STATE FINANCES IN TAMIL NADU:

1960-85

A

REVIEW

OF

TRENDS AND POLICY

Government of Tamil Nadu

Madras

1960

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I Introduction

The study of public finance, most simply defined as the "complex of problems that centre around the revenue - expenditure process of government", is valuable for the access it provides to, and the light it throws on, state policies.[1/] Since Independence, there has been a sustained and significant expansion in the budgetary operations of the Centre and the States reflecting the increasing involvement of governments in diverse regulatory, welfare and investment activities. It is important in this context to understand how governments raise resources, on what purposes and how effectively such resources are spent, and what the impact of fiscal operations are on welfare and development.

2. The attempt in this paper is to review State finances, or government budgetary operations, in Tamil Nadu over the 25 year period between 1960 and 1985. The initial year of our time-horizon, being the beginning of the decade after the present territorial boundaries of the State were settled in 1956, provides a logical starting point. The terminal year brings the review up to date and coincides with the final year of the Sixth Five Year Plan. For the sake of convenience and comparability, the data relating to the 25-year span of the study has been presented in terms of the five quinquennial periods comprised in it. This also serves to smooth out annual fluctuations while bringing out broad trends.

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1. We use state with a small 's' for the socio-political abstraction and with a capital 'S' while referring to State governments in Tamil Nadu and elsewhere in India.

3. The first step in an exercise of this kind is to assemble and organise the relevant information. This has involved a considerable amount of labour because budgetary statistics, which are annual and primarily designed by auditors for the use of the legislator, have to be compiled and processed in different ways to bring out trends and relationships that are of interest from a policy point of view. Fortunately, Tamil Nadu was a pioneer in producing an Economic Classification of its Budget as early as 1960/61 and has maintained the series since then. We have relied on it for the principal data base of the study. While the Economic Classification supplies a broad frame for analysis, its categories are too aggregate for a sufficiently detailed analysis of various aspects of budgetary operations. For this purpose, we have turned to other sources such as the State's detailed Budget documents and the annual issues of the Tamil Nadu Economic Appraisal. For making inter-State comparisons, we have relied mostly on the annual surveys of State Finances issued by the Reserve Bank of India and the reports of successive Finance Commissions.

4. The presentation of the basic facts, trends and relationships in respect of the growth, levels and structure of the State's receipts and expenditures is of interest in itself. Proceeding from it, it is necessary to analyse the incidence and impact of taxes, subsidies, and government expenditures on income groups, sectors and regions, and to evaluate returns on investment and cost-effectiveness in public projects and programmes. A variety of problems have made these tasks somewhat difficult. The first is that the State government's receipts and expenditures are only one component of the public finance process which includes the operations of the Central government, Central and State public enterprises, and local bodies. Any study of the

budgetary operations of the State government can, therefore, yield only a partial insight into the incidence and impact of resource-mobilisation and resource-use in the public sector. Secondly, a review article, such as the present study, has necessarily to draw upon existing literature on the relevant issues. Unfortunately, there are very few State-level studies in India on the macro-economic effects of fiscal operations on income distribution and price stability or at an analytical-empirical level on tax-incidence, the impact of subsidies, returns on public investments, regional imbalances, cost-effectiveness in government programmes etc. Thirdly, governments themselves have not explicitly articulated their fiscal policies. In the absence of such a framework, the evaluation of policy has had to be largely with reference to what has happened rather than in comparison with what was aimed at.

5. Subject to these limitations, we have tried to draw attention to some of the central problems in State finance. As is well known, under the Indian fiscal system, the developmental responsibilities of the States are wide while resources available for fulfilling them are limited and inelastic. Resource mobilisation in such a context is a continuous process. Difficult issues of practical policy have to be faced in mobilising, conserving and using resources. Equity, efficiency and economy have to be pursued in an environment of pressing needs and rising expectations and subject to the constraints and demands imposed by democratic politics. The dilemmas and contradictions that result do not tend to be resolved tidily but by the inter-play from one period to another of economic rationale and political compulsions. Even a broad picture of this process as it has operated in Tamil Nadu in the last 25 years, such as the one we have presented, might help in suggesting areas for more detailed work on various aspects of public finance at the State level. Hopefully, it might also encourage similar studies of budgetary operations in other major States in India.

6. The study is organised as follows. Section II provides an overview of the growth and structure of the overall receipts of government from all sources. Section III relates to revenue transfers from the Centre. Section IV is on taxes: their growth, structure and broad impact. Section V on non-tax revenues relates them to indirect subsidies and to the operations of public sector enterprises including the State Electricity Board. Section VI is on the structure of expenditures and on the levels and patterns of Plan outlays. Section VII is on debt and the financing of capital formulation. We conclude with Section VIII which discusses aspects of fiscal policy and of fiscal politics in Tamil Nadu based on the trends brought out in the earlier Sections.

7. There are five Appendices and three Annex Tables. Appendix I explains the different classifications of budgetary receipts and expenditures. Appendix II is on the deflators used in the study. Appendix III is on Centre-State tax jurisdictions and the system of revenue-sharing between the Centre and States. Appendix IV contains basic background information on State taxes. Appendix V gives a list of public sector corporations in Tamil Nadu. The Annex Tables give the annual time series in 1960-85 for receipts, taxes and outlays.

8. The author is grateful to Prof.U.Sankar, Prof.A. Vaidyanathan and Mr.N.Narayanan for very helpful suggestions which have resulted in improvements to an earlier draft. And, to Mr.J.Robinson, Ms.C.Kalaiselvi and Mr.C.Narasimhan for secretarial assistance.

II Structure and Growth of Overall Receipts

Structure of Receipts

1. The Economic Classification of the budget[1/] categorises the receipts of the Government into four broad groups: (i) current revenues (ii) capital receipts (iii) borrowings and (iv) drawals from cash balances.

2. Current revenues consist of tax and non-tax revenues. The former comprise revenues from taxes collected and retained by the State as well as tax-shares which accrue by way of transfers from the Centre. Non-tax revenues arise from diverse sources such as interest receipts, dividends from enterprises, fees and other recoveries, fines etc. They also include grants received by the State which are mainly from the Centre. Capital receipts consist of the internal resources of departmental undertakings and grants received specifically for capital formation. Borrowings consist of loans raised through public issues in the open market, loans extended by the Centre and other debt such as from small savings and from provident funds lodged with the Government. Essentially, these various types of receipts could be conceived of in two broad categories viz., revenues which are appropriated, earned or received, and borrowings incurred by the State from the rest of the economy including the Centre.

3. State Governments, unlike the Centre, are not in a position to resort to deficit financing through the issue of treasury bills. They are given certain limits of "normal" ways and means accommodation by the Reserve Bank of India (RBI) in order to bridge temporary excesses of expenditures

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1/ See Appendix I for an explanation of the classifications of budgetary receipts and expenditures.

over receipts. If there is a persistent excess of disbursements over cash balances, the State's drawings on the RBI to cover the gap amount to "unauthorised overdrafts" which will have to be regularised by loans from the Centre. Deficits, i.e., the gap between total receipts and disbursements in any particular year, are met by drawing down accumulated cash reserves and/or a temporary overdraft and/or ways and means accommodation from the Centre. On the other hand, any excess of receipts over disbursements is added on to cash balances.

Growth of overall receipts

4. The annual time-series of the Government's receipts in Tamil Nadu during 1960-85 is set out in Annex Table 1 in the Economic Classification format. This information is summarised for each of the five quinquennial periods in 1960-85 in Table 1. Aggregate receipts have risen from the level of Rs. 102 crores in 1960/61 to Rs. 2363 crores in 1984/85 i.e., by about 23 times in these 25 years. This impressive increase, which represents an average annual growth of about 14 per cent, is in current prices. It needs to be assessed in relation to inflation, growth in the economy, and population increases in this period. The availability of data on price deflators and the State Domestic Product (final estimates of NSDP) make an analysis of this kind possible only up to 1980.[1/] The results presented in Table 2 will show that while average annual receipts in current prices in 1975-80 were about five times that in 1960-65, they grew only about a little more than two-fold in constant prices of 1970-71 i.e., when inflation is taken into account. Receipts per capita have gone up nearly four-fold in current prices and by 1.6 times in constant prices.

1/ See Appendix II for a discussion of the deflators used.

As a proportion of NSDP, receipts have increased from 12.2 per cent in 1960-65 to around 14 per cent during 1965-75 and to 16.1 per cent in 1975-80.1/

Relative growth in major receipts

5. Different sources of receipts have individually registered varying rates of growth. This is reflected in changes in the structure of receipts which is brought out in Table 3. Throughout the period, current revenues have constituted by far the most significant part of total receipts. Their contribution which was 73 to 78 per cent in the 1960s peaked at 88 per cent in 1970-75 and declined slightly to around 85 per cent in the two subsequent quinquennia. Tax revenues have throughout accounted for the bulk of current revenues. Their contribution to total receipts has significantly increased from around 50 per cent in the 1960s to about 72 per cent in 1970-85. Non-tax revenues which were about a quarter of total receipts in the 1960s have declined in relative importance to 13 to 15 per cent since the 1970s. The proportionate contribution from net borrowings dipped sharply from 20 to 25 per cent in the 1960s to 9 per cent in 1970-75 and recovered to around 13 to 15 per cent during 1975-85.

