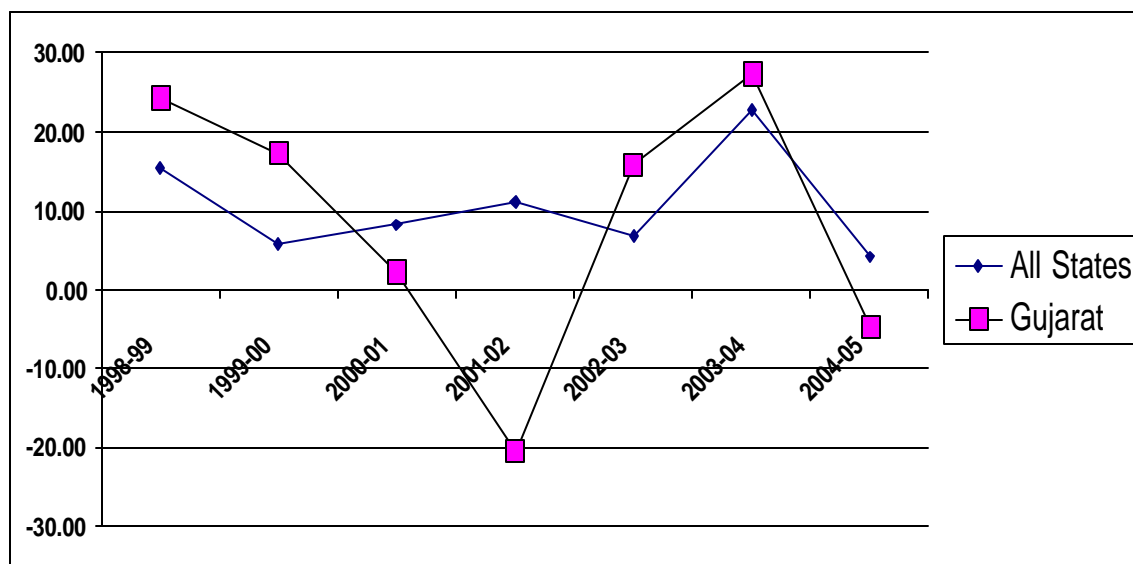
(B) Capital (incl. Loans & Advances) - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	413	487	479	388	435	641	1119	1161	640.38
Growth over the year in number and percentage		74	-8	-91	47	206	478	42	
		17.92	-1.64	-19.00	12.11	47.36	74.57	3.75	
Gujarat	7	7	12	10	3	5	10	21	9.38
% to all State	1.69	1.44	2.51	2.58	0.69	0.78	0.89	1.81	
Growth over the year in number and percentage		0	5	-2	-7	2	5	11	
		0.00	71.43	-16.67	-70.00	66.67	100.00	110.00	

**(C) Total Expenditure Welfare of SC, ST & OBC. All states - Gujarat with
percentage change over the year**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	4909	5667	5998	6499	7222	7706	9467	9858	7165.75
Growth over the year in number and percentage		758	331	501	723	484	1761	391	
		15.44	5.84	8.35	11.12	6.70	22.85	4.13	
Gujarat	293	364	427	437	348	403	513	489	409.25
% to all State	5.96863	6.42315	7.11904	6.72411	4.81861	5.22969	5.41882	4.96044	
Growth over the year in number and percentage		71	63	10	-89	55	110	-24	
		24.23	17.31	2.34	-20.37	15.80	27.30	-4.68	

Source: Public Finance, CMIE, Nov. 2004, page no. 118.



One of the major indicators of balancing the development efforts is the expenditure made by the states in respect of the development of SC/SC and OBC.

The tables in this regard demonstrate the fact that revenue expenditure is more in this regard before by all states and Gujarat growth over trend in amount and percentage also show clearly that except during the year 2001-02 to 2003-04 in the

remaining period revenue expenditure has proportionately grown more than capital expenditure. Gujarat state has spent very little as part of capital expenditure.

Out of the period of 8 years total experience growth in percentage is found more in case of all states in relation to Gujarat.

Capital expenditure of Gujarat in relation to total capital expenditure of all states is also found very negligible in this regard.

Table No. : 5.2.21

Labour and employment

(A) Revenue Expenditure - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	1031	1077	1230	1231	1160	1222	1507	1790	1281.00
Growth over the year in number and percentage		46	153	1	-71	62	285	283	
		4.46	14.21	0.08	-5.77	5.34	23.32	18.78	
Gujarat	78	97	108	121	101	123	123	121	109.00
% to all State	7.57	9.01	8.78	9.83	8.71	10.07	8.16	6.76	
Growth over the year in number and percentage		19	11	13	-20	22	0	-2	
		24.36	11.34	12.04	-16.53	21.78	0.00	-1.63	

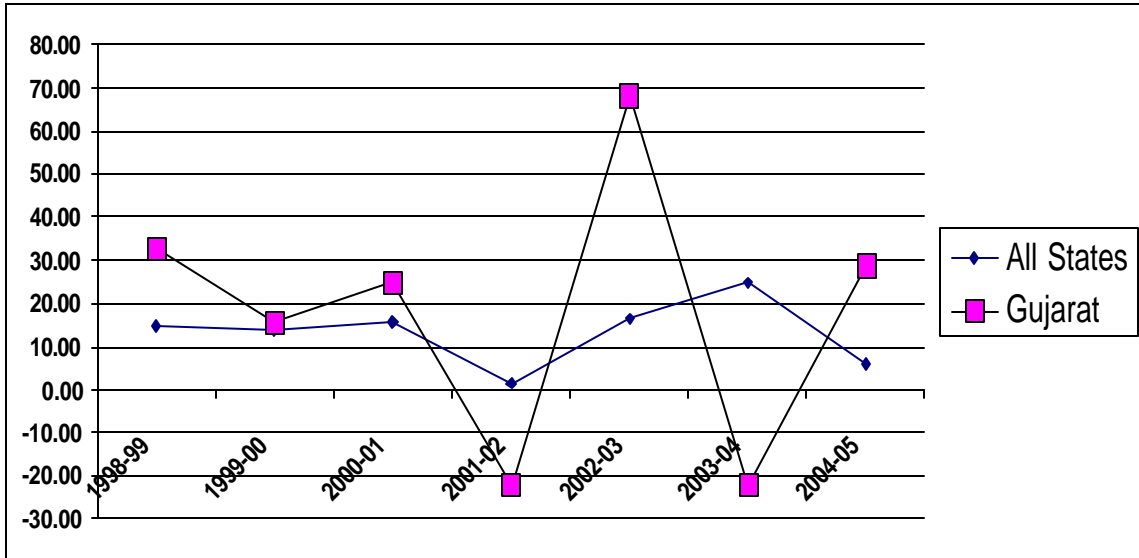
(B) Capital (incl. Loans & Advances) - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	3080	3637	4137	4976	5137	6106	7651	7923	5330.88
Growth over the year in number and percentage		557	500	839	161	969	1545	272	
		18.08	13.75	20.28	3.24	18.86	25.30	3.56	
Gujarat	73	103	123	167	123	254	170	256	158.63
% to all State	2.37	2.83	2.97	3.36	2.39	4.16	2.22	3.23	
Growth over the year in number and percentage		30	20	44	-44	131	-84	86	
		41.10	19.42	35.77	-26.35	106.50	-33.07	50.59	

(C) Total Expenditure Labor and employment. All states - Gujarat with percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	4111	4714	5367	6207	6297	7328	9158	9713	6611.88
Growth over the year in number and percentage		603	653	840	90	1031	1830	555	
		14.67	13.85	15.65	1.45	16.37	24.97	6.06	
Gujarat	151	200	231	288	224	377	293	377	267.63
% to all State	3.67307	4.24268	4.30408	4.63992	3.55725	5.14465	3.19939	3.8814	
Growth over the year in number and percentage		49	31	57	-64	153	-84	84	
		32.45	15.50	24.68	-22.22	68.30	-22.28	28.67	

Source: Public Finance, CMIE, Nov. 2004, page no. 119.



Expenditure for labor and employment incurred to all states and Gujarat suggest that

1. It is only in the year 2001-02 in which growth over in amount and percentage shows negative trend. This negative trend is however found more in the state of Gujarat to all states. Maximum percentage growth in case of all states is found in the revised estimate of 2003-04. While that in case of Gujarat it is reported in the year 1998-99.
2. In respect of the same capital expenditure trends reflect the fact that growth over in amount is more in all states but growth over in percentage is much more in case of Gujarat. Capital expenditure for all staets is found less then average for five years while that it is found less in Gujarat for 4 years.

Total expenditure for labour and employment suggest hat both for all states and Gujarat it has been increasing through at uneven rate in Gujarat it is however declining only in the year 2001-02 and 2003-04.

Table No.: 5.2.22**Economic Services****(A) Revenue Expenditure - All states Gujarat with Percentage change over the year**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	45474	49837	55177	64009	65891	67876	92004	81654	65240.25
Growth over the year in number and percentage		4363	5340	8832	1882	1985	24128	-10350	
		9.59	10.71	16.01	2.94	3.01	35.55	-11.25	
Gujarat	4177	5349	5485	8130	7774	6494	7488	7148	6505.63
% to all State	9.19	10.73	9.94	12.70	11.80	9.57	8.14	8.75	
Growth over the year in number and percentage		1172	136	2645	-356	-1280	994	-340	
		28.06	2.54	48.22	-4.38	-16.47	15.31	-4.54	

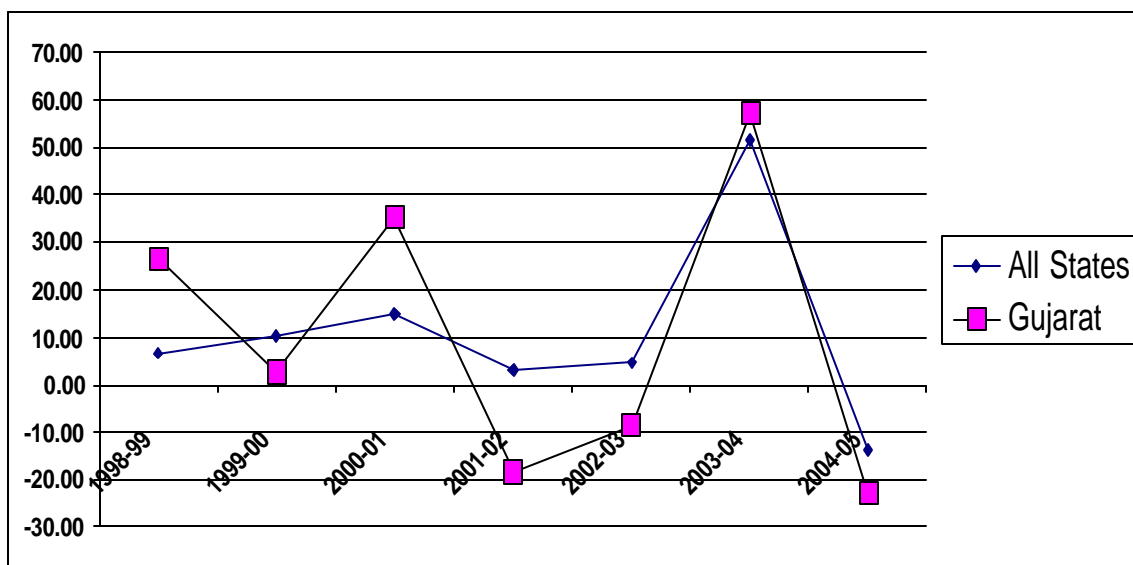
(B) Capital (incl. Loans & Advances) - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	26274	26575	29139	32844	33846	36539	66558	55509	38410.50
Growth over the year in number and percentage		301	2564	3705	1002	2693	30019	-11049	
		1.15	9.65	12.71	3.05	7.96	82.16	-16.60	
Gujarat	1925	2376	2452	2607	1002	1552	5152	2606	2459.00
% to all State	7.33	8.94	8.41	7.94	2.96	4.25	7.74	4.69	
Growth over the year in number and percentage		451	76	155	-1605	550	3600	-2546	
		23.43	3.20	6.32	-61.57	54.89	231.96	-49.42	

(C) Total Expenditure Economic Services. All states - Gujarat with percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	71748	76412	84316	96853	99737	104415	158562	137163	103650.75
Growth over the year in number and percentage		4664	7904	12537	2884	4678	54147	-21399	
		6.50	10.34	14.87	2.98	4.69	51.86	-13.50	
Gujarat	6102	7725	7937	10737	8776	8046	12640	9754	8964.63
% to all State	8.50477	10.1097	9.4134	11.0859	8.79914	7.70579	7.97165	7.11125	
Growth over the year in number and percentage		1623	212	2800	-1961	-730	4594	-2886	
		26.60	2.74	35.28	-18.26	-8.32	57.10	-22.83	

Source: Public Finance, CMIE, Nov. 2004, page no. 123.



It is evidently found from this table that expenditure for economic services on revenue part has increased over the period of time for all state but in case of Gujarat it is found increasing till 2000-01 there after for 2 years it has declined for capital expenditure on economic services the same trend is reflected in for all states and Gujarat. There is found sharp variations within the state from time perspective

and also in between all states and Gujarat. Economic services particularly capital expenditure on Economic services has remained less dominate to that revenue expenditure indicating the limitations of the state to promote development measures.

Table No. : 5.2.23

Agriculture and allied services

(A) Revenue Expenditure - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	11669	13415	15846	15488	15788	16220	18592	19063	15760.13
Growth over the year in number and percentage		1746	2431	-358	300	432	2372	471	
		14.96	18.12	-2.26	1.94	2.74	14.62	2.53	
Gujarat	457	569	673	709	896	631	757	848	692.50
% to all State	3.92	4.24	4.25	4.58	5.68	3.89	4.07	4.45	
Growth over the year in number and percentage		112	104	36	187	-265	126	91	
		24.51	18.28	5.35	26.38	-29.58	19.97	12.02	

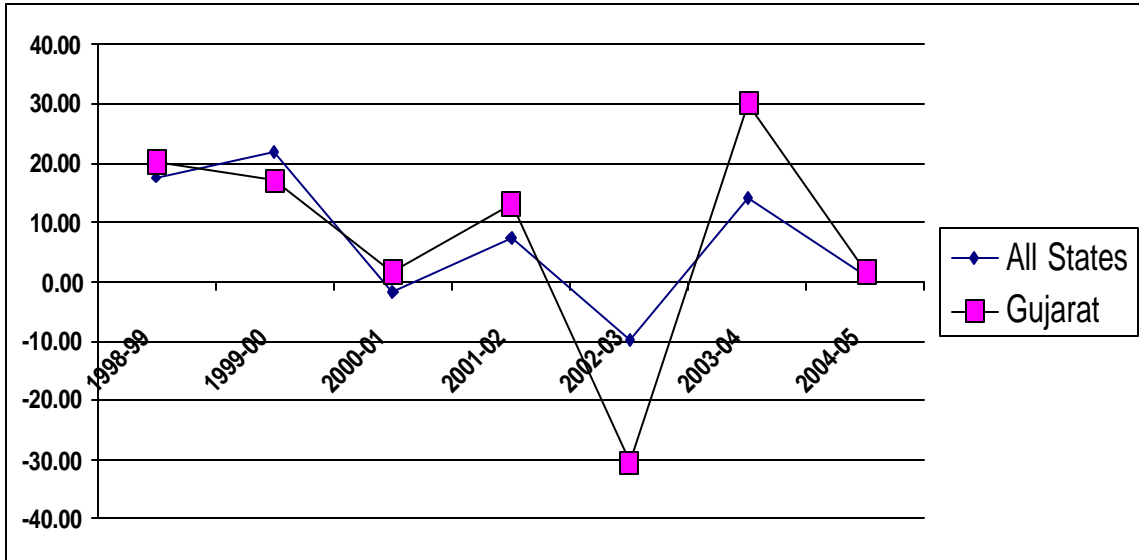
(B) Capital (incl. Loans & Advances) - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	1773	2384	3387	3388	4493	2096	2295	2082	2737.25
Growth over the year in number and percentage		611	1003	1	1105	-2397	199	-213	
		34.46	42.07	0.03	32.62	-53.35	9.49	-9.28	
Gujarat	194	214	243	224	161	105	200	127	183.50
% to all State	10.94	8.98	7.17	6.61	3.58	5.01	8.71	6.10	
Growth over the year in number and percentage		20	29	-19	-63	-56	95	-73	
		10.31	13.55	-7.82	-28.13	-34.78	90.48	-36.50	

(C) Total Expenditure Agriculture and Allied services. All states Gujarat with percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	13442	15799	19233	18876	20281	18316	20887	21145	18497.38
Growth over the year in number and percentage		2357	3434	-357	1405	-1965	2571	258	
		17.53	21.74	-1.86	7.44	-9.69	14.04	1.24	
Gujarat	651	783	916	933	1057	736	957	975	876.00
% to all State	4.84303	4.95601	4.76265	4.94278	5.21177	4.01834	4.5818	4.61102	
Growth over the year in number and percentage		132	133	17	124	-321	221	18	
		20.28	16.99	1.86	13.29	-30.37	30.03	1.88	

Source: Public Finance, CMIE, Nov. 2004, page no. 124.



Agricultural sector is a crucial one. In respect of revenue expenditure for all states it is reflected from the table that it is continuously increasing except for the year 2000-01. Growth over in percentage however does not indicate much rise except for the year 2003-04 over the previous year and 1998 over the previous year. In Gujarat too it is observed that only in the year 2002-03 the growth over the previous year in negative growth over in percentage in Gujarat is found little more in relation to all states.

Capital expenditure part is found weaker for Gujarat than all states particularly in context of growth over in percentage. For all states it is found negative only for times while in Gujarat it is found four times. Important observation is that even in positive growth it is relatively more in percentage of all states than Gujarat.

To talk about total expenditure trend it can be said that all states purportedly show more fluctuating trends in growth over to Gujarat state.

Table No. : 5.2.24**Rural Development****(A) Revenue Expenditure – All states Gujarat with Percentage change over the year**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	8371	10464	10509	10018	10196	11078	15782	16142	11570.00
Growth over the year in number and percentage		2093	45	-491	178	882	4704	360	
		25.00	0.43	-4.67	1.78	8.65	42.46	2.28	
Gujarat	426	613	565	761	379	579	626	783	591.50
% to all State	5.09	5.86	5.38	7.60	3.72	5.23	3.97	4.85	
Growth over the year in number and percentage		187	-48	196	-382	200	47	157	
		43.90	-7.83	34.69	-50.20	52.77	8.12	25.08	

(B) Capital (incl. Loans & Advances) - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	386	360	576	1303	2293	1718	3573	3136	1668.13
Growth over the year in number and percentage		-26	216	727	990	-575	1855	-437	
		-6.74	60.00	126.22	75.98	-25.08	107.97	-12.23	
Gujarat	0	0	0	0	0	0	0	0	0.00
% to all State	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	
Growth over the year in number and percentage		0	0	0	0	0	0	0	

**(C) Total Expenditure Rural development. All states Gujarat with
percentage change over the year**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	8757	10824	11085	11321	12489	12796	19355	19278	13238.13
Growth over the year in number and percentage		2067	261	236	1168	307	6559	-77	
		23.60	2.41	2.13	10.32	2.46	51.26	-0.40	
Gujarat	426	613	565	761	379	579	626	783	591.50
% to all State	4.86468	5.66334	5.09698	6.72202	3.03467	4.52485	3.23431	4.06162	
Growth over the year in number and percentage		187	-48	196	-382	200	47	157	
		43.90	-7.83	34.69	-50.20	52.77	8.12	25.08	

Source: Public Finance, CMIE, Nov. 2004, page no. 134.

It is observed from this table that in respect of rural development little attention has been paid to the capital expenditure part. The total expenditure on rural development suggest that in aggregate growth over the years in percentage in case of Gujarat state is found more than that of all states. In case of all states. It is only once that negative trend is found; while in case of Gujarat down fall in the total expenditure is observed in the year 1999-2000 and 2001-02 respectively.

Table No. : 5.2.25

Energy

(A) Revenue Expenditure - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	6162	5620	6793	13461	15295	14034	31211	18456	13879.00
Growth over the year in number and percentage		-542	1173	6668	1834	-1261	17177	-12755	
		-8.80	20.87	98.16	13.62	-8.24	122.40	-40.87	
Gujarat	1368	1647	1386	3548	3551	2219	2641	2016	2297.00
% to all State	22.20	29.31	20.40	26.36	23.22	15.81	8.46	10.92	
Growth over the year in number and percentage		279	-261	2162	3	-1332	422	-625	
		20.39	-15.85	155.99	0.08	-37.51	19.02	-23.67	

(B) Capital (incl. Loans & Advances) - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	8930	7712	7280	10374	8109	8879	23851	16620	11469.38
Growth over the year in number and percentage		-1218	-432	3094	-2265	770	14972	-7231	
		-13.64	-5.60	42.50	-21.83	9.50	168.62	-30.32	
Gujarat	224	370	331	607	24	120	1994	304	496.75
% to all State	2.51	4.80	4.55	5.85	0.30	1.35	8.36	1.83	
Growth over the year in number and percentage		146	-39	276	-583	96	1874	-1690	
		65.18	-10.54	83.38	-96.05	400.00	1561.67	-84.75	

(C) Total Expenditure Energy. All states-Gujarat with perengtage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	15092	13332	14073	23835	23404	22913	55062	35076	25348.38
Growth over the year in number and percentage		-1760	741	9762	-431	-491	32149	-19986	
		-11.66	5.56	69.37	-1.81	-2.10	140.31	-36.30	
Gujarat	1592	2017	1717	4155	3575	2339	4635	2320	2793.75
% to all State	10.5486	15.129	12.2007	17.4323	15.2752	10.2082	8.41778	6.61421	
Growth over the year in number and percentage		425	-300	2438	-580	-1236	2296	-2315	
		26.70	-14.87	141.99	-13.96	-34.57	98.16	-49.95	

Source: Public Finance, CMIE, Nov. 2004, page no. 141.