6. We shall analyse more closely the trends in each major source of receipts and identify their implications in the subsequent parts of this paper. As a preliminary to this exercise, it is necessary to separate out transfers from the Centre to the State's current revenues. This is the subject of the following Section.

1/ Final NSDP estimates are not available for 1980-85. On the basis of the estimates available for this period(revised for 1980/81 and 1981/82, provisional for 1982/83, preliminary for 1983/84 and "quick" for 1984/85), the ratio of total receipts to NSDP works to 22.2 per cent in 1980-85.

Table 1: Receipts of the Government: 1960-85

(Rs. Crores)

Sources	1960-65	1965-70	1970-75	1975-80	1980-85
I. Current Revenues	543.77	1018.84	1836.25	3235.04	8000.57
1.0 Tax Revenues	352.69	699.10	1521.72	2749.20	6786.48
1.1 Share of Central Taxes	82.12	166.09	394.47	794.80	1808.73
1.2 State Direct Taxes	32.64	31.84	33.13	67.71	72.19
1.3 State Indirect Taxes	237.93	501.17	1094.12	1886.69	4905.56
2.0 Non-tax Revenues	191.08	319.74	314.53	485.84	1214.09
II. Capital Receipts	12.79	17.97	30.96	24.66	26.49
III. Net Borrowings	184.67	269.93	186.64	581.50	1215.42
1.0 Loans from the market (net)	26.21	52.63	64.00	78.99	91.53
2.0 Loans from GOI (net)	116.06	100.19	124.47	413.23	687.20
3.0 Other loans (net)	42.40	117.11	-1.83	89.28	436.69
IV. Drawals from cash balances	- 1.19	+6.56	+27.65	-3.57	+77.04
V. Total Receipts	740.04	1313.30	2081.50	3837.63	9319.52

Source: Annex Table 1

Table 2: Growth Indices Relating to Receipts

(Annual Averages)

	1960-65	1965-70	1970-75	1975-80	1980-85
1. Total Receipts in current prices (Rs.crores)	148 (100)	263 (178)	416 (281)	768 (519)	1864 (1259)
2. Total Receipts in constant prices of 1970/71 (Rs.crores)	218 (100)	296 (136)	357 (164)	471 (216)	N.A. (N.A.)
3. Per capita Receipts in current prices	42 (100)	69 (164)	98 (233)	166 (395)	385 (917)
4. Per capita Receipts in constant prices of 1970/71	63 (100)	77 (122)	84 (133)	102 (162)	N.A. (N.A.)
5. Receipts to NSDP per cent	12.2 (100)	14.4 (118)	13.9 (114)	16.1 (132)	22.2 (Est.) (182)

Note: Figures in parentheses are indices with 1960-65 = 100

Source: Derived from Table I and deflators in Appendix II.

Table 3: Structure of Receipts: 1960-85

(per cent)

Sources	1960-65	1965-70	1970-75	1975-80	1980-85
I. Current Revenues	73.48	77.58	88.22	84.30	85.85
1.0 Tax Revenues	47.66	53.23	73.11	71.64	72.82
1.1 Share in Central Taxes	11.10	12.65	18.95	20.71	19.41
1.2 State Direct Taxes	4.41	2.42	1.59	1.76	0.77
1.3 State Indirect Taxes	32.15	38.16	52.57	49.17	52.64
2.0 Non-tax Revenue	25.82	24.35	15.11	12.66	13.03
II. Capital Receipts	1.73	1.37	1.49	0.64	0.28
III. Net Borrowings	24.95	20.55	8.97	15.15	13.04
1.0 Loans from the Market(net)	3.54	4.00	3.07	2.06	0.98
2.0 Loans from GOI(net)	15.68	7.63	5.98	10.77	7.37
3.0 Other loans (net)	5.73	8.92	-0.08	2.32	4.69
IV. Drawals from Cash Balances	-0.16	+0.50	+1.32	-0.09	+0.83
V. Total	100.00	100.00	100.00	100.00	100.00

Source: Derived from Table 1.

III Transfers to Current Revenues from the Centre

Central revenue transfers : extent and growth

Revenue transfers from the Centre, as distinct from transfers in the form of loans, consist of (i) shares in Central taxes (ii) statutory grants awarded by Finance Commissions and (iii) other grants for plan or non-plan purposes, the latter being principally for the relief of natural calamities such as floods and drought. Appendix III provides an account of the tax jurisdictions of the Centre and State and explains the provisions and principles under which Central revenue transfers to States are regulated.

2. Table 4 shows the extent, sources, and relative contribution of Central transfers to the total revenues of Tamil Nadu in 1965-85. Such transfers which were around 27 per cent of total revenues during 1965-75 have increased to about 31 per cent in 1975-85. The relative contribution of Central revenue transfers in 1980-85 would have been higher (of the order of 34 per cent) but for the fact that the State's own revenues were significantly augmented in this period through excise revenues consequent on the relaxation of prohibition.

3. Table 4 will also show that since 1970 tax shares have become the dominant source in Central transfers vis-a-vis Central grants. The shared taxes are income taxes, Union excise duties (including additional duties of excise levied *in lieu* of sales taxes on certain commodities), and, to a very minor extent, estate duties on non-agricultural property. The relative contribution from the two principal shareable taxes, viz., income tax and excise duties, were about the same during 1965-75. The contribution from Union

excise duties has significantly increased since then on account of the greater buoyancy of this source and the fact that the Seventh Finance Commission (1979-84) doubled the share of States in Union excise duties from 20 to 40 per cent.

4. While the State's own revenues continue to account for the bulk (viz., about 70 per cent) of total revenues, the contribution from Central transfers is not insignificant; it currently amounts to about 45 per cent of the State's own revenues. Central transfers are predominantly statutory transfers to which the State is entitled under the Constitution of India. In this sense, they need not be viewed as an indicator of the State's "dependency" on the Centre but, at the same time, the extent and growth of tax-sharing underlines the State's vital interest in the coverage, collection and buoyancy of income and excise taxes at the national level and in ensuring that the legitimate claims of Tamil Nadu are met within the overall framework of Centre-State fiscal devolutions.

Tamil Nadu Vs. other major States

5. The extent to which Tamil Nadu has benefited from Central revenue transfers vis-a-vis other States is an issue of interest. In discussing this question, we shall at this juncture confine ourselves to tax-sharing and statutory grants leaving aside non-statutory (or 'discretionary') grants for plan and non-plan purposes; the former is discussed in a later section and the latter is mainly related to the incidence and severity of natural calamities. A study by K.K.George and I.S.Gulati shows that in 1956-81 per capita statutory transfers to Tamil Nadu, in the form of tax-sharing

and statutory grants, have been lower than that for most other major States in India[1/] (vide Table 5). The reasons for this require further analysis.

6. Tamil Nadu's share in Central tax transfers has been determined by varying criteria adopted by successive Finance Commissions from one award period to another. In the case of income-tax, population has been given predominant weightage by the first seven Finance Commissions (1952-84) while excise-sharing has tended in addition to take account of 'economic backwardness' which has been measured in terms of specific indicators or with reference to the level of capita income (see Appendix III for further details). The percentage shares in income tax and excise duties for Tamil Nadu which have resulted from these criteria in different award periods of Finance Commissions during 1957-84 are given in Table 6. The table will show that throughout income tax shares for Tamil Nadu have been higher than the State's share in all-India population; this is because of the secondary weightage given to collection. Excise shares have been higher than the population share in the 1980s but were somewhat below the population share in the previous two decades. This is because, under the relevant redistributive criteria adopted by Finance Commissions prior to 1979, Tamil Nadu has had to yield to more backward States in excise shares. On the whole, if tax sharing alone were to be considered, per capita Central transfers to Tamil Nadu have not been significantly less than the all-India average.

1/ K.K.George and I.S.Gulati 'Centre-State Resource Transfers, 1951-81; An Appraisal' in Economic and Political Weekly, Bombay, February 16, 1985. The list of major States excludes 7 hill states with less than 10 million population in 1981 viz., Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Nagaland, Sikkim, and Tripura.

7. The picture is, however, different when we turn to grants which have been recommended by Finance Commissions under Article 275 of the Constitution. These grants, also known as "gap grants", are intended to cover estimated deficits in the non-plan revenue account of States to the residual extent to which they are not covered by tax sharing. Tamil Nadu has benefited to a very limited extent from Article 275 grants. Per capita Article 275 grants to major States during 1957-79 given in Table 7 will show that transfers to Tamil Nadu from this source have been less than one-fourth of the average for the major States. A comparison of Tables 5 and 7 will indicate that transfers under Article 275 mainly explain why Tamil Nadu has fared worse in the matter of overall statutory transfers in relation to a richer State like W.Bengal or vis-a-vis States like Andhra Pradesh, Assam, Karnataka, Kerala and Orissa which are in its same broad income group. This is because Tamil Nadu has been able, by and large, to meet its non-plan revenue gap on the basis of its own revenue performance supplemented by tax sharing without having to depend on "gap" grants. In the case of Tamil Nadu, virtue has had to be its own reward![1]

1/ For the discussion of devolution criteria that would not penalise prudent States see S.Guhan 'Devolution Criteria : From Gamble to Policy' in Economic and Political Weekly, Bombay, December 1, 1984.