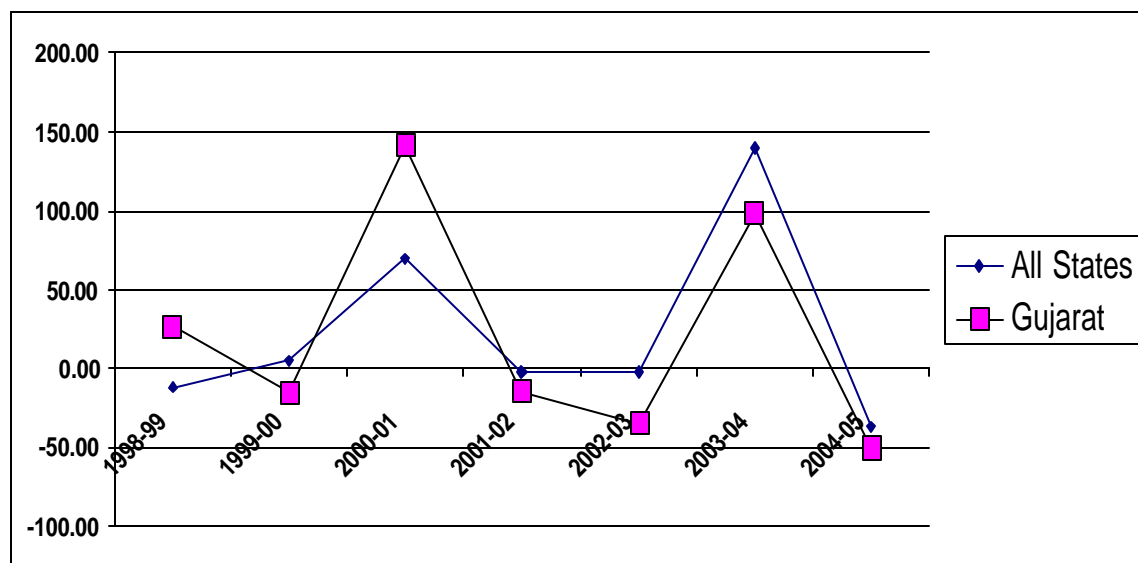


Table No. : 5.2.26**Industries and Minerals****(A) Revenue Expenditure - All states Gujarat with Percentage change over the year**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	1989	2176	2142	2376	2470	2597	3255	2973	2497.25
Growth over the year in number and percentage		187	-34	234	94	127	658	-282	
		9.40	-1.56	10.92	3.96	5.14	25.34	-8.66	
Gujarat	134	234	244	286	365	267	248	273	256.38
% to all State	6.74	10.75	11.39	12.04	14.78	10.28	7.62	9.18	
Growth over the year in number and percentage		100	10	42	79	-98	-19	25	
		74.63	4.27	17.21	27.62	-26.85	-7.12	10.08	

(B) Capital (incl. Loans & Advances) - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	1016	1005	911	966	1076	1766	1869	982	1198.88
Growth over the year in number and percentage		-11	-94	55	110	690	103	-887	
		-1.08	-9.35	6.04	11.39	64.13	5.83	-47.46	
Gujarat	54	66	75	145	13	11	34	60	57.25
% to all State	5.31	6.57	8.23	15.01	1.21	0.62	1.82	6.11	
Growth over the year in number and percentage		12	9	70	-132	-2	23	26	
		22.22	13.64	93.33	-91.03	-15.38	209.09	76.47	

(C) Total Expenditure Industries and Mineral. All states-Gujarat with percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	3005	3181	3053	3342	3546	4363	5124	3955	3696.13
Growth over the year in number and percentage		176	-128	289	204	817	761	-1169	
		5.86	-4.02	9.47	6.10	23.04	17.44	-22.81	
Gujarat	188	300	319	431	378	278	282	333	313.63
% to all State	6.25624	9.431	10.4487	12.8965	10.6599	6.37176	5.50351	8.41972	
Growth over the year in number and percentage		112	19	112	-53	-100	4	51	
		59.57	6.33	35.11	-12.30	-26.46	1.44	18.09	

Source: Public Finance, CMIE, Nov. 2004, page no. 143.

Industries and mineral expenditure shows sharp variations over the years in respect of growth over in amount and percentage. It is however found more positive for all states and Gujarat. Ratio of Capital expenditure in this respect again does not indicate more positive variation for all state and Gujarat. However it is in the year 2000-01 and 2003-04 that in Gujarat growth over the previous year tends to be exceptionally higher. Capital expenditure in case of all states is found less than average for six years while that in case of Gujarat is found 4 years less than the average.

Total expenditure in aggregate shows negative growth for all states in the year 1999-00 and budget estimate of 2004-05. In case of Gujarat it is reported to be negative consecutively for the year 2001-02 and 2002-03. Out of 8 years 4 years are found, such where in Gujarat's per year total expenditure is less than average. In case of all states average, it is less than 5 years such where in it is less than the average.

Table No.: 5.2.27**Transport & Communication****(A) Revenue Expenditure - All states Gujarat with Percentage change over the year**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	5387	5113	5759	6097	6486	7844	7302	7725	6464.13
Growth over the year in number and percentage		-274	646	338	389	1358	-542	423	
		-5.09	12.63	5.87	6.38	20.94	-6.91	5.79	
Gujarat	500	602	592	607	591	658	623	643	602.00
% to all State	9.28	11.77	10.28	9.96	9.11	8.39	8.53	8.32	
Growth over the year in number and percentage		102	-10	15	-16	67	-35	20	
		20.40	-1.66	2.53	-2.64	11.34	-5.32	3.21	

(B) Capital (incl. Loans & Advances) - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	3754	4757	5210	6000	6071	7955	11524	11657	7116.00
Growth over the year in number and percentage		1003	453	790	71	1884	3569	133	
		26.72	9.52	15.16	1.18	31.03	44.86	1.15	
Gujarat	155	248	332	399	247	427	770	731	413.63
% to all State	4.13	5.21	6.37	6.65	4.07	5.37	6.68	6.27	
Growth over the year in number and percentage		93	84	67	-152	180	343	-39	
		60.00	33.87	20.18	-38.10	72.87	80.33	-5.06	

**(C) Total Expenditure Transport and Communication. All states- Gujarat
with perengtage change over the year**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	9141	9870	10969	12097	12557	15799	18826	19382	13580.13
Growth over the year in number and percentage		729	1099	1128	460	3242	3027	556	
		7.98	11.13	10.28	3.80	25.82	19.16	2.95	
Gujarat	655	850	924	1006	838	1085	1393	1374	1015.63
% to all State	7.16552	8.61196	8.42374	8.31611	6.67357	6.86752	7.39934	7.08905	
Growth over the year in number and percentage		195	74	82	-168	247	308	-19	
		29.77	8.71	8.87	-16.70	29.47	28.39	-1.36	

Source: Public Finance, CMIE, Nov. 2004, page no. 145.

To examine the trend for transport and communication it is found that both revenue and capital expenditure in general show an increasing trend. However the degree of variation in percentage growth in all states is found more in capital expenditure. The same is more or less the pattern found for Gujarat state. However in case of Gujarat state average capital expenditure is found more only because of the last two years exceptional increase. The same is true for all states. Minimum growth over the percentage in terms of aggregate expenditure for Gujarat it is - 16.70 in the year 2001-02 while in the year 2001-02 while maximum is reported 24.77% in the year 1998-99. For all the states it is found minimum in the year 2001-02 and maximum in the year 2002-03.

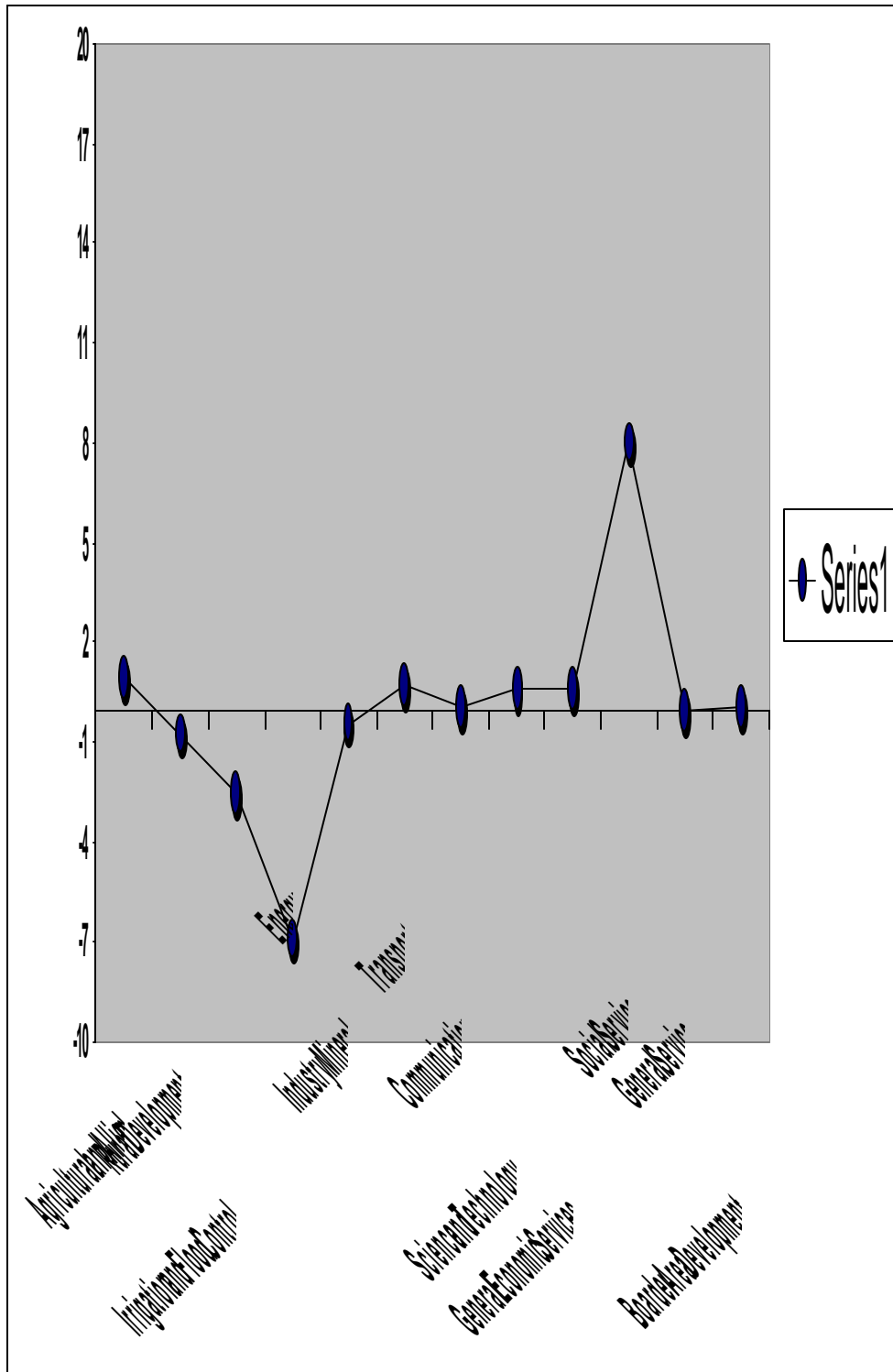
Both in case of all states as well as Gujarat, it is observed that out of 8 years. First five years indicate total expenditure less than the average.

Table No. : 5.2.28

Expenditure pattern under planning period [Percentage to total expenditure]

Sector	8th plan period April 1992 to March 1997	9th plan period April 1997 to March 2002	Percentage point change	10th plan outlay 2002 to 2007	Expenditure of First two years
Agricultural and Allied	6.7	7.66	0.96	8.87	5.26
Rural Development	4.74	3.95	-0.79	3.4	4.2
Irrigation and Flood Control	28.97	26.4	-2.57	22.02	25.31
Energy	21.69	14.67	-7.02	15.09	13.03
Industry Mineral	5.47	4.97	-0.5	5.17	2.3
Transport	6.81	7.56	0.75	4.62	9.65
Communication	0.04	0.07	0.03	0.08	0.19
Science and Technology	0.06	0.64	0.58	0.81	0.89
General Economic Services	2.42	3.02	0.6	2.09	4.25
Social Service	23.02	30.95	7.93	37.71	34.84
General Service	0.01	0.02	0.01	0.05	0.02
Boarder Area Development	0	0.1	0.1	0.09	-
Total Rupees	1175610	2707231	130.28	4700000	1298789

Source: Budget documents in brief and socio economic review 1992-93 to 2004-05, Directorate of Economics and Statistics, Govt. of Gujarat, Gandhinagar.



State expenditure of pattern of Gujarat State, covering 8th and 9th five-year plan period and first 2 years of 10th five-year plan is presented in the table. It provides percentage spend to the total for the respective sector during the planning period. 8th and 9th plan expenditure in percentage is based on actual expenditure during the period. Tenth plan original outlay is presented in percentage to total outlay. However first two years actual expenditure in percentage is computed on the basis of revised outlay for the first two years. Column 4 indicates the difference in percentage point between 8th and 9th five-year plan.