Table 4: <u>Central Revenue Transfers and States Own Revenues 1965-85</u>

(Rs. crores)

Source	1965-70	1970-75	1975-80	1980-85
1. Share in Central Taxes of which:	169.39 (14.6)	394.11 (18.3)	799.08 (22.1)	1802.28 (21.6)
i) Share in income-tax	76.39 (6.6)	191.36 (8.9)	289.43 (8.0)	452.20 (5.4)
ii) Share in Union Excise duties	89.71 (7.7)	198.28 (9.2)	505.36 (14.0)	1344.20 (16.1)
iii) Share in estate duties	3.29 (0.3)	4.47 (0.2)	4.29 (0.1)	5.88 (0.1)
2. Central grants	143.49 (12.4)	178.09 (8.2)	316.20 (8.7)	780.52 (9.3)
3. Total Central Revenue Transfers (1+2)	312.88 (27.0)	572.20 (26.5)	1115.28 (30.8)	2582.80 (30.9)
4. State's Own Tax and non-Tax Revenues	846.69 (73.0)	1586.70 (73.5)	2505.44 (69.2)	5774.93 (69.1)
5. Total Revenues (3+4)	1159.57 (100.0)	2158.90 (100.0)	3620.72 (100.0)	8357.73 (100.0)
6. Central Transfers per capita in Rs.	8.85	18.48	34.46	74.63

<u>Note</u>: Figures in parenthesis are percentages to the column totals.

<u>Data source</u>: Tamilnadu Economic Appraisal (various issues)

Table 5: State-wise Statutory Transfers from the Centre: 1956-81

State	Per capita statutory Transfers through Finance Commissions in 1956-81 (Rs.)
A. High Income States 1/	471
1. Punjab	405
2. Haryana	389
3. Maharashtra	461
4. Gujarat	466
5. West Bengal	524
B. Middle Income States 2/	542
6. Tamil Nadu	446
7. Kerala	611
8. Orissa	708
9. Assam	742
10. Karnataka	465
11. Andhra Pradesh	504
C. Low Income States 3/	459
12. Uttar Pradesh	446
13. Rajasthan	553
14. Madhya Pradesh	428
15. Bihar	456

1/ Per capita income of about Rs.1500/- and above; 2/ Per capita incomes between Rs.1000/- and Rs.1500/- and 3/ Per capita incomes below Rs.1000/- (all at end 1970s).

Source: K.K.George and I.S.Gulati 'Centre-State Resource Transfers, 1951-84' in Economic and Political Weekly, February 16, 1985, Table 8.

Table 6: Percentage share of Tamilnadu in Tax-sharing 1957-89

Finance Commission	In Income-Tax	In Union Excise Duties
	(per cent)	
1.Second (1957-62)	8.40	7.56
2.Third (1962-66)	8.13	6.08
3.Fourth (1966-69)	8.34	7.18
4.Fifth (1969-74)	8.18	6.50
5.Sixth (1974-79)	7.94	7.43
6.Seventh(1979-84)	8.05	7.64
7.Eighth (1984-89)	7.57	7.32

Memo: Population shares of Tamilnadu in all-India population: 1961: 7.67 per cent; 1971: 7.52 per cent; 1981: 7.06 per cent.

Source: Reports of Finance Commissions.

Table 7: Gap grants under Article 275 from Finance Commissions: 1957-79

State	During 1957-62	During 1962-66	During 1966-69	During 1969-74	During 1974-79	During 1957-79	In Rs.per capita during 1957-79 1/
	Rs.crores	Rs.crores	Rs.crores	Rs.crores	Rs.crores	Rs.crores	(Rs.)
1.Andhra Pradesh	20.00	36.00	21.66	65.01	205.93	348.60	80.14
2.Assam	20.25	21.00	49.56	101.97	254.53	447.31	306.38
3.Bihar	19.00	-	-	-	106.28	125.28	22.21
4.Gujarat	-	17.00	-	-	-	17.00	6.37
5.Karnataka	30.00	25.00	54.72	17.99	-	127.71	43.59
6.Kerala	8.75	22.00	62.46	49.65	208.93	351.79	165.16
7.Madhya Pradesh	15.00	5.00	8.10	-	-	28.10	6.74
8.Maharashtra	-	-	-	-	-	-	-
9.Orissa	16.75	46.00	87.54	104.67	304.73	659.69	255.56
10.Punjab including Haryana	11.25	-	-	-	-	11.25	4.77
11.Rajasthan	12.50	18.00	20.19	51.49	230.53	332.71	128.96
12.Tamilnadu	-	12.00	20.52	22.82	-	55.34	13.43
13.Uttar Pradesh	-	-	-	-	198.83	198.83	22.52
14.West Bengal	19.25	-	-	72.62	234.86	326.73	73.75
All major States	172.75	202.00	324.75	486.22	1744.62	2930.34	55.39

1/ Using 1971 population figures.

Source: Reports of Finance Commissions.

IV : Tax Revenues : Growth Structure and Impact

The State's own revenues consist of its tax revenues other than Central tax transfers and its non-tax revenues net of grants from the Centre. Of these two sources, tax revenues have throughout been dominant and have become increasingly so. During 1965-70 they accounted for 63 per cent of own revenues; this ratio has steadily risen to 84 per cent in 1980-85 indicating that over the years taxes have grown much faster than non-tax sources of revenue. In this context, we shall examine in some detail the growth, levels, structure and incidence of State taxes in Tamil Nadu. By way of background, Appendix IV provides basic information on the coverage of State taxes.

Growth in Tax Revenues

2. The annual time series for the State's own tax revenues during 1960-85 for Tamil Nadu is contained in Annex Table 2.[1/] The information is summarised in Table 8 according to quinquennial intervals. Growth indices in the different periods have been worked out in Table 9. There has been a striking growth in Tamil Nadu's own tax revenues in current prices from Rs.44 crores in 1960/61 to Rs.1280 crores in 1984/85. The quinquennial averages indicate that tax revenues have grown nearly 17-fold in 1980-85 over 1960-65. Even after allowing for inflation and population growth, per capita tax revenues at constant prices have more than doubled from Rs.25 in 1960-65 to 54 in 1975-80. In the same period, tax revenues as a proportion of NSDP have increased from 4.9 per cent to 8.5 per cent.[2/]

1/ The figures in this Table will not tally with tax revenues shown in the Economic Classification (Annex Table 1) mainly because we have given tax revenues gross of transfers to local bodies in Annex Table 2 in order to bring out overall incidence.

2/ Final NSDP figures are not available for 1980-85. on the basis of available estimates, the proportion of tax revenues to NSDP in 1980-85 works to 10.9 per cent.

Inter-State Comparisons

3. The comparisons in Table 10 will indicate that the growth and level of tax revenues in Tamil Nadu place her among the highest-taxed States in India. The growth in tax revenues in Tamil Nadu in 1984/85 over 1960/61 has been significantly higher than the average for major States although less than the growth rates recorded by Punjab (including Haryana), Gujarat, and Karnataka. In terms of the current level of taxation, measured by way of per capita tax revenue in 1980-85, Tamil Nadu ranks as the fifth highest among the 15 major States coming after Punjab, Haryana, Maharashtra and Gujarat. All these States are distinctly better off than Tamil Nadu in terms of per capita income and could therefore be expected to have a higher tax potential. This can be allowed for if we look at the ratio of tax revenue to State income which is a more appropriate measure of tax effort. The tax-income ratio has been worked out for major States for 1976-81, and indicatively for 1980-85, in Table 10. Even in the earlier period, when (because of prohibition) Tamil Nadu did not have the advantage of excise revenues, it had the third-highest ratio coming after Gujarat[1/] and Kerala. In 1980-85, with the inflow of excise revenues, the tax-income ratio for Tamil Nadu would appear to be the highest among the major States.

4. While data is not available for decomposing the contributions to tax buyoancy on account of growth in real SDP, inflation, and additional taxation, available evidence

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1/ The performance of Gujarat in regard to growth, level and tax-effort is remarkable since it has consistently followed prohibition entailing the sacrifice of excise revenues which have made a substantial contribution to tax revenues in most other States.

suggests that the last two factors in combination account for the bulk of the growth in tax revenues.1/ We had earlier noted that long-term growth in tax revenues in Tamil Nadu vis-a-vis other major tates has been high; on the other hand, Tamil Nadu's long term rate of growth in NSDP has been relatively low.2/ Tamil Nadu's impressive tax-income ratio is thus the result of the combination of a high tax buyoancy and low NSDP growth. In other words, additional taxation (including excise revenues in 1980-85) and better collection efficiency, rather than tax elasticity related to economic growth, would appear to be mainly responsible for Tamil Nadu's good performance in achieving real rates of tax growth.

Structure of Taxes

5. Individual taxes have registered varying rates of growth (or buoyancy) during 1960-85 reflecting in each case the varying impact of factors such as additional taxation, collection efficiency, inflation and tax responsiveness to economic growth (or elasticity). Overall growth in tax revenues has accordingly been accompanied by important changes in the structure of taxation. This can be followed from Table 11. The relative importance of direct taxes on income and wealth, viz. land revenue, agricultural income-tax

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1/ A study made by the Govt. of Tamil Nadu for the Seventh Finance Commission indicated that in State sales taxes, which is the principal tax source, about 3 per cent of the additional yield in 1976/77 over 1961/62 was due to income growth, 34 per cent to inflation, and 63 per cent to additional taxation and its buoyancy. The relative contribution from additional taxation may be higher in the case of the other State taxes since they are generally specific rather than ad valorem and also characteristically less responsive to NSDP growth.

2/ The annual average (compound) growth rate of NSDP in Tamil Nadu during 1960-78 was 2.3 per cent compared to the all-India growth rate of 3.6 per cent in this period for all major States. See S.Guhan, Growth Inequality and Poverty in Tamil Nadu, Cre-A, Madras 1984.

and urban land tax has significantly diminished. These taxes which together accounted for 15.5 per cent of total tax revenues in 1960-65 made only a marginal contribution of 1.9 per cent during 1980-85. While indirect taxes have grown nearly 20-fold in 1980-85 over 1960-65, direct taxes have merely doubled over this period. Sales taxes have throughout been the most important single source of tax revenue and among all taxes they have registered the fastest rate of growth. Sales taxes have increased to nearly 25 times in 1980-85 over 1960-65 and their contribution to total tax revenue has risen from 43 per cent in 1960-65 to 63 per cent in 1975-85. With the relaxation of prohibition (in 1981-82), State excise duties on liquor have become the second most important source accounting for about 14 per cent of all tax revenues in 1980-85. Other indirect taxes have grown about 9-fold in 1980-85 over 1960-65 and together accounted for 21 per cent of tax revenues in 1980-85.

6. In sum, Tamil Nadu raises almost the whole of its tax revenues through indirect taxes of which two taxes on consumption viz., sales taxes and the liquor excise together currently contribute about 77 per cent to total tax revenue. Table 12 which compares inter-State tax structures in 1980-85 will show that, compared to most other major States, the concentration in these two taxes in Tamil Nadu tends to be high.

Direct Agricultural Taxation

7. Direct taxes on agriculture (i.e., without taking into account indirect taxes on agricultural inputs such as sales taxes on fertilisers, pesticides, diesel, etc.) consist of land revenue and the agricultural income tax. In Tamil Nadu, the consolidated land revenue assessment on irrigated land classified as 'wet' (nanjai) includes an

element of water charges which, being a cost-recovery for water use, must be deducted in computing the incidence of land revenue proper. Local cess (LC) at 45 paise per rupee of land revenue and local cess surcharge (LCS) up to a ceiling of Rs. 2.50 per rupee of land revenue are collected along with land revenue on behalf of Panchayat Unions and Panchayats. In as much as these levies are based on land revenue, the cess and the surcharge can be viewed as a component in agricultural taxation. Table 13 gives the receipts from land revenue (net of irrigation but including LC and LCS) and the agricultural income tax during 1960-80 and relates these direct levies on agricultural incomes to the NSDP from agriculture in each quinquennium. It will show that direct taxes on agriculture have throughout this period been less than 2 per cent of income from agriculture and have actually declined from around 1.9 per cent in the 1960s to about 1.1 per cent in the late 1970s. Direct taxation of agricultural incomes is thus insignificant and has become even more so in a period in which agricultural incomes have grown on account of the new technology and the spread of pumpsets both of which have particularly benefited larger farmers.1/

8. The agricultural income tax (AIT) was introduced in 1955. It initially covered only plantation crops (coffee, tea, rubber, cardamom and cinchona) but was extended to all agricultural crops in 1958. In principle, the AIT is progressive and responsive to income from output but these features have been eroded over the years through exemptions, compounding facilities, liberalisation in the definition of

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1/ In terms of net cropped area, direct agricultural taxes amount to Rs. 11 per acre (1975-80). A farmer with an acre of wet land who can expect a net income of about Rs. 1000 per crop may thus pay no more than about one per cent of it as land revenue (including the CL and LCS). This can be compared with Gilbert Slater's estimates of an incidence of 14 per cent on net income in the early part of the century in Tamil Nadu.

standard acres, and avoidance through partitions.

9. Agricultural taxes are thus very low, not progressive in relation to the incomes of the assessees, and unresponsive to the growth in incomes in the sector. This is partly because of the inherent feature of land revenue, which while being notionally related to the quality of land, is a per-acre levy that does not take into account either the extent of land ownership or the present value of output. It is also because of State policy that has over the years consistently diluted and deemphasised the role of agricultural taxation. After initial settlements of land revenue in Tamil Nadu towards the end of the 19th century, there was only one revision in the 1930s before resettlements were formally suspended in 1937. Assessments on "dry" lands were waived in 1967. This was followed in 1971 with the waiver of the land revenue component of the consolidated wet assessment for holdings of less than 5 acres. An attempt was made to increase agricultural taxation in 1976 1/ when a special assessment was introduced on remunerative commercial crops (grapes, sugarcane, plantain, betelvine, turmeric, tobacco, chillies, irrigated cotton and irrigated groundnut). This measure was substantially eroded by concessions in 1977 and completely repealed in 1981. The only increases to land revenue that have occurred have been by way of local taxation in the LCS but, as we have seen, this has not served to correct its overall regressive impact.

10. Another feature of land revenue is the very high cost involved in its collection. The expenditure of the revenue department on its district, sub-divisional, taluk and village establishments and on survey and settlement operations is of the order of Rs. 35 crores annually (1983/84). Even if half of

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1/ Tamil Nadu was under President's rule at that time.

this cost is to be attributed to the assessment, collection and accounting of land revenue, it would exceed the yield from the measure. The high cost of collection could be (and has sometimes been) used to argue that land revenue can be abolished because the game is not worth the candle. The argument is not valid because the revenue establishment has multifarious functions and will in any case have to be maintained. On the other hand, the high cost of collection should strengthen arguments, based on equity and revenue considerations, for increasing agricultural taxation.

Sales taxes

11. We have already seen that sales taxes are by far the single most important and the fastest growing source of revenue to the State. Sales taxes consist of the general sales tax (GST), the motor spirits tax (MST), and the Central Sales Tax (CST). The first two are levied and collected by the State; the CST is levied by the Centre on commodities entering inter-State trade but is collected and retained by the State. Sales taxes are ad valorem on the taxable turnover of commodities and as such responsive to growth in transactions and in prices.

12. Tamil Nadu (the old Madras State) was the pioneer in introducing the general sales tax in 1939. At the time of introduction, the general rate was a very low one of ½ per cent of taxable turnover. The rates, coverage and features of the sales tax system have undergone several changes since then. Since 1958, there has been a trend to shift the levy from multi-point to a single-point in the chain of sales and to make the rates more progressive by attaching higher rates to items of less-essential or luxury consumption. Foodgrains and some other commodities of essential consumption are exempt from sales tax; most commodities, about 200 at present, are subject to single point levies ranging from one per cent to

30 per cent (foreign liquor); and the rest are liable to multi-point sales tax (5 per cent at present). Most single-point rates are in the range of 4 to 15 per cent.

13. The two main criticisms of indirect taxes are that they are inflationary in as much as they are passed on to consumers as an add-on to prices and that, as compared to direct taxes, they are less-progressive in their incidence on incomes. The most comprehensive study that is available of indirect taxation in India is by Raja J.Chelliah and Ram N. Lal relating to 1973-74.[1/] The authors have used NSS data to estimate the incidence of Central and State indirect taxes and of State sales taxes on the consumption of different expenditure groups in rural and urban areas. Their results, reproduced in Table 14, indicate that the combined impact of all indirect taxes (Central and State) on all household consumption expenditure is 10.54 per cent of which State indirect taxes account for 3.77 per cent and State sales taxes for 1.93 per cent. In the two highest income groups, the overall impact is in the range of 11 to 23 per cent and that of State sales taxes in the region of 2 to 3 per cent. It will appear from this that State sales taxes in themselves might not have a serious inflationary effect; nor do they seem to constitute a significant proportion of the overall incidence of all Centre and State indirect taxes.

14. The progression ratios worked out in Table 14 will indicate that sales taxes are much less progressive in rural areas vis-a-vis urban. In overall (rural and urban) incidence they are also less progressive than Central or State indirect taxes. These ratios relate to incidence on <u>consumption expenditure</u>; the incidence on <u>incomes</u> is

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1/ Raja J.Chelliah and Ram N.Lal <u>Incidence of Indirect Taxation in India 1973-74</u> National Institute of Public Finance and Policy, New Delhi 1978.

likely to be positively regressive because income-inequalities between the rich and the poor are steeper than inequalities in their levels of consumption. Sales taxes are obviously regressive when compared to the income tax. While persons with an annual income of Rs. 18000 are currently exempted from income-tax, the burden of sales taxes extends to the poorest expenditure groups; and it is not insignificant on the "middle classes" who have been exempted from direct taxes on income (e.g., households with a monthly income of Rs. 500).

15. While no State-wise picture of incidence is available in the study by Chelliah and Lal, a study on the incidence of taxation in Tamil Nadu in 1970/71 has been made by the Institute for Techno-economic Studies (ITES) Madras based on a household consumption expenditure survey of 900 urban and 1100 rural households in the State.1/ The ITES survey covers expenditure groups which are in the upper brackets to those covered in the Chelliah and Lal study. The estimates from this survey reproduced in Table 15 suggest that the progression in sales taxes tends to get dampened in the relatively highly expenditure groups.

16. More than 70 per cent of the sales tax burden falls on consumption expenditure as distinct from expenditure on intermediate and capital goods.2/ An analysis of the sales tax revenue data in Tamil Nadu (1983-84) also shows that 65 to 70 per cent of the single point revenue comes from fuel and other goods of general consumption (such as cotton and yarn, drugs, pulses, tea, sugarcane, electrical goods and soap). The burden of sales taxes falls accordingly in the main on the middle

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1/ Institute for Techno-economic Studies <u>Incidence of Taxation in Tamil Nadu</u>, Madras 1972.