Broad inferences can be derived as under.

1. Maximum amount in percentage was spent for flood control and Imagination. This was followed by social services and true of far energy sector respectively under this 8th plan minimum was spent for general services.
2. In 9th plan social services shows maximum spending followed by Irrigation flood control and true after energy.
Thus in respect prioritization is interchanged between the first two only. i.e. Irrigation flood control and social services.
3. Examining the difference that is observed in percentage spending for the sector between eight and ninth plans it is found that
 - a. Highest positive difference is found in case of social service sector. There are others seven sectors for which positive trend is reflected. But the degree of increase in social sector is pr`oportnately for more than what it is found in other sector.
 - b. Highest degree negative degree of difference is observed in case of energy sector.
 - c. Negative trend is found in irrigation and flood control.

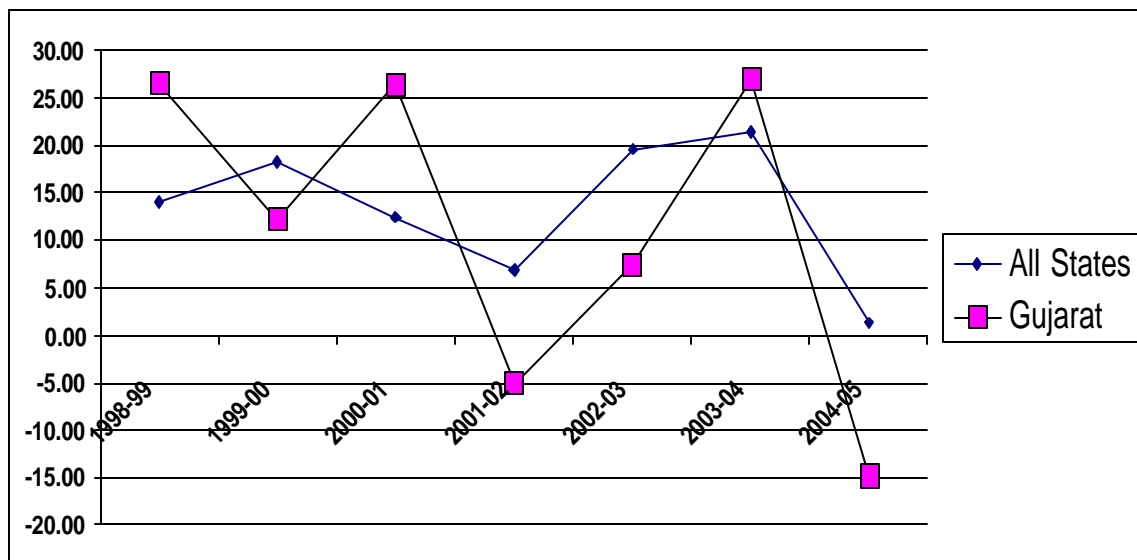
- d. Sectoral allocation of outlay of 10th five year plan reflects that social services has maintained top priority followed by irrigation and flood control and thereafter energy sector. This same trend gets reflected in the actual spending during the first two years of 10th plan.
- e. Coming to the change in aggregate spending between two five year plan it is observed that there is 130.28% rise in the total spending of Ninth five year plan in relation to the eight five year plan. Proposed outlay of 10th five year plan is 73.60% more in amount than the ninth five-year plan. While during first two years of 10th five-year plan total amount actually spent as against the revised outlay 101.94%.

Table No. : 5.2.29

Total receipts all states and Gujarat

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Receipts
All States	230237.70	262841.10	310776.10	349543.80	373885.80	446954.90	542843.40	549854.50	383367.16
Growth over the year in number and percentage		32603.4	47935	38767.7	24342	73069.1	95888.5	7011.1	
		14.16	18.24	12.47	6.96	19.54	21.45	1.29	
Gujarat	14963.60	18954.30	21285.60	26920.00	25554.50	27466.60	34897.00	29732.20	24971.73
% to all State	6.50	7.21	6.85	7.70	6.83	6.15	6.43	5.41	
Growth over the year in number and percentage		3990.7	2331.3	5634.4	-1365.5	1912.1	7430.4	-5164.8	
		26.67	12.30	26.47	-5.07	7.48	27.05	-14.80	

Source: Public Finance, CMIE, Nov. 2004, page no. 209.



This table is indicator of Govt. receipts. It refers to the receipts of all states and particularly of Gujarat. It indicates total receipts of the Govt. both revenue receipts and capital receipts.

Looking at the table it is clearly found that there is Linearity in the trend of the receipts of all the states, there is continuous rise in the receipts over the period of time, right from 1997-98 to the budget estimates of current financial year. There is upward trend.

In relation to the total of all states receipts of Gujarat state, also indicate an upward trend with two years indicating down ward trend over the previous years. Percentage ratio if examined in relation to all states revenue, it is observed that in the year 2000-01. It was found highest (7.70%) followed by the year 1998-99 (7.21%). This ratio is found lowest in the budget estimate of current financial year (5.40%). Thus it is revealed that percentage ratio indicates variations in the degree of Linearity.

From the time series point of view, it is again proved that the growth over in percentage over the previous year is found to have fluctuations. Highest growth over in percentage is found in the 2003-04 revised estimate (27.05%) followed by

the year 1998-99 (26.66%) this growth is also found declining in the year 2001-02 and the current financial year of 2004-05 in general in relation to all the states, Gujarat indicates un even performance in respect of growth over time period.

All states indicate constant growth over the previous year both in amount and percentage however there is found sharp variations in the growth trend. It is found varied in amount minimum of Rs. 7011.1 and maximum up to 95888.5. In percentage it is 1.29% to 21.45%. This degree of variation in growth is found more positive in case of Gujarat except for the two years i.e. in 2001-02 and estimates of 2004-05, which shows negative trend. First five years indicate year wise amount less than the average in all states while in case of Gujarat that is found less than average for first three years.

Table No.: 5.2.30**Revenue Receipt - All states Gujarat with Percentage change over the year**

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Receipts
All States	107300.80	176447.70	207201.10	237952.90	255675.20	275175.80	329508.80	370587.10	244981.18
Growth over the year in number and percentage		69146.9	30753.4	30751.8	17722.3	19500.6	54333	41078.3	
		64.44	17.43	14.84	7.45	7.63	19.74	12.47	
Gujarat	11125.40	12742.70	13900.30	15738.60	15986.10	17875.30	20145.80	20813.70	16040.99
% to all State	10.37	7.22	6.71	6.61	6.25	6.50	6.11	5.62	
Growth over the year in number and percentage		1617.3	1157.6	1838.3	247.5	1889.2	2270.5	667.9	
		14.54	9.08	13.22	1.57	11.82	12.70	3.32	

Source: Public Finance, CMIE, Nov. 2004, page no. 210.

Here the revenue receipts part of the total receipts is indicated revenue receipts trend indicate constant increase from the amount point of view of all states revenue receipts of all state is found maximum if the budget estimate of current financial year is taken in to consideration however during the completed span of 9th five year plan. It was in the last year that is 2001-02 in which receipts of all states was highest.

To talk about the Gujarat state, it is revealed from the table that percentage ratio t the total of all states expresses unevenness. It is increasing but percentage ratio does not indicate increase in comparison with the previous year. The budget estimate of current financial year indicate that percentage ratio of Gujarat to the all state found to be minimum from amongst the years of study, while it was maximum in respect of percentage in the year 1997.

It is important to examine the difference in the physical amount and the growth over in percentage to the previous year. Having a look at this it is observed that during the last year of 2003-04 revised estimate indicate highest amount of

difference in physical terms this was also found but little less in the year 2002-03, followed by the year 1998-99. However growth over in percentage over the previous year is found maximum in the year 1998-99 followed by the year 2000-01 and revised estimates of 2003-04. While this growth is found to have very little variation in the year 2001-02 and followed by 1999-2000.

Table No. : 5.2.31

Capital Receipt - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Receipts
All States	59936.90	86393.40	103574.90	111590.80	118210.60	171779.10	213334.60	179267.40	130510.96
Growth over the year in number and percentage		26456.5	17181.5	8015.9	6619.8	53568.5	41555.5	-34067.2	
		44.14	19.89	7.74	5.93	45.32	24.19	-15.97	
Gujarat	3838.30	6211.60	7385.20	11181.50	9568.40	9591.30	14751.20	8918.50	8930.75
% to all State	6.40	7.19	7.13	10.02	8.09	5.58	6.91	4.97	
Growth over the year in number and percentage		2373.3	1173.6	3796.3	-1613.1	22.9	5159.9	-5832.7	
		61.83	18.89	51.40	-14.43	0.24	53.80	-39.54	

Source: Public Finance, CMIE, Nov. 2004, page no. 210.

Highlights capital receipts from that of the total receipts. The picture of all state indicates that in general there has been an increasing trend over the years. But an acceptance is found in this current financial year where in the budget estimate indicate less amount of capital receipts over the previous year. Amount in numbers is reported to be highest as per the revised estimate of 2003-04.

Unlike the aggregate picture of all states, Gujarat provides a little different picture. Percentage ratio to all states indicates sharp variations over the years. It expresses fluctuations. Percentage ratio is found highest in the year 2000-01 (10.01%) followed by the year 2001-02 (8.09%) percentage ratio is estimated to be lowest and also less in comparison with the previous year.

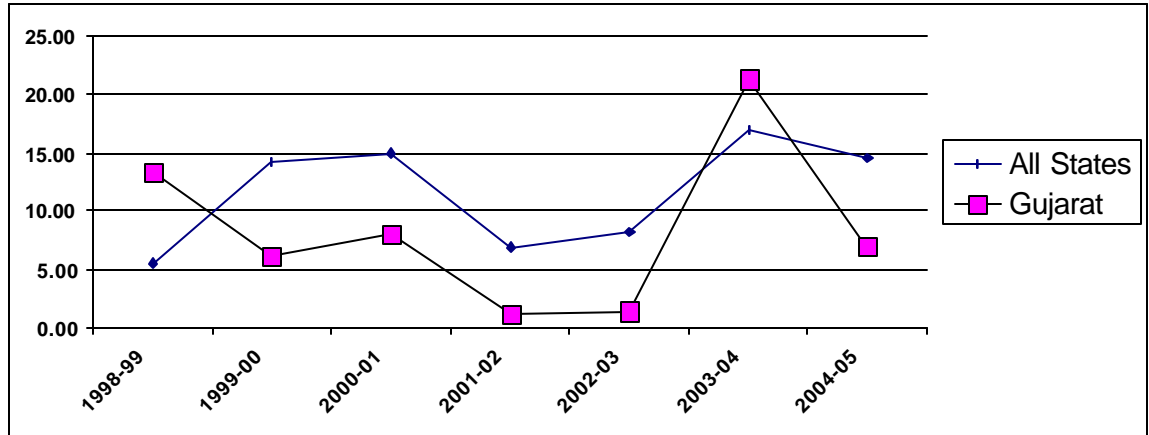
Looking from the temporal perspective again in Gujarat state there are variation in the trend. In numbers if examined budget estimates of current financial year connote maximum difference with minus. Trend falling trend was also observed during the year 2001-02 over the pervious year. State picture it examined from the growth perspective over the previous year the table suggest that growth is reported to be 39.53% in running financial year highest growth over in percentage was found in the year 1998-99 (61.82%) followed by the revised estimate of 2003-04 – 53.78%.