2/ See Raja J.Chelliah and Ram N Lal op.cit. Table III.6 p. 25.

classes, particularly in urban areas. The very poor whose consumption is low and is largely confined to food and bare necessities may not be much affected; at the other end of the spectrum, despite the relatively high rates on a few "luxury items", the incremental impact of sales taxes on the consumption expenditures of the affluent is not particularly progressive.

17. Under the Constitution of India the tax jurisdictions of the Centre and the States are, in the legal sense, mutually exclusive (vide Appendix III). However, in an economic sense, Union excise duties and State sales taxes, have a considerable area of overlap in their commodity-wise incidence. They are both indirect taxes and the main sources of revenue for the Centre and the States. The relatively high incidence of Central excise duties inhibits the freedom of the States to raise sales tax rates which "cascade" on the former. Moreover, the fact that India is a common market in which there is a free flow of goods across State boundaries makes it necessary for States to harmonise their sales tax rates in order to avoid diversion of trade from one State to another. For these reasons, the maximum rates under sales taxes can not be too high and the commodity-wise incidence has to progress within a relatively narrow band. The consequence is that the coverage of sales taxes has to be, for revenue reasons, as wide as possible and the progression in their incidence on consumption expenditures tends to be feeble while it might well be regressive on incomes.

Revenue from liquor

18. We have noted that at present excise duties from liquor are next only in importance to the sales tax as a source of tax revenue, Tamil Nadu has had a chequered history of prohibition. Partial prohibition was first

introduced by the Rajaji Ministry in 1937 in the Salem district. With the dissolution of popular governments, prohibition was withdrawn in 1945. After independence, the State went completely dry in 1948 and continued to be so until 1971 when prohibition was "suspended". Prohibition was reintroduced in 1974 and continued until it was relaxed in 1981/82.1/

19. Excise revenues, in this context, have been insignificant during 1960-70 and in 1975-80, the periods in which prohibition was in force. The highest level of excise revenues during 1970-75 was Rs.56 crores (1973/74). Since the relaxation of prohibition, excise revenues have nearly doubled from Rs.110 crores in 1981/82 to Rs.201 crores in 1984/85. The major contribution in 1984/85 came from arrack (Rs.134 crores or 67 per cent) by way of excise duties (Rs.48 crores) and rental from arrack shops (Rs.86 crores); license fees, tree taxes and rental income relating to toddy contributed Rs.24 crores or 12 per cent; and IMFL accounted for Rs.33 crores or 16 per cent.2/ We have no data on the incidence of excise taxes on different expenditure groups in Tamil Nadu but the fact that the bulk of the revenue, viz., about 79 per cent, comes from country spirits, which are widely consumed by the non-affluent, indicates that, by and large, excise revenues come from the poor.

20. Relating the excise duty on arrack to its sale price, it is possible to estimate the consumption of arrack in Tamil Nadu in value terms. The estimate for 1984/85 works to Rs.270

1/ The Government announced their intention in 1986 to ban the sale of arrack and toddy with effect from 1st January 1987 while permitting the continued consumption of Indian-made foreign liquor (IMFL).

2/ For a valuable discussion of issues connected with taxation of alcohol, based on Karnataka experience, see Simon Musgrave and Nicholas Stern <u>Alcohol: Demand and Taxation in South India in the 1970s</u> Discussion Paper No.55 University of Warwick January 1985.

crores[1]. This is about 4.5 per cent of the State's net domestic product and could be a much higher proportion of the income of the relatively-poor consumers of arrack.[2] If the consumption of liquor could be avoided or prevented, substantial purchasing power will be clearly released for consumption on food and other essentials particularly in the case of poorer households. Consumption expenditures on liquor transfer substantial resources from a large number of poor consumers to the relatively small number of those who are engaged in different stages of the liquor industry and trade such as blending, bottling, wholesale and retail distribution. It is well known that licensed retail arrack shops also provide an outlet for the sale of illicit liquor. Awash with money, it is no secret that groups and persons in the liquor business are well-placed to indulge in political corruption.[3] This is particularly possible because much more discretion and individual preference obtains in the regulation of the manufacture and sale of liquor than

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1/ In 1984/85, the excise duty per litre of arrack was Rs.4 while the retail price of a litre was Rs. 22.5 or 5.625 times the duty. Applying this factor to the excise revenue of Rs.48 crores from arrack, its consumption in that year in Tamil Nadu can be estimated at Rs. 270 crores. Currently, the State Corporation which has a monopoly over the retail distribution of arrack sells about one crore litres of arrack per month in Tamil Nadu.

2/ Studies relating to alcohol consumption indicate that manual labourers and among them Scheduled Caste workers have a relatively high propensity for liquor consumption. Income inequality studies in India indicate that the income of the poorest 20 per cent of the population is about 8 per cent of total income. Even if their consumption of arrack was no more than 20 per cent of total arrack consumption, it would absorb about 10 per cent of their income.

3/ Political corruption linked to the liquor industry and trade has been the subject matter of legally instituted allegations and judicial processes in Karnataka, Madhya Pradesh and Tamil Nadu in recent years.

is the case with activities, such as general trading, bus transport or the exhibition of films, from which the State's other major indirect taxes are raised. Excise revenues thus depend on permitting a form of consumption that worsens poverty, transfers incomes from the poor to the rich, and provides powerful incentives for political corruption on its supply and demand sides.

Other taxes

21. The other major taxes of the State are, in order of importance, the motor vehicles tax (MVT), stamps and registration, and entertainment taxes. They accounted respectively for 8.4 per cent, 7.1 per cent and 3.5 per cent of total tax proceeds in 1980-85. The growth over time of these taxes has been distinctly lower than that of sales taxes (vide Table 11).

22. The MVT is a specific tax which is related to the type of vehicle and in the case of buses to the number of seats. The bulk of its burden falls on public transport viz., trucks and buses with its ultimate incidence being on commodity prices and on bus fares.

23. The revenue from stamp duties, and registration fees that go with them, mainly comes from sales of immovable properties such as land and buildings. Their incidence is in terms of a percentage of the registered sale value. The tax is thus not progressive. It is also subject to considerable evasion because of the under-reporting of sale values. In their study of "black money" in India, the National Institute for Public Finance and Policy (NIPFP) have estimated that reported urban property values in Madras city could be

as low as one-third of their true value.[1/] The under-reporting of property values for purposes of tax evasion not only reduces revenue from stamp duties and municipal property property taxes but also generates considerable "black incomes" which escape Central taxes on income, wealth and capital gains.[2/] It has been argued that a reason for the high degree of evasion in stamp duties is that their incidence on property values (currently 13 per cent) is excessive. One method of curbing evasion, while reducing incidence without sacrifice of revenue, would be to levy a specific tax on the extent (built-up area) of land (built-property) where the rate of tax is fixed in relation to zones, uses (e.g. industrial, commercial, residential) and any other criteria having a bearing on property values. Progression could also be introduced in such a scheme and elasticity could be secured through periodical revisions of the rate.

24. The urban land tax (ULT) is a direct tax on wealth. Its progression is low and the market value for the tax base is out of date (viz. 1971). Given steeper progression and periodical revisions of the rates, the ULT can provide an instrument for discouraging ostentatious urban property use, promoting higher housing densities, and reducing asset concentration.

25. The main source for entertainment taxes is the exhibition of cinemas which are widespread and very popular in the towns and villages of Tamil Nadu. In principle, the

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1/ NIPFP: Aspects of the Black Economy in India Draft Report New Delhi, March 1985, pp. 244-246.

2/ The NIPFP estimates of black income generated in property sales in Madras, although admittedly crude, suggest that such incomes may be very high: between 172 and 677 crores in 1982-83.

tax is *ad valorem* on the price of cinema tickets but outside of the major towns it has been compounded with reference to the number of seats in cinema houses in order to reduce evasion. The consequence however is that increases in cinema-going or in the number of shows does not for the most part get reflected in elasticity of revenue.

Devolution to local bodies

26. Local body finances in Tamil Nadu are beyond the scope of this paper but some broad facts can be stated. The major own sources of revenue for Corporations and Municipalities are property and profession taxes. Property taxes are in principle subject to quinquennial revisions but such revisions have been repeatedly postponed in Tamil Nadu. Both these taxes are significantly under-exploited mainly on account of under-assessment and poor collection. The local cess and local cess surcharge on land revenue are the principal revenue sources for Panchayat Unions and Panchayats. These are supplemented by revenue transfers from the government to local bodies in the form of (i) assigned tax shares (ii) statutory grants and (iii) discretionary grants for specific purposes. In addition, government also advances loans to local bodies for water supply, roads and other such developmental activities.

27. The taxes from which assignments are made to local bodies (including those levied by them but collected by the State) are the entertainment taxes, sales taxes, stamp duties and local cess and local cess surcharge on land revenue. Tax assignments to local bodies in 1980-85 were annually at an average level of Rs. 69.70 crores.[1/] Matching grants on house

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1/ The source-wise break-up is: entertainment taxes, Rs. 22.46 crores; stamp duties Rs. 19.92 crores; sales taxes Rs. 17.68 crores, and local cess and local cess surcharge, Rs. 9.64 crores.

tax and local cess surcharge, and the local irrigation and local roads grants are statutory grants. Table 16 will show that grants to local bodies (both statutory and other) as a proportion of the total current revenues of the State remained at 15 to 16 per cent in 1960-75, declined to 13 per cent in 1975-80, and sharply went down to about 3 per cent in 1980-85. Revenue transfers to local bodies, through both tax-sharing and grants, in 1980-85 amounted to Rs.612 crores or less than 8 per cent of the State's total current revenues in this period.

28. The steep decline in fiscal devolutions to local bodies, and its overall low level, in 1980-85 is the reflection of a policy of "re-centralisation" pursued by government in this period. Elections to Panchayat Unions and to Panchayats were not held since 1970 until 1986 and elected representatives to these institutions were superseded in 1976/77. Subsequently, Panchayat Union teachers were "provincialised" (i.e. converted into direct government employees) and rural amenities programmes (such as the self sufficiency scheme) were directly financed by government. Government grants to urban bodies (viz., Corporations, Municipalities and Town Panchayats) continue to be grossly inadequate for the maintenance of essential civic services such as water supply and sanitation, roads and public lighting. It is ironic that the governments' attitude to local bodies in Tamil Nadu have been in sharp contrast to their own claims vis-a-vis the Centre for greater autonomy and increased financial devolution.

Table 8: Own Tax Revenues of Tamil Nadu : 1960-85

(Rs. Crores)

Taxes	1960-65	1965-70	1970-75	1975-80	1980-85
Direct Taxes					
1.Land Revenue (net of irrigation but including LC & LCS)	39.03	51.50	65.13	56.79	59.59
2.Agricultural Income tax	6.70	8.16	10.30	27.15	18.38
3.Urban Land Tax	0.01	1.25	6.73	10.39	15.25
All Direct Taxes (1+2+3)	45.74	60.91	82.16	94.33	93.22
Indirect Taxes					
4.Sales Taxes	127.49	279.47	614.98	1298.41	3137.66
5.State Excise Duties	1.77	3.77	144.46	20.46	696.30
6.Stamp duties (gross)	40.58	75.36	122.12	172.34	354.49
7.Registration fees	6.57	11.50	18.42	22.24	47.81
8.Motor Vehicles Tax	48.61	83.22	137.69	267.73	417.68
9.Entertainment Taxes	15.72	32.98	58.24	110.38	173.21
10.Other indirect taxes	8.84	38.70	37.59	41.23	80.60
All Indirect Taxes (4 to 10)	249.58	525.00	1133.50	1932.79	4907.75
All Taxes	295.32	585.91	1215.66	2027.12	5000.97

Source: Annex Table 2.

Table 9: Growth Indices Relating to Tax Revenues: 1960-85

Indicator	1960-65	1965-70	1970-75	1975-80	1980-85
1. Tax Revenues in current prices Rs. crores	295.32 (100)	585.91 (198)	1215.66 (412)	2027.12 (686)	5000.97 (1693)
2. Tax Revenues in constant prices of 1970/71 Rs. crores	435.19 (100)	657.34 (151)	1037.00 (238)	1245.85 (286)	N.A. (N.A.)
3. Per capita Tax Revenue in current prices Rs.	17 (100)	31 (182)	57 (335)	87 (512)	208 (1224)
4. Per capita Tax Revenue in constant prices of 1970/71 Rs.	25 (100)	34 (136)	49 (196)	54 (216)	N.A. (N.A.)
5. Tax Revenue to NSDP per cent	4.9	6.4	8.1	8.5	11.9 (Est.)

Note: Figures in parentheses are indices with 1960-65(= 100) as base.

Source: Derived from Table 8 and deflators in Appendix II.

Table 10: Inter-State Comparisons Relating to Tax Revenues

State	Index of growth in Tax Revenue in 1984/85 (1960/61 = 100)	Average per capita tax revenue in 1980-85 (Rs.)	Tax to NSDP 1976-81 (per cent)	Tax to NSDP 1/ 1980/1985 (per cent)
1. Andhra Pradesh	2948	161	7.4	13.3
2. Assam	1090	52	3.7	4.9
3. Bihar	1721	57	4.0	6.7
4. Gujarat	4331	220	9.8	11.6
5. Haryana	2/	265	6.8	12.3
6. Karnataka	3645	186	7.3	13.1
7. Kerala	2890	175	7.9	12.8
8. Madhya Pradesh	2545	105	6.0	10.3
9. Maharashtra	2918	248	7.4	12.0
10. Orissa	2825	69	3.8	6.3
11. Punjab	4067 2/	287	6.7	11.1
12. Rajasthan	2610	107	5.0	9.3
13. Tamilnadu	3144	201	7.5	15.2
14. Uttar Pradesh	1865	80	5.0	7.9
15. West Bengal	1715	126	6.2	8.7
All major States	2644			

1/ NSDP estimates are for 1976-81 as later estimates are not available on comparable basis. This may not however affect the relative ordering to any significant extent.

2/ Included in Punjab.

Source: RBI Annual Surveys of State Finaces for Tax Revenues and Central Statistical Organisation's estimates of per capita income.

Table 11: Structure of Tax Revenues and Growth of Taxes in Tamilnadu: 1960-85

(per cent)

Tax	1960-65	1965-70	1970-75	1975-80	1980-85
Direct Taxes					
1. Land Revenue (net of irrigation but including LC & LCS)	13.2 (100)	8.8 (132)	5.4 (167)	2.8 (146)	1.2 (153)
2. Agricultural Income Tax	2.3 (100)	1.4 (122)	0.8 (154)	1.3 (405)	0.4 (274)
3. Urban Land Tax	-	0.2 (100)	0.6 (538)	0.5 (831)	0.3 (1220)
All Direct Taxes	15.5 (100)	10.4 (133)	6.8 (180)	4.6 (206)	1.9 (204)
Indirect Taxes					
4. Sales Taxes	43.2 (100)	47.7 (219)	50.6 (482)	64.1 (1018)	62.7 (2461)
5. State Excise Duties 1/	0.6	0.6	11.9	1.0	13.9
6. Stamp Duties (gross)	13.7 (100)	12.9 (186)	10.0 (301)	8.5 (425)	7.1 (874)
7. Registration Fees	2.2 (100)	2.0 (175)	1.5 (280)	1.1 (339)	1.0 (728)
8. Motor Vehicles Tax	16.5 (100)	14.2 (171)	11.3 (283)	13.2 (551)	8.4 (859)
9. Entertainment taxes	5.3 (100)	5.6 (210)	4.8 (370)	5.4 (702)	3.5 (1102)
10. Other Indirect taxes	3.0 (100)	6.6 (438)	3.1 (425)	2.1 (466)	1.5 (912)
All Indirect taxes	84.5 (100)	89.6 (210)	93.2 (454)	95.4 (774)	98.1 (1966)
All taxes	100.0 (100)	100.0 (198)	100.0 (412)	100.0 (686)	100.0 (1693)

1/Growth indices have not been given because of discontinuities in prohibition policy.

Note: Figures in parantheses are growth indices with 1960-65 = 100.

Source: Derived from Table 8.

Table 12: Structure of Tax Revenues in Major States: 1980-85

(per cent to total tax revenues)

	Direct Taxes	Sales Taxes	State Excise	Other Indirect taxes
1. Andhra Pradesh	3.2	50.9	28.3	17.6
2. Assam	15.4	64.6	4.2	15.8
3. Bihar	3.6	68.4	10.1	17.9
4. Gujarat	1.9	66.2	0.6	31.3
5. Haryana	1.1	46.7	17.7	34.5
6. Karnataka	2.6	51.0	19.5	26.9
7. Kerala	3.4	63.1	15.9	17.6
8. Madhya Pradesh	2.5	54.2	14.2	29.1
9. Maharashtra	1.5	64.7	8.3	25.5
10. Orissa	3.1	58.0	7.0	31.9
11. Punjab	0.7	45.5	26.8	27.0
12. Rajasthan	5.6	58.7	12.3	23.4
13. Tamil Nadu	1.4	65.0	14.3	19.3
14. Uttar Pradesh	3.7	53.9	14.5	27.9
15. West Bengal	4.4	59.9	9.1	26.6
All major States	2.7	58.6	13.8	24.9

Data Source: RBI Annual Surveys of State Finances.

Table 13: Incidence of Agricultural Taxation in Tamil Nadu: 1960-80

Quinquennium	Agricultural Income Tax (Annual Average) (Rs.crores)	Land Revenue (net of irrigation) (Annual Average) (Rs.crores)	Total Direct taxes on Agriculture (Annual Average) (Rs.crores)	NSDP in Agriculture (Rs.crores)	Direct taxes on Agriculture to NSDP in agriculture (per cent)
1960-65	1.34	7.81	9.15	491.54	1.86
1965-70	1.63	10.30	11.93	645.09	1.85
1970-75	2.06	13.03	15.09	1148.00	1.31
1975-80	5.43	11.36	16.79	1477.94	1.14

Source: Table 8 for Tax revenues and Tamilnadu Economic Appraisal (various issues) for NSDP in Agriculture.