Table No. : 5.2.32

Tax Revenue - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Receipts
All States	121640.60	128416.50	146703.00	168714.70	180311.90	194976.90	228018.50	261206.10	178748.53
Growth over the year in number and percentage		6775.9	18286.5	22011.7	11597.2	14665	33041.6	33187.6	
		5.57	14.24	15.00	6.87	8.13	16.95	14.55	
Gujarat	8165.60	9257.40	9826.80	10620.60	10734.90	10883.90	13200.70	14114.80	10850.59
% to all State	6.71	7.21	6.70	6.30	5.95	5.58	5.79	5.40	
Growth over the year in number and percentage		1091.8	569.4	793.8	114.3	149	2316.8	914.1	
		13.37	6.15	8.08	1.08	1.39	21.29	6.92	

Source: Public Finance, CMIE, Nov. 2004, page no. 211.



This table provides significance of the tax revenue having a look at the tax revenue of all states. It is clearly observed that there is constant up ward trend in the tax revenue of all states. There are little variation in the degree of increase but in general it is continuously increases and more important in comparison with previous year budget estimates of the current financial year present very bright picture with sizable increase in the tax revenue.

Tax revenue of Gujarat state in general expresses the trend similar that of all the states. However percentage ratio of Gujarat to all states provides mixed picture. Percentage ratio expresses ups and downs over the period. It is found lowest (5.40%) from amongst all year in the running financial year, while it was found maximum in the year 1998-99 (7.20%).

Tax revenue of Gujarat state from the time perspective expresses unevenness in the growth rate. Different in terms of physical amount it taken in to consideration the revised estimate of 2003-04 indicates maximum difference over the previous year (2316.80). This trend was also found in the year 1998-99 (1091-80). Growth over in percentage expresses the similar trend maximum in the year 2003-04 21.27% followed by 13.36% in the year 1998-99, while it was found lowest in the year 2001-02. (1.07%)

Table No. : 5.2.33

Non-Tax Revenue - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Receipts
All States	48660.20	48031.20	60498.10	69238.30	75363.20	80198.90	101490.30	109381.00	74107.65
Growth over the year in number and percentage		-629	12466.9	8740.2	6124.9	4835.7	21291.4	7890.7	
		-1.29	25.96	14.45	8.85	6.42	26.55	7.77	
Gujarat	2959.80	3485.40	4073.60	5118.00	5251.20	6991.50	6945.20	6698.90	5190.45
% to all State	6.08	7.26	6.73	7.39	6.97	8.72	6.84	6.12	
Growth over the year in number and percentage		525.6	588.2	1044.4	133.2	1740.3	-46.3	-246.3	
		17.76	16.88	25.64	2.60	33.14	-0.66	-3.55	

Source: Public Finance, CMIE, Nov. 2004, page no. 211.

This table refers to the efforts made by all the states and Gujarat in particular to mobilized non-tax revenue. Here it is indicated that non-tax revenue generated by all states has increase over the period of time except in the year 1998-99. This amount is found to have collected maximum in the budget estimate of the current financial year.

In relation to all states, non-tax revenue collected by Gujarat state indicates an increase in terms of physical amount. The trend in general is found increasing but for the current financial year.

In examined percentage ratio to all states there is unevenness found in the trend. Percentage ratio is indicating regular up down and up trend. It is observed highest in the year 2002-03 (8.71%) and lowest in the year 1997-98 (6.08%).

Coming about the time series analysis it is further revealed that there has been fluctuations found over the period of time. The difference if worked in amount tends to be highest in the year 2002-03 (1740.30) and in it is found minimum 246.30 in budget estimates current financial year. Percentage growth over the previous year it examined found maximum again in the year 2002-03

(33.13%) and minimum in current financial year (3.54%). Thus table reveals uneven uses in the degree of change over the period of time.

Table No. : 5.2.34

Tax Revenue : State's own tax Revenue - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Receipts
All States	81229.40	88995.20	102581.90	117981.00	12896.70	142371.10	163058.40	183690.30	111600.50
Growth over the year in number and percentage		7765.8	13586.7	15399.1	-105084.3	129474.4	20687.3	20631.9	
		9.56	15.27	15.01	-89.07	1003.93	14.53	12.65	
Gujarat	6591.10	7615.80	8161.70	9046.80	9241.50	9529.00	11350.20	11914.30	9181.30
% to all State	8.11	8.56	7.96	7.67	71.66	6.69	6.96	6.49	
Growth over the year in number and percentage		1024.7	545.9	885.1	194.7	287.5	1821.2	564.1	
		15.55	7.17	10.84	2.15	3.11	19.11	4.97	

Source: Public Finance, CMIE, Nov. 2004, page no. 212.

This table is manifestations of states consolidated efforts towards collection the tax. It indicates states own tax revenue. The total of all states suggest linear trend there is found continuous increase in the tax revenue of own tax. In terms of physical amount it clearly expresses increase over year. It was lowest in the year 1997-98 and as per the budget estimates of this financial year. It is found to be highest.

To talk about Gujarat in relation to the picture of all states there is of course the similar trend found in respect of physical amount it is also found lowest in the year 1997-98 and highest in accordant with the budget estimates of running financial year. However percentage ratio if calculated in relation to all states reveal unevenness in the trend. More important the thing observed is that it is found maximum in the year 1998-99 (8.55%), while it expresses minimum (6.48%) as

per the budget estimate of this year. Thus there is found non-linearity in respect of the degree of variation.

The own tax revenue of Gujarat suggests that there is an increase in the revenue collected during the particular year over the previous year. But it is evidently found from the table that the differential amount does not indicate constant increase. It expresses sharp variations in the degree of increase in the own tax revenue. It is found from the table that the difference over the previous year was minimum in the year 2001-02 (154-70) and it is maximum in the revised estimate of 2003-04 (1821-20) growth over in percentage also reflect the some trend that appears minimum in the year 2001-02 (1.70%) and maximum in the year 2003-04 (19.11%).

Table No. : 5.2.35

Tax Revenue : Share in Central Taxes - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Receipts
All States	40411.20	39421.20	44121.10	50733.70	52215.30	52605.80	64960.10	77515.80	52748.03
Growth over the year in number and percentage		-990	4699.9	6612.6	1481.6	390.5	12354.3	12555.7	
		-2.45	11.92	14.99	2.92	0.75	23.48	19.33	
Gujarat	96.60	97.10	95.90	105.30	107.10	113.80	131.20	131.20	109.78
% to all State	0.24	0.25	0.22	0.21	0.21	0.22	0.20	0.17	
Growth over the year in number and percentage		0.5	-1.2	9.4	1.8	6.7	17.4	0	
		0.52	-1.24	9.80	1.71	6.26	15.29	0.00	

Source: Public Finance, CMIE, Nov. 2004, page no. 212.

This table indicates share of the states in central taxes. It is clearly expressed in the table that there is constant increase in the tax revenue of all states by way of their aggregate share in central taxes. It was only in the year 1998-99 that the share indicated negative trend. It is also observed from the table that the budget estimated share in the running financial year tend to be maximum in comparison with the previous years of study. It also expresses highest increase in this year.

To talk about Gujarat's the trend is found more or less similar but for year 1999-2000. Gujarat's shares in center taxes is reported to be maximum the revised estimates of 2004-05. Percentage ratio to all states if examined suggested minimum in the budget estimate of the financial year and maximum in the year 1998-99.

It is important to note that Gujarat share in central taxes in relation to all states is very less and the difference in the amount over the years also does not indicate more variations. However the differential amounts as per the table tends maximum in the revised estimates of 2003-04 (17.40%) followed by (6.70) in the year 2002-03. The different amount was found negative in the year 1999-2000.

Growth over in percentage indicates maximum growth in 2003-04 (14.94%) followed by (9.38%) in the year 2000-01.

Table No. : 5.2.36

Tax Revenue : States Sales Tax - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Receipts
All States	38713.60	42780.80	47683.80	58499.60	59797.30	NA	NA	NA	30934.39
Growth over the year in number and percentage		4067.2	4903	10815.8	1297.7	-59797.3	0	0	
		10.51	11.46	22.68	2.22	-100.00			
Gujarat	2713.40	3049.90	3090.70	3736.30	3661.70	3834.10	4295.00	4927.00	3663.51
% to all State	7.01	7.13	6.48	6.39	6.12	0.00	0.00	0.00	
Growth over the year in number and percentage		336.5	40.8	645.6	-74.6	172.4	460.9	632	
		12.40	1.34	20.89	-2.00	4.71	12.02	14.71	

Source: Public Finance, CMIE, Nov. 2004, page no. 217.

This table provides us the data on sales tax revenue of the states. Revenue data that of the all states in combined is available up to the period of 2001-02. It is indicated that there is considerable variation found in the degree of sales tax revenue of all states.

Gujarat state, if taken in to consideration, its percentage share to the total of all states is found maximum in the year 1998-99 (7.12%) and minimum in the year 2001-02 (6.15%). Physical amount is found minimum in the year 1997-98 and maximum in the budget estimates of 2004-05.

The difference if calculated over the pervious year is found minimum in the year 1999-2000 (40.80%) and maximum in the year 2000-01 (645.60) over the previous year. This growth over is considered in percentage it is minimum (1.29%) in the year 1999-2000 and maximum (20.86%) in the year 2000-01. It is reflected from the table that the state sales taxes all through the period of 9th five year plan

tends to have increase but this increase is found relatively more in the beginning period of 10th five year plan.

Table No. 5.2.37
Tax Revenue : Central Sales Tax - All states Gujarat with Percentage
change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Receipts
All States	6287.50	6173.70	9292.20	10221.30	10985.70	0.00	0.00	0.00	5370.05
Growth over the year in number and percentage		-113.8	3118.5	929.1	764.4	-10985.7	0	0	
Gujarat	677.90	749.90	956.80	1051.70	1015.70	1157.10	1600.00	1525.00	1091.76
% to all State	10.78	12.15	10.30	10.29	9.25	0.00	0.00	0.00	
Growth over the year in number and percentage		72	206.9	94.9	-36	141.4	442.9	-75	
		10.62	27.59	9.92	-3.42	13.92	38.28	-4.69	

Source: Public Finance, CMIE, Nov. 2004, page no. 218.

This table provides data on central sales tax revenue of all states and Gujarat in particular. Central sales tax revenue of all state is available up to financial year 2001-02. However this revenue of Gujarat includes data of current financial year too. It is found from the table that there has been continuous rise in the revenue of all states from the year of 1999-2000. For Gujarat it is reflected from the table that there is fluctuating trend found in respect of central sales tax revenue. The percentage ratio to all state is found to have declining trend.

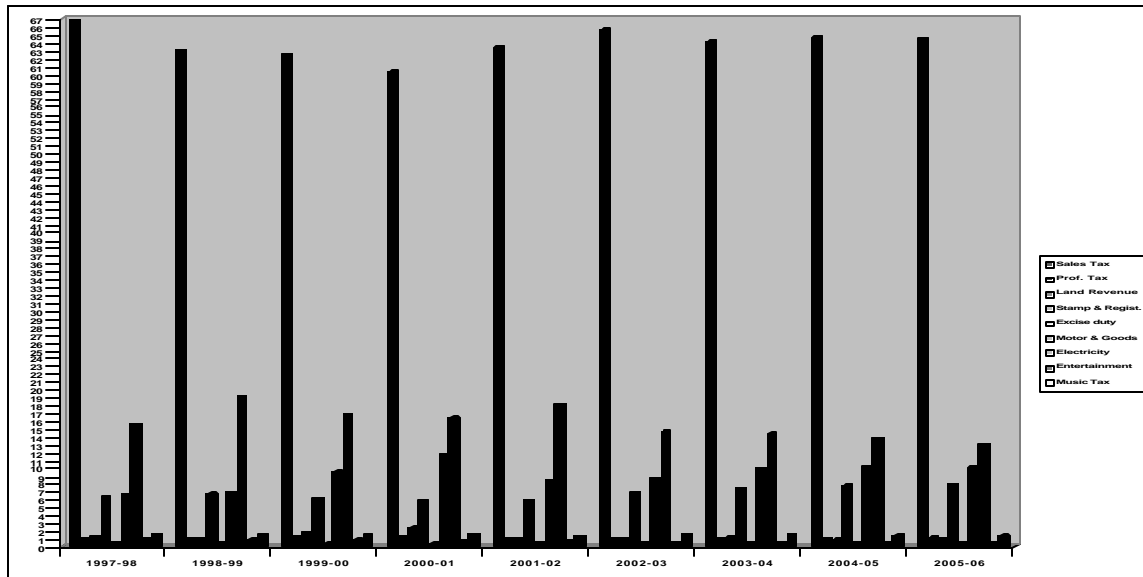
Temporal behavior in this respect indicates more unevenness. There is no linearity found in this respect. Growth over the previous year is found highest in number in the revised estimates of 2003-04 (443.00). Over the previous year 2004-05 growths over in percentage is also found highest as per the revised estimates of 2003-04 of 2002-03 (38.28%). While budget estimates of 2004-05 shows down fall by minus 4.68.

Table No. : 5.2.38

Composition of the State's own taxes

Year	Sales Tax	Prof. Tax	Land Revenue	Stamp & Regis.	Excise duty	Motor & Goods	Electricity	Entertainment	Music Tax	All own taxes
1997-98	66.79	0.94	1.14	6.24	0.37	6.59	15.53	0.9	1.5	100
1998-99	62.97	0.99	0.95	6.65	0.36	6.86	19	0.82	1.4	100
1999-00	62.41	1.16	1.73	6.01	0.3	9.42	16.76	0.79	1.42	100
2000-01	60.25	1.2	2.39	5.74	0.29	11.66	16.26	0.72	1.5	100
2001-02	63.37	1	0.93	5.83	0.5	8.38	17.97	0.69	1.29	100
2002-03	65.61	0.99	0.99	6.81	0.49	8.59	14.51	0.41	1.52	100
2003-04	64.11	0.88	1.12	7.36	0.41	9.9	14.23	0.36	1.53	100
2004-05	64.61	0.99	0.83	7.68	0.4	10.05	13.7	0.35	1.34	100
2005-06	64.4	1.07	0.95	7.86	0.38	10	12.87	0.46	1.31	100

Source: Atul Sharma states budget reform management, Journal of Indian Scholl of Political Economy.



This table is indicator of the percentage to total state's own tax revenue of different components. Form amongst major of components sales tax has remained one large contributor to the tax revenue. From the remaining components it is the

electricity motor vehicle goods and stamp registration which contributes a little in order respectively.

- A. It is found from this table that from amongst the difference years it was in the year 1997-98 in which sales tax revenue was highest in comparison with other years. While sales tax revenue in percentage to total was found minimum in the year 2000-01. Temporal trend in general in respect of sales tax revenue reflects little variations over the years.
- B. Electricity duty accrued to the state is found maximum in the year 1998-99 and minimum is estimate in the coming financial year or other wise actual amount accrued in percentage is found minimum in the revised estimates of 2004-05.

Time series data in this respect reveals fluctuating trends over the period. However it shows continuous declaiming trend right from the year 2002-03 on words.

- C. Duty on motor vehicles and goods generated revenue relatively more than the other components from amongst different years it was found maximum in percentage in the year 2000-01 while the revised estimates shows 10.05% of revenue. In the year 1997-98 the percentage revenue is found minimum. This component also shows ups and downs in percentage over the year.
- D. Stamp and Registration duty is a single component, which by and large shows increasing in percentage revenue. Downfall was however observed in the year 1999-00, 2000-01 and 2001-02 continuously. But if again found increasing there on words.

Apart form these from component other do not add much to the revenue in percentage ration. Total of four segments tend to be minimum in the year 2000-01

(93.12) and that revised estimate of 2004-05 reflected maximum in percentage (96.04)

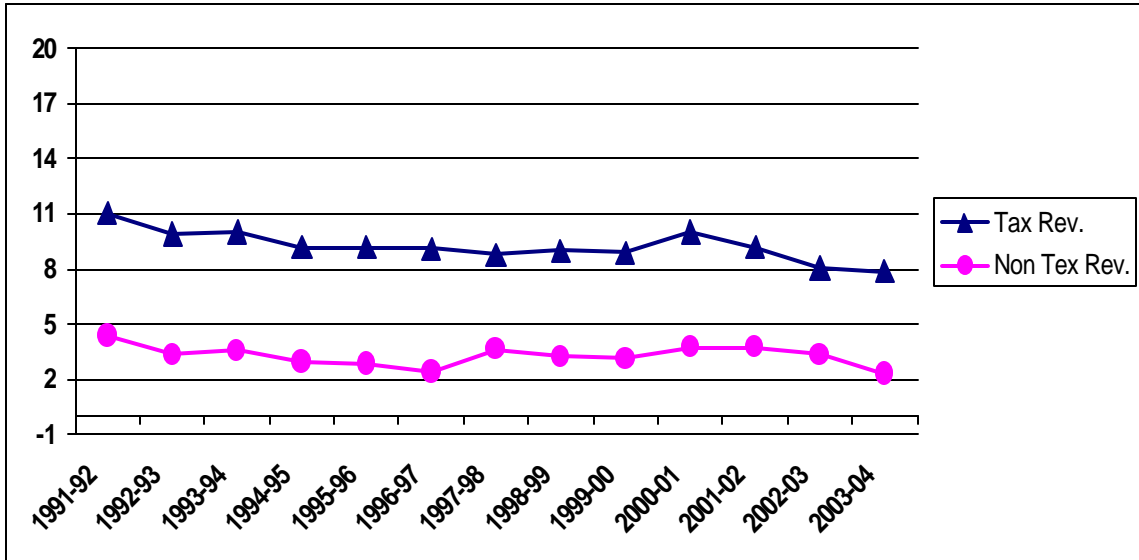
Thus in general remaining segments do not contribute. Even from amongst these four. Sales tax is the sole contribution. This trend is the repetitive one since the inception of the state.

Table No. : 5.2.39

Collection of own tax and non-tax revenue in Gujarat

Year	Tax Rev.	Non Tax Rev.	Tax Rev.	Non Tex Rev.
1991-92	2893	1135	11.08	4.35
1992-93	3457	1158	9.96	3.34
1993-94	3942	1399	10.05	3.57
1994-95	4743	1488	9.19	2.87
1995-96	5323	1601	9.2	2.77
1996-97	6066	1573	9.07	2.35
1997-98	6592	2221	8.75	3.67
1998-99	7616	2266	9.01	3.27
1999-00	8162	2919	8.84	3.16
2000-01	9047	3349	10.06	3.72
2001-02	9242	3761	9.19	3.74
2002-03	9529	3996	8.04	3.37
2003-04	11181	3272	7.84	2.29
2004-05	12537	2844		
	(R.E.)	(R.E.)		

Source: Budget documents and socio economic review, directorate of economics and statistics Govt. of Gujarat, Gandhinagar.



This table provides data on collection of own tax and non tax revenue in relation to net state domestic product. (NSDP) column 2 & 3 highlights figures in numbers while column 4 & 5 explains revenue in percentage of NSDP.

Following inferences can be derived from this table.

1. Right from the year 1991-92 tax revenue in actual amount is found constantly increasing though degree of increase varies over the period of time.
2. Non-tax revenue during this same period indicates in general increasing trend however the year 1996-97 expresses down fall and last two years that is the year 2003-04 and revised estimates of 2004-05 again shows downfall.
3. Considering tax revenue as % of NSDP, it is revealed from the table that there is in general declining trend with three exceptional years that is 1993-94, 1998-99 and 2000-01. This reflects the fact that even with actual increase in tax revenue as % of NSDP it indicates fluctuations.
4. Non tax revenue as % of NSDP indicates sharp variations over the period of time in the beginning it trends to decline, which there after

showed slight increase again it went down a little and it tends to rise how ever the last two years of 2002-03 and 2003-04 expresses declining over the previous year.

5. Tax revenue as % of NSDP is found to have maximum increase in the year 1991-92 (11.81%) and minimum rise is found in the year 2003-04 (7.84%) thus the gap between the maximum and minimum tends to be of 3.24% points.

In case of non-tax revenue the trend is found similar. It indicates maximum rise in % of NSDP in the year 1991-92 that is 4.35% while in the year 2003-04 it tends to be of minimum that is 2.29%. This indicates gap of about 2.06% point.

Tax revenue in rupees indicates the gap between the year 2004-05 and 1991-92 is of about rupees 9644 crores, while non tax revenue in rupees is found minimum in 1991-92 and maximum in 2002-03, the gap between the two years is of about rupees 2861 crores.

Table No. : 5.2.40**Un-recover variable cost of non- merit services by social and economic sectors**

Year	Non-merit Economic Services		Non-merit Economic Services		Non Merit all Services	
	Un-Recovered Cost (In Rs. Crores)	Cost Recovery Rate (in %)	Un-Recovered Cost (In Rs. Crores)	Cost Recovery Rate (in %)	Un-Recovered Cost (In Rs. Crores)	Cost Recovery Rate (in %)
1	2	3	4	5	6	7
1993-94	1,065	3.48	1,269	7.3	2,333	5.28
1994-95	1,210	2.49	1,267	7.79	2,477	5.28
1995-96	1,466	2.65	1,444	7.81	2,910	5.28
1996-97	1,531	2.82	1,732	6.22	3,263	4.65
1997-98	1,850	2.59	2,065	8.25	3,915	5.66
1998-99	2,539	2.29	2,564	7.68	5,103	5.07
1999-00 (BE)	2,860	2	2,297	12.39	5,517	7.22
2000-01 (BE)	2,931	2.4	2,452	13.93	5,383	7.87

Source: Atul Sharma, State budget management reforms, Journal of Indian School of Political Economy, October-December 2001.

It is evidently found from the table that during the last decade there is not much improvement in the cost recovery rate in percentage. It is only during the year 1999-2000 and 2000-2001 that the cost recovery rate has slightly increased. If it is examined by category very dismal picture is found in case non-merit social services as against non merit economic services.

The state in respect of total subsidy indicates rise in amount and proportionate more change in implicit subsidies rather than explicit subsidies. In 1994-95 it was rupees 6330 crores which was found rupees. 9697 crores in the 1997-98.

Table No. : 5.2.41

Potential Revenue Through Improvement in Cost Recovery Rates of Selected Non-merit Services

	Existing CRR in Gujarat	Average CRR of 15 Major States	Maximum Achieved CRR by Different states	Expected Receipts based on Existing CRR	Potential Receipts based on Existing CRR	Potential Revenue based on Average CRR of 15 states	Potential Revenue based on Maximum CRR of different states
1	2	3	4	5	6	7	8
Secondary & Higher Education	1.49	1.74	3.34 (Kerala)	1,483	22	26	50
Medical Services	1.23	1.48	3.25 (W.B.)	828	10	12	27
Water Supply	0.5	5.16	15.55 (Maharashtra)	408	2	21	63
Agricultural	9	14.15	40.46 (Maharashtra)	6.51	59	92	263
Irrigation*	11.09	5.23	13 (U.P.)	2,456	239	239**	280
Power	0.21	14.99	71.46 (A.P.)	1,878	4	282	1542
Industries	4.42	5.85	11.45 (Karnataka)	561	25	33	64
Transport	0.89	9.6	63.01 (Haryana)	492	2	18	121
Total Above Sectors				8,157	362	723	2211

Source: Atul Sharma, State budget management reforms, Journal of Indian School of Political Economy, October-December 2001, page no. 662.

This table highlights the fact that, Gujarat State has performed poor in respect of Cost recovery rate. In relation to major 15 states of India Gujarat is lagging far behind in all areas of recovery and the gap is found excessively high in case of important sector like transport, power, water supply it is only in irrigation that existing CRR in Gujarat as against the average of 15 major states is found more. Even with that more rate potentials to generate revenue including from irrigation is proposed very high as calculated by the panelist of state finance reform committee.