Table 14: Incidence of Indirect Taxation in India 1973-74

(Incidence as per cent of consumer expenditure)

Expenditure Group Monthly p.c. in Rs.	Rural			Urban			Rural and Urban		
	Central Indirect Taxes	State Indirect taxes	State Sales Taxes	Central Indirect Taxes	State Indirect Taxes	State Sales Taxes	Central Indirect Taxes	State Indirect taxes	State Sales Taxes
1. 0 - 15	1.68	1.23	0.67	2.42	1.21	0.30	1.72	1.24	0.65
2. 15 - 28	1.86	1.47	0.85	3.74	2.57	1.63	2.05	1.58	0.93
3. 28 - 43	2.58	1.86	1.02	4.56	2.80	1.86	2.88	2.01	1.16
4. 43 - 55	3.68	2.50	1.23	5.97	3.69	2.35	4.13	2.73	1.44
5. 55 - 75	4.25	2.46	1.31	7.61	4.25	2.69	5.04	2.88	1.63
6. 75 -100	6.32	3.70	1.77	9.41	5.40	3.01	7.21	4.19	2.13
7. 100 -	10.30	5.87	2.60	20.99	9.20	4.51	14.71	7.24	3.39
8. All Households	4.99	3.04	1.49	12.03	5.93	3.23	6.77	3.77	1.93
Progression ratio viz. row 7 ÷ row 1	6.13	4.77	3.88	8.67	7.60	15.03	8.55	5.84	5.22

Source: Raja J.Chelliah and Ram N.Lal Incidence of Indirect Taxation in India:1973-74, NIPFP 1978 Table III-2 p.19.

Table 15: Incidence of Sales Taxes in Tamil Nadu 1970-71

(As per cent of consumption expenditure)

Expenditure Group Annual p.c. in Rs.	Rural	Urban
1. 0 - 1200	1.60	1.84
2. 1201 - 2400	1.66	1.51
3. 2401 - 3600	1.85	2.10
4. 3601 - 4800	1.96	2.04
5. 4801 - 6000	2.04	2.29
6. 6001 - 7200	2.09	2.02
7. 7201 - 12000	1.54	2.04
8. 12001 - 18000	1.74	3.25
Progression ratio viz. row 8 ÷ row 1	1.09	1.77

Source: Incidence of Taxation in Tamil Nadu, ITES Madras 1972 Appendices 37 and 28.

Table 16: Grants to Local Bodies in Tamil Nadu 1960-85

Quinquennium	Total Current Revenues	Grants to Local Bodies	Grants as proportion of Current Revenues
	(Rs.crores)	(Rs.crores)	(Per cent)
1960-65	543.77	80.56	14.8
1965-70	1018.84	164.84	16.2
1970-75	1836.25	295.60	16.1
1975-80	3235.04	408.49	12.6
1980-85	8000.57	263.82	3.3

Data Source: Economic Classification of the Tamil Nadu Budget (various issues).

V : Non-tax Revenues, Public Undertakings and Indirect Subsidies

The non-tax revenues available to the State comprise of grants from the Centre and the State's own non-tax revenues which come from a variety of sources such as interest receipts, forest revenue, irrigation receipts, sales of agricultural inputs, profits and dividends from public sector enterprises, fees (e.g., from educational and medical institutions), fines and other recoveries. We have already noted that the relative contribution from non-tax revenues to overall receipts has declined in importance over the years in Tamil Nadu. It is also interesting that among all major States Tamil Nadu relies to the lowest extent on non-tax sources vis-a-vis taxes for raising its own current revenues. This is brought out in Table 17.

2. Table 18 gives the structure of own non-tax revenues in Tamil Nadu in 1980-85. Interest receipts constitute 37 per cent and are the largest single source. Next in importance are departmental receipts of various kinds: charges for services rendered, sale proceeds, fees, fines etc. Economic services are the major sector from which such non-tax receipts accrue; in this category, agricultural and forest receipts account for about two-thirds of revenue. It will be noticed from the Table that dividends from public enterprises are insignificant accounting for less than one per cent of total non-tax revenue.

3. One reason for the low relative proportion of non-tax to total revenues is that Tamil Nadu does not have the benefit of significant incomes from forest products or mineral royalties compared to States such as Assam, Bihar, Madhya Pradesh and Orissa. The extent of contribution from non-tax revenues is also a function of levels of lending (which reflect on interest income) and efficiency in the

collection of interest and other non-tax receipts. Apart from such factors, the low level of non-tax revenue in Tamil Nadu is a reflection of different types of hidden subsidies in government operations. In the subsequent paragraphs, we shall attempt to quantify and discuss them.

Interest Subsidies

4. The total outstanding borrowings of the State amounted to Rs. 2304 crores at the end of 1984/85 on which interest payments during that year were Rs. 146 crores or 6.33 per cent of debt. While this was the average cost of borrowing, the marginal cost of borrowing in the open market was 9 per cent per annum in that year. On the other hand, interest receipts to the State in 1984/85 were Rs. 59 crores of which Rs. 28 crores were a purely accounting adjustment from departmental undertakings (mainly irrigation projects). Real interest receipts, which were therefore only Rs. 31 crores, amounted to 1.43 per cent of Rs. 2171 crores which was the extent of loans advanced by the State and outstanding at the end of 1984/85. The difference between the unit costs of borrowing and of lending, or the subsidy on account of interest, amounts to 4.90 per cent or 7.57 per cent according as the average or marginal cost of borrowing is considered to be the normative return. In absolute figures, on loans advanced of Rs. 2171 crores, the subsidy will amount to Rs. 106 to 164 crores in 1984/85.

5. Most of this subsidy is relatable to the Tamil Nadu Electricity Board (TNEB). The TNEB accounted for 58 per cent of all loans advanced by the government up to end 1984/85 and was not in a position to pay any interest at all during the year. We shall discuss the financial performance of the TNEB in some detail in the paragraphs that follow. Other main categories of loanees requiring, or

benefiting from, interest subsidies were public sector enterprises, statutory bodies, local bodies, cooperative societies, cultivators, and government employees.

The Tamil Nadu Electricity Board

6. Established in 1957, under the Electricity Supply Act (of 1948), the TNEB took over the functions of the electricity department of the government. It is a statutory authority and the largest public enterprise in the State. At the end of 1984/85, the EB's capital and current assets were of the order of Rs.3369 crores of which gross capital assets (including works-in-progress and capital stores) amounted to Rs.1882 crores. Investments in the EB have been largely financed by loans, ways and means advances, grants and subventions and subsidies from the government and, as noted earlier, the EB has been the largest single recipient of government loans. The latter (including ways and means advances) totalled Rs.1257 crores at the end of 1984/85. In terms of the Electricity Supply Act, government loans to the EB (as distinct from ways and means advances) are "permanent" i.e., the principal does not have to be repaid while interest is levied.

7. The financial performance of the EB since its inception, reviewed in Table 19, will show the deterioration that has occurred since 1970. In 1970-80, the EB had operational surpluses (i.e., gross income minus working expenses) but these were inadequate to cover interest payments and provisions for depreciation.1/ Deficit on these accounts had to

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1/ If depreciation were to be worked out on replacement value, instead of the book value as is the practice, the deficits would be much larger.

be covered by taking subsidies from the government; in addition, the EB also accumulated arrears of interest due on government loans. By the end of 1979/80, total subsidies received from government were Rs. 181 crores and accumulated interest arrears were about Rs. 50 crores. Since 1980/81, there has been a sharp worsening in that gross income was not adequate even to meet working expenses and operational deficits began to emerge; these deficits rapidly widened between 1980/81 and 1983/84 while in 1984/85 operational incomes and expenses were almost balanced consequent on a tariff revision. As a consequence, during 1980-85 the EB was not able to meet its obligations towards depreciation and interest payments without subsidies from government. Such subsidies have totalled to Rs. 867 crores during 1980-85 and interest arrears to government had accumulated to the figure of Rs. 278 crores by end 1984/85.

8. While this is the picture of the EB's losses in an accounting sense, a more appropriate evaluation would consist in comparing the actual return on investment to a normative yardstick. For this purpose, we have worked out in Table 20 the ratio of net surplus (surplus after depreciation) to the net (i.e., depreciated) average capital (excluding works-in-progress and capital stocks) in each year during 1970-85. The ratio peaked at 7.8 per cent in 1975/76 and, thereafter, steadily declined to 3.3 per cent in 1979/80. Since 1980/81, as earlier pointed out, there was no gross surplus prior to depreciation and, therefore, no question of a net surplus; accordingly, the ratio has turned negative in this period. Comparing these rates of return to a normative standard of 10 per cent on capital, the "economic loss" in each year has been computed. Losses in this sense add up to Rs. 225 crores during 1970-80 and to a further Rs. 861 crores during 1980-85.

9. The reasons for the EB being so deeply in the red have to do with several factors relating to costs, efficiency and tariff policy. The proportion of thermal generation in the TNEB system more than doubled from about 20 per cent in 1970-75 to about 48 per cent in 1980-85 and throughout 1970-85 net purchases of power (mainly from the Neyveli Lignite Corporation) have been about a third of net availability. Cost escalations in fuel (on account of increases in the centrally administrated prices of coal, oil, freight etc) and increases in the cost of purchased power have been major factors in pushing up operating expenditures; wage increases and inflation in prices of materials have also contributed their share to cost increases.