Table No. : 5.2. 42
Central Subsidy to Gujarat State (Rs. Crore)

Major farm inputs (Rs. crores)						
Year	1990-91	%	1995-96	%	1999-2000	%
Subsidy	835.7	7.28	2198.7	8.53	4467	9.61
Farm Input subsidy in 1999-2000						
Subsidy on Fertilizer to (Rs. crore)						
Year	1990-91	%	1995-96	%	1999-2000	%
Subsidy	247	5.62	366	5.43	708	5.34
Subsidy on electricity for agriculture (Rs. crore)						
Subsidy on Fertilizer to (Rs. crore)						
Year	1990-91	%	1995-96	%	1999-2000	%
Subsidy	519.8	11.27	1647	12.1	3466	14.17
Subsidy on Central Irrigation (Rs. crore)						
Subsidy on Fertilizer to (Rs. crore)						
Year	1990-91	%	1995-96	%	1999-2000	%
Subsidy	68.9	2.75	185.7	3.42	293	3.34

Source: Acharya & Jogi, 2004.

Central subsidy to Gujarat if measure in terms of decadal change demonstrate the fact that the highest percentage growth in the last decade in towards subsidy for electricity (566.75%) followed by subsidy on canal irrigation

of 325.11% . Subsidy for fertilizer increased to 186.63% and for farm input it was 43.44%.

Table No. : 5.2.43

State Governments Liabilities (Total Debt.)

	2000-01	2001-02	2002-03	2003-04
All States	498092	586687	688421	791400
Gujarat	29786	36938	46771	55318
% to all states	5	6	6	6
% to GSDP	27	30	33	33

Source: Budget documents and socio economic review, directorate of economics and statistics Govt. of Gujarat, Gandhinagar.

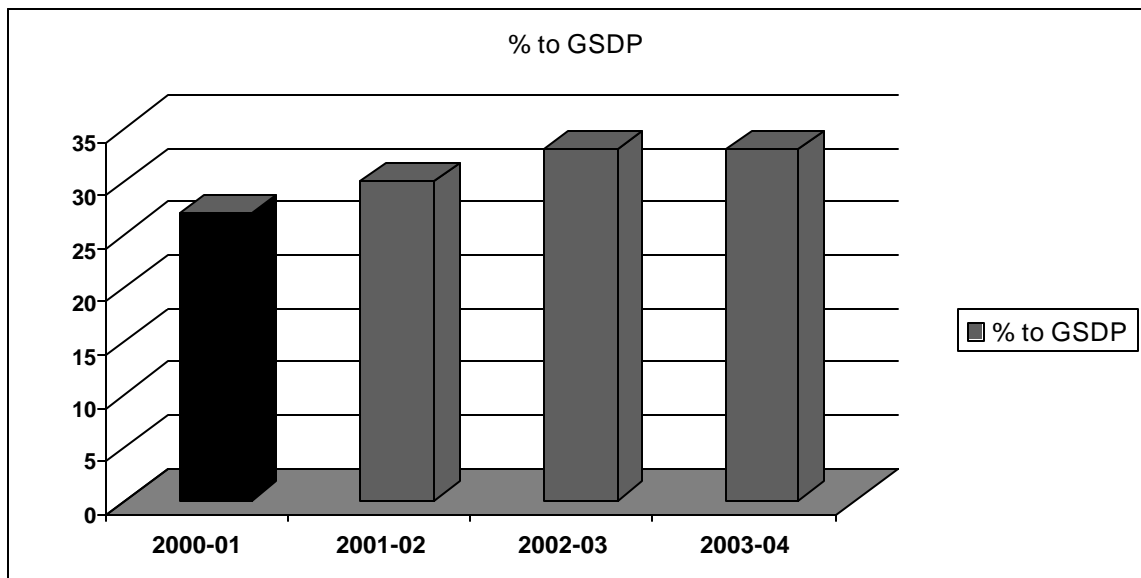


Table No. : 5.2.44**Department wise Guarantee outstanding**

Name of Department	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Agriculture & Co-operation Department	15253	165330	162083	154765	168149	158100	144706
	(16.80)	(14.77)	(12.05)	(8.95)	(8.98)	(8.32)	(8.21)
Industries and Mines Department	96369	92591	85415	103331	91280	89213	84824
	(10.63)	(8.27)	(6.35)	(5.97)	(4.88)	(4.70)	(4.81)
Panchayat & Rural Housing Department	11529	11699	11383	13513	13612	13716	14021
	(1.27)	(1.05)	(0.85)	(0.78)	(0.73)	(0.72)	(0.80)
Urban Development & Urban Housing Department	49146	49828	60278	76452	77895	78059	55689
	(5.42)	(4.45)	(4.48)	(4.42)	(4.16)	(4.11)	(3.16)
Ports & Fisheries Department	705	705	705	630	630	35	30
	(0.08)	(0.06)	(0.05)	(0.04)	(0.03)	-	-
Narmada Water Resources Department	144681	324222	435787	524287	664587	687707	653583
	(15.96)	(28.95)	(32.40)	(30.31)	(35.49)	(36.19)	(37.08)
Home Department	4879	9959	44959	44765	64411	64411	64411
	(0.54)	(0.89)	(3.35)	(2.59)	(3.44)	(3.39)	(3.65)
Energy & Petro-chemical Department	442312	446258	533916	797300	723327	737711	718647
	(48.78)	(39.85)	(39.70)	(46.09)	(38.63)	(38.82)	(40.78)
Forest & Environment Department	820	820	820	820	820	820	820
	(0.09)	(0.07)	(0.06)	(0.05)	(0.04)	(0.04)	(0.05)
Food, Civil Supply & Customer Affairs Department	2920	10300	300	2800	300	-	-
	(0.32)	(0.92)	(0.02)	(0.16)	(0.02)	-	-
Social Justice and Empowerment Department		7420	8648	10666	12676	15674	12709
		(0.66)	(0.64)	(0.62)	(0.68)	(0.83)	(0.72)
Tribal Development Department		-	-	-	-	-	2492
			-	-	-	-	(0.14)

Women and Child Development Department		-					100
		-	-	-	-	-	(0.01)
Roads & Building Department	710	710	660	422	10422	10422	10422
	(0.08)	(0.06)	(0.05)	(0.02)	(0.56)	(0.55)	(0.59)
General Administration Department		-	-	-	44231	44231	-
		-	-	-	(2.36)	(2.33)	-
Total		1119842	1344954	1729751	1872340	1900099	1762454

Source: Budget documents in brief 2005-06, directorate of economics and statistics Govt. of Gujarat, Gandhinagar.

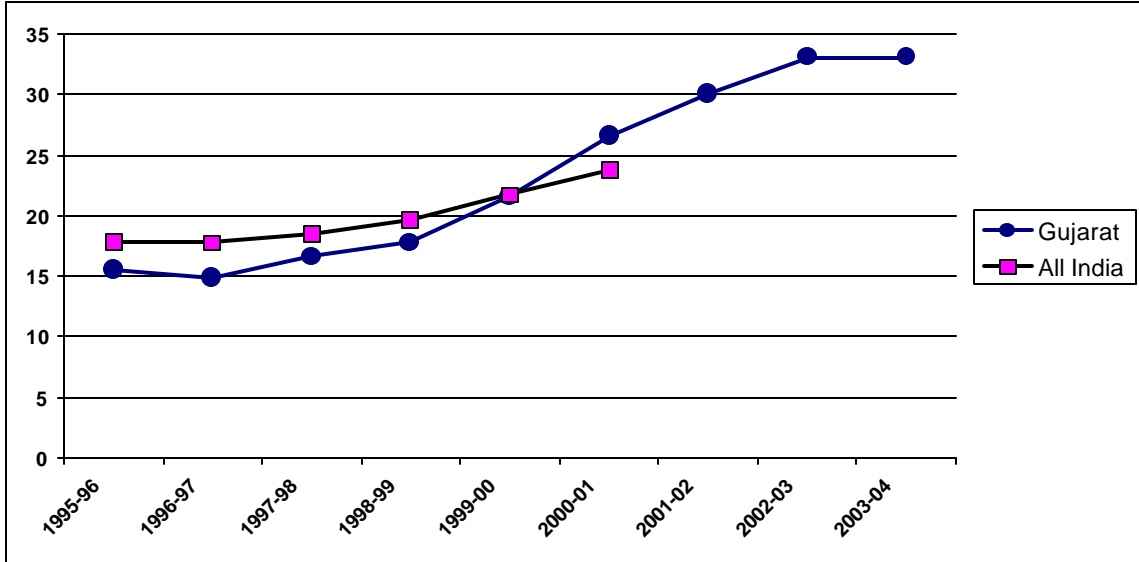
It is observed from this table that the state government has to care of the departments like Energy and petro chemical, Narmada water resource, Agriculture and Co operation and industries and mines. As maximum % and amount of guarantee outstanding is found in this respect.

Table No. : 5.2.45

Debt. / GSDP ratio

Year	Gujarat	All India
1995-96	15.5	17.9
1996-97	14.9	17.8
1997-98	16.6	18.5
1998-99	17.8	19.6
1999-00	21.6	21.7
2000-01	26.6	23.7
2001-02	30	
2002-03	33	
2003-04	33	

Source: Budget documents and socio economic review, directorate of economics and statistics Govt. of Gujarat, Gandhinagar.



It is demonstrated from the table and the Graph that the ratio is increasing both at all India level as well as at Gujarat state level. However the rate of an increase in the ration over the years is found more in case of Gujarat as against on India.

Table No. : 5.2.46

Revenue Deficit as % of GSDP

Year	Deficit Amount	% of GSDP
1997-98	989.04	1.06
1998-99	2863.42	2.71
1999-00	3616.76	3.32
2000-01	6302.23	5.8
2001-02	6731.54	5.56
2002-03	3564.8	2.52
2003-04	3706.61	2.43

Source; Budget in Brief and Socio Economic Review, Directorate of Economics & statistics Govt. of Gujarat. Gandhinagar.

It is reflected from this table that during this last seven years period revenue deficit initially increased but it has begun to decline from the beginning of 10th

five-year plan period i.e. year 2002-03. When this deficit is examined as percentage of GSDP, it is also clearly found that it has begun to full one year earlier thus the real amount. i.e. from the year 2001-02. Thus revenue deficit of Gujarat in particular is found to have controlled right in the last year.

Table No. : 5.2.47

Gross Fiscal Deficit - All states Gujarat with Percentage change over the year

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	Average Expenditure
All States	44199.90	74758.70	91480.30	89532.00	95993.20	99525.60	140954.20	113114.20	93694.76
Growth over the year in number and percentage		30558.8	16721.6	-1948.3	6461.2	3532.4	41428.6	-27840	
		69.14	22.37	-2.13	7.22	3.68	41.63	-19.75	
Gujarat	3174.60	5619.00	6792.00	7987.60	6509.80	6080.30	9897.50	7563.20	6703.00
% to all State	7.18	7.52	7.42	8.92	6.78	6.11	7.02	6.69	
Growth over the year in number and percentage		2444.4	1173	1195.6	-1477.8	-429.5	3817.2	-2334.3	
		77.00	20.88	17.60	-18.50	-6.60	62.78	-23.58	

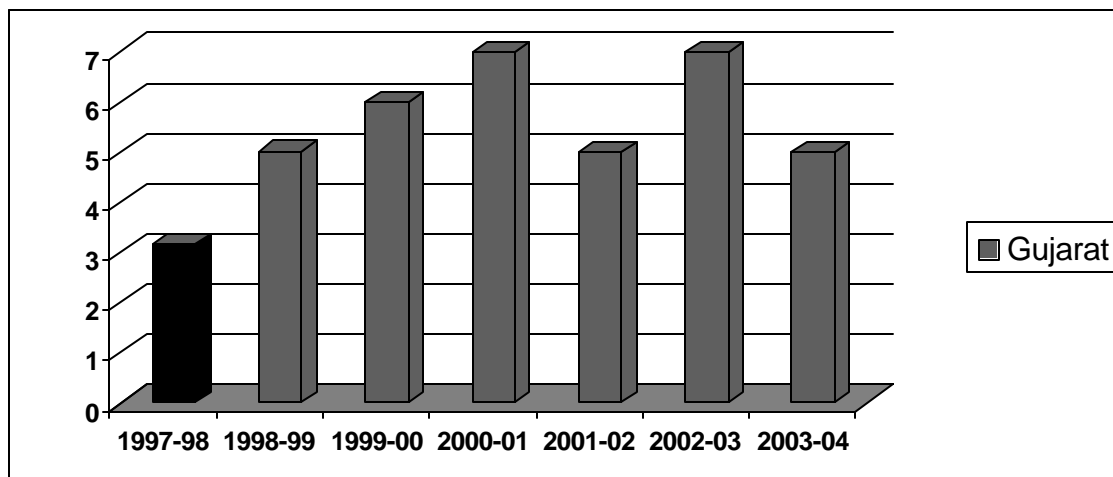
Source ; Budget in Brief and Socio Economic Review, Directorate of Economics & statistics Govt. of Gujarat. Gandhinagar.

Table No. : 5.2.48

Gorss fiscal deficit as percentage of GSDP

	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04
Gujarat	3.16	5.02	6	7	5	7	5

Source ; Budget in Brief and Socio Economic Review, Directorate of Economics & statistics Govt. of Gujarat. Gandhinagar.



This table indicates total amount of gross fiscal deficits gross fiscal deficit of all states is found to have ups and downs on the period of years. It is however found highest in amount (140954-20) in year 2003-04 and it is found minimum in the year 1997-98 (44199.90).

It is revealed from the table that fiscal deficit of Gujarat state is also fluctuations more in respect of the time period if percentage ratio to all states worked out it also express fluctuations the amount is found maximum in the year 2003-04 (9879.50) and minimum in the year 1997-98 (3174.60).

Difference over the previous year is found maximum in the revised estimates 2003-04 (3817.20) and that the current financial year expresses declining of (2334.30) however growth over in percentage in the of deficit is found maximum in the year 1998-99 (76.98%) over the previous year while current financial year indicates down fall of 23.55% in the budget estimates.

5.3 Fiscal reforms in Gujarat

Gujarat is considered to be one of the most progressive states of India being a part of federal economy Gujarat state may not be having all economic objectives and goals similar to the other states. It is also true that after economic reforms the

state in general tend to follow their own development strategy – necessarily in coeternity the broad national objectives.

What is important for the state economy is the budgetary policy applied as part of the planning process ?

Certain indicatory clearly indicate vergening fiscal state of much state in India. It is clearly admitted even in the tenth finance commission report that the states have passed through three phases of deterioration in the revenue account balance. The first phase can be referred up to the period of 1986-87 in which the non plan account surplus low larger that the plan deficit between 1986-87 and 1990-92 the plan deficit increased sharply and exceeded over the shrinking non plan surplus. The third phase from 1991-92 marked the beginning of growing deficit on non-plan revenue account.

This observation of finance commission however does not hold true in the same respect in case of Gujarat state actually in Gujarat the plan revenue account yielded deficit from 1985-86 there was however surplus on non-plan account accept for 1990-91. But revenue expenditure exceeded over revenue receipts continuous from 1985-86. The total fiscal health of the state is found worsening both because of failure on the part of revenue general and failure on the part of revenue general and failure in curtaining public expenditure as long as revenue part is concerned it is clearly found that even after reforms tax, income, ratio is found higher than the three state like Hariyana, Punjab and Maharastra these states are above income scale aggregate revenue of the state grew almost at the rate of 14.47% per year in between 1978 to 1999. Some was the rate found during the first seven years of reforms. However the state own tax revenue growth slumped from 15.66% per year in the previous period to 13.44% per year in the later period.

Taxation in general reveals the fact that government has not utilized the instruments to mobilized resources. It is true that even with this the state is having better performance over the other progression state but designing of the taxation is not found up to the mark even after reforms the major draw back found regarding the tax syatem are narrow tax base, accessive dependence on input taxation lenithi administrative procedure – undue and un desirable incentives and axamptions. It is because of these sorts coming that tax revenue has fail to grow with the state income growth in the last two years. More attempts are made in this direction to simplify the tax structure and to cationalise tax procedure.

One very important area demanding attention respect of revenue mobilization is the receipts from state own enterprises and departmentely runs schems. The state is having considerably low forest converse there for there is very stille scope for ogmenting the receipts from forest in Gujarat. Mining is an important area of revenue but royalty fixation is again the perview of union govt. hance there are limitations. The state govt. has tried to short out some areas of resource mobilization as water user charge is one of the area Vaidyanathan committee has also make recommendation for water rate fixation how ever no correct actions are follow in that direction.

The state has forty Govt. company inclusive of seven subsidiary. Six deemed company and five statutory corporation. The state finance commission examvie closely the working of state own enterprises and made important specific recommendation for restructuring privatizati, murger dis investment. Frequent discussion and delebration are made with concerned authority and as part of the public sector restructuring programme as per the later Govt. resolution issued in September 2004. The state Govt. has departed from the central Govt. present policy for dis investment. As per the resolution issued by the finance department it speaks about broadening the scope of restructuring PSU and joint sector

companies. The notification makes the finance department the model agency for doing the job, which could include the merger of some of these companies.

The twelve PSU that have been identified for the restructuring process are Gujarat State Fertilizer and Chemicals (GSFC), Gujarat Narmada Valley Fertilizer Company (GNFC), Gujarat Industrial Power Company Limited (GIPCL) Gujarat Alkalies and Chemical Limited (GACL), Gujarat Mineral Development Corporation (GMDC), Gujarat Industrial Investment Corporation (GIIC), Gujarat Industrial Development Corporation (GIDC), Gujarat State Ware Housing Corporation, Gujarat State Petroleum Corporation (GSPC) and Gujarat Corporation.

An attempt is made to work out transparent procedure, dis investment or privatization will be done in consultation with the technical secretariate after preparing document and inviting expression of invest. The technical secretariat after examining the viability of the PSU will decide about the merger or closure it would necessarily include the issue of payment to employees who might have to be offered a voluntary retirement scheme.

The most important blue cheap PSU. Which could be up for graps is SPC. Whose net assets were worth Rs. 600 crores with a profit of Rs. 2500 crores in the year 2002-03. GSPC is currently involved in large-scale oil exploration and distribution. GMDC net worth Rs. 400 crore and GNFC have also been caring profit for long. GSFC and GACL two have lately begane to show a turn around and could be lucrative for investors.

A similar fate is awaited for GIDC which has a net worth of Rs. 1400 crores. Companies whose liabilities are more than assecten can face either closure or merger. GIIC and GSFC (finance) are running in to loss. Plants did exist for their murging of these twelve units six are listed company on the block while the remaining six are not listed.

The state Govt. is experiencing the issue regarding the effectiveness of expenditure, it is precisely more important because of rise in non-developmental expenditure during 1990-1998 the non-developmental expenditure as % of total revenue expenditure was 31%. Gujarat had allocated larger proportion more the 2/3 of the revenue expenditure for development activities during 1990-1998 except Gujarat, Maharashtra was the only state having made highest provision for the developmental activities. It examined from the sectoral point of view within development expenditure economic service have an edge over social services in revenue expenditure allocation but communication to capital expenditure, social services received not only lesser share but that it was also shrinking over time. The same trend is also found in respect of economic service share in capital expenditure in relation to the state aggregate public expenditure. It is a matter of great concern for the state like Gujarat to have continuously in economic and social public expenditure. If the trend continues it is but likely that physical and social infrastructure constrain would be obstacle in Gujarat growth at a higher rate. Economist, Social Scientist have also expressed concern over declining state expenditure on education and health.

The most important element for which drastic reforms majors are sought for is the expenditure in terms of interest liability and establishment. Interest liability had grown at the rate of 12.15% per year during 1978-91 it however continued to grow at the rate of 16.85% per year during 1991-98. Interest expenditure has virtually affected the financing of revenue deficits.

Establishment expenditure is not debatable issue, it include wages and salaries. International institutions have naturally asked to cut the establishment expenditure to the maximum extent possible because of implementation of the fifth pay commission the state Govt. incurred the charge of about Rs. 15 billion is ariars of pay between January 1st 1996 and March 31st 1998 and there after annly by

another Rs. 11 billion. The Sorry state of affairs is that the rise in establishment expenditure, which has increased at the rate of 15.43% per year is not because of growth in employment but because of rising emolument per employee.

State finance commission has examined the issue very closely it recommended two proaged strategy to reduce the number of employees and improve productivity. That includes a time bound comprehensive programme of administrative reforms to be under taken at all levels of Govt. in order to stream line procegeours and improve productivity. The second part of the strategy is aimed at reducing the number of Govt. employee by hiving off organization and activities not in relevance with the basic objective of the Govt. a matter still under consideration for introducing a scheme of VRS (Voluntary Retirement Scheme) with attractive package. Govt. of Gujarat precisely in the last two to three years has under taken the task of conducting several programmes to add to the operational efficiency of employees. It is however to early to be fully positive about the out come of such courses but it has definitely served the purpose as long as awaited in administration is concerned.

Another important freature twards reform is implementation of downsizing the size of ministry. All the states and even central Govt. has become more vigilant in the regard. It is recommended as a part of political economic reforms in fiscal administration that no ruling party can frame the government (ministry) exceeding the size of maximum 10 percentages to the total assembly members. Similarly it is also expected from the states that only those corporations, which are most relevant to the socio-economic needs of the society and that they remain beyond large viable to sustain should be continued with. And extra political chairmanship at the boards should be avoided.

This seems to be more problematic for the states from political point of view. However Gujarat's present chief minister has made bold initiavites in this

regard, size of ministry till date is restricted despite grumbling of dissidents. Chairmanship is also not favoured to the ruling party members despite pressures. This is a well coming move at least to save huge amount of Govt. funds, which could have otherwise deviated to this purpose.

The state government has realized the seriousness of deteriorating fiscal and monetary of the state. Therefore the state has largely adopted the following policy measures.

1. 20% cut in establishment structure.
2. Necessary reform in the taxation structure.
3. To cut the size of non-productive expenditure.
4. Ban on recruitment.
5. In case of necessity new recruitment to be made strictly on new norms of fixed pay system. Particularly in the field of education Vidya Sahayak and in electricity board Vidyut Sahak.
6. To assimilate small sections into large one.
7. To cancel un viable and un necessary schemes.

The state government has already closed state own enterprises like State Textiles Corporation, Dairy Development Corporation, Small Industries Corporation, Housing Corporation, Fisheries Corporation, Film Development Corporation, Slum Clearance Board and Communication and Electronics limited.

60% equity of Gujarat Tractor Corporation is transferred to Mahindra and Mahindra Ltd and 45.6% of the share is proposed to Adani Exports Ltd. by Gujarat State Export Corporation.

Besides with the instruction of Govt. of India, Gujarat State Handicraft Development Corporation is merged with Gujarat Handloom Development

Corporation and Gujarat State Lather Industries Development Corporation is merged with Gujarat Rural Industries Market Corporation.

Recently State Electricity Board is bifurcated into 7 zones the transmission and distribution and also bifurcated though full fledged reforms are to take place from 1st April 2005 the approximate revenue figure that is generate in the last 3 months is found to have increase over the previous time period.