10. As regards efficiency, three key parameters indicate much scope for improvement in the TNEB. During 1980-85, the average plant load factor (PLF), the measure of capacity utilisation in the EB's thermal plants, was 40.9 per cent, distinctly below the all-India average of 47.6 per cent. Losses in transmission and distribution (or line losses) were 18.8 per cent and have remained at this level for several years. Staff strength at 35,200 per Megawatt of Capacity was about 30 per cent higher than the all-India average of 27,000 per MW.[1/]

1/ Planning Commission: Annual Report on the Working of State Electricity Boards and Electricity Departments April 1986 and TNEB: Tamil Nadu Electricity Board Statistics At a Glance 1984-85. The PLF is defined as the percentage of gross energy generated to maximum demand times the number of hours in a year. The PLF norm recommended for thermal plants in India is 58 per cent (Rajadhyaksha Committee). The PLF in the TNEB has varied over time plant-wise. It is encouraging that in the Tuticorin plant it was improved to 62 per cent in 1984/85. One reason for the relatively high staff strength in the TNEB is its extensive rural distribution net work but this is not the only reason; there is undeniably an element of excess staff and low productivity.

11. The average cost of generating and distributing one unit (Kwh) of electricity was 64.3 paise in 1984/85 against which the sales realisation was only 48 paise.[1/] Table 21 on average costs, tariffs and sales realisations in 1984/85 from the main consumer categories will indicate that domestic, low-tension industrial, and agricultural consumers are charged below costs and that despite the cross-subsidy from high tension-industrial and commercial users, unit sales realisation is only about 2/3rds of unit costs. Tariff revisions by the EB have been inadequate vis-a-vis cost trends and successive revisions have maintained or accentuated differential subsidies. Between 1961/62 and 1983/84, the average price for all categories increased by 5.4 times while the average prices increased by 8.4 times for industry, 6.2 times for commercial, 2.2 times for domestic and only 1.9 times for agriculture.[2/] Relative to other States, industrial and commercial tariffs in Tamil Nadu are relatively high, domestic tariffs are about the average, and the agricultural tariff is very low.

12. The subsidy for agriculture has a particularly serious impact on the EB's revenues because agricultural power consumption in Tamil Nadu at around 27 per cent of total sales is of a substantial proportion. The agricultural tariff was increased by stages in the early 1970s to 16 paise per unit (1975) which was itself much below the cost of supply. In 1979, differential tariffs were introduced for "small farmers" (owning 5 acres of land or less) and "large farmers"; tariffs were reduced to 13.84 p for the former and 15.84 p for the latter (including the meter rent element). They were further reduced to 12 p and 15 p respectively between

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1/ TNEB op.cit.

2/ U.Sankar and R.Hema Optimum Rate Structure for Public Enterprises: A Study of Electricity Pricing in Tamil Nadu University of Madras 1984 (mimeographed).

1982 and 1984. With effect from 15th September 1984, small farmers in Tamil Nadu are supplied power altogether free while the tariff for large farmers has been further reduced to 11.49 p per unit. During 1979-84 when costs sharply escalated, the government have thus pursued a perverse policy of reducing agricultural tariffs. The extent of the loss due to the differential between the cost in supplying a unit of electricity at the pumpset and the sales realisation is very significant in absolute magnitude and in relation to the overall losses of the EB. Table 22 indicates that such losses have averaged at Rs. 150 crores annually during 1980-85 and have more than doubled over the period.

13. The table will also show that per electrified pumpset the average annual loss during 1980-85 works to Rs. 1537. A pumpset in Tamil Nadu irrigated about one hectare of land which means that per crop-acre (assuming 3 crops in a year), the loss is as high as Rs. 205. Although this loss cannot entirely be viewed as a subsidy to agriculture, because it also reflects in part avoidable costs in supply, it is clear that a substantial subsidy is involved.[1/]

14. The agricultural power tariff subsidy has many ramifications. It is a major drain on the TNEB's finances and on the exchequer. It necessitates continuing tariff increases to non-agricultural consumers. It is regressive because it mainly benefits large farmers. It is large farmers who own most of the pumpsets; account for a substantial part of agricultural consumption[2/]; and pumpset irrigation enables

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1/ A rough calculation shows that even if the TNEB were to achieve substantial economies by improving its thermal PLF to 60 per cent, reducing line losses to 15 per cent and its staff strength to the all-India average, the savings in 1984/85 might work out to about Rs. 55 crores or about 40 per cent of its economic loss in that year. In other words, about 60 per cent of the TNEB's losses could be broadly related to tariff subsidies.

2/ The EB statistics suggest that only about 15 to 20 per cent of agricultural consumption is accounted for by small farmers while according to data on land holdings small farmers are about 85 per cent in farm population.

them to achieve greater intensity of cropping, higher productivity per crop, and shift to more remunerative cropping patterns. Water from pumpsets is widely sold and bought in private transactions in Tamil Nadu; the implied price in such transactions has been estimated at 67.5 paise per unit (1982)1/. Similarly, when diesel pumpsets are used, the cost per unit would work out to nearly five times the power tariff.2/ Thus farmers' own perceived value of water is much higher than what they are charged by the EB. Another important aspect of the substantial under-pricing of power for pumpsets is that it discourages economy in lift irrigation in a State where, in many areas, there are unmistakable indications that groundwater is being over-exploited leading to a rapid lowering of the water table.

Public Sector Corporations3/

15. While reviewing the sources of non-tax revenue, we noted that the contribution from profits and dividends of public enterprises was negligible. In this context, it is relevant to examine the financial performance of the State Public Sector Corporations (PSCs). There were, at the end of 1983/84, as many as 62 PSCs in Tamil Nadu engaged in production, trade and services in a wide variety of sectors: industry, transport, food distribution, agriculture and allied sectors, welfare activities.4/ The total paid-up share

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1/ See S.Guhan and Joan P.Mencher 'Iruvelpattu Revisited' in Economic and Political Weekly, Bombay, June 4 and 11, 1983.

2/ The average per hour cost in pumpset irrigation of operating an electric motor (1981-84) has been estimated at 62 paise compared with Rs.3.2 for an oil engine. U.Sankar and R.Hema op.cit.

3/ The data source for this section is the 28th Report of the Committee on Public Undertakings of the Tamil Nadu Legislative Assembly (1985-86), April 1986. The Government publish an annual 'Review of Public Enterprises in Tamil Nadu' but this publication comes out with a long time lag.

4/ Appendix IV contains the full list of the PSCs in Tamil Nadu in 1983/84.

capital of these PSCs (as on 31 March 1984) was Rs. 250 crores to which the government had contributed Rs. 212 crores. In addition, the government had advanced loans and ways and means advances for Rs. 114 crores and had guaranteed borrowings from other sources for Rs. 183 crores. Altogether, therefore, the financial exposure of the State in the PSCs comes to Rs.509 crores by way of share capital, loans and guarantees. The sector-wise break-up in Table 23 will indicate that 90 per cent of government's financial exposure is in the PSCs engaged in the industrial, transport and civil supplies sectors.

16. The financial performance of the PSCs during 1981-84 is reviewed in Table 24. Of the 62 PSCs, 3 were non-operative in this period; 27 PSCs showed average annual total net profits after depreciation, interest and taxes of Rs. 10.42 crores amounting to 6.5 per cent of their paid-up capital; the remaining 32 PSCs incurred a total average annual net loss of Rs. 21.65 crores. The overall position was therefore a net loss of Rs. 11.23 crores. Forty of the 62 PSCs had accumulated losses over time and their total cumulative loss by end 1983/84 came to Rs. 112.67 crores. With reference to a norm of a 10 per cent return on paid-up capital, the economic loss in the PSCs worked to an average annual figure of Rs. 36 crores during 1981-84. Against this overall picture of the PSC's financial performance, which is a bleak one, the sector-wise analysis in the following paragraphs might shed some further light.

17. The 21 PSCs in the industrial sector are broadly engaged in either promotional or direct manufacturing activities. In the first category, we have TIIC for industrial financing, TIDCO which is concerned with promoting companies in the joint sector, SIPCOT for infrastructure development, and SIDCO which is involved in assisting small scale industries. Direct manufacturing activities cover a wide range:

bricks, cement, ceramics, electronics, engineering goods, handicrafts, leather, magnesite, minerals, mopeds, salt, sugar, textiles and zari. Three PSCs, viz., the Tamil Nadu Small Industries Corporation (TANSI), Southern Structurals (a taken-over sick unit from the private sector) and the Tamil Nadu Cement Corporation have been responsible for the bulk of the accumulated and current losses in this sector.

18. Nationalisation of public transport began with the bus services in Madras City in 1947 and has been considerably extended since 1970. At present, over 60 per cent of the bus fleet in the State is in the public sector. The 21 PSCs in the transport sector fall into three main groups: 12 regular transport corporations engaged in operating bus services; 5 transport engineering corporations which are ancillary to them; with other corporations in the sector being involved in shipping, goods transport, transport finance and construction. Efficiency indicators (such as unit values of fuel consumption, maintenance costs and staff levels) and financial performance differ widely among the bus transport corporations.[1] The bulk of the current and accumulated losses (70 to 75 per cent) in the transport sector are accounted for by the Pallavan (Metro) Transport Corporation which operates in Madras.

19. The Civil Supplies Corporation (TNCSC) is a trading corporation engaged in the procurement and public distribution of foodgrains and other essential edible commodites. A reference to Table 23 will show that government financial exposure

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1/ U. Sankar and R. Hema <u>Profitability of State Level Public Enterprises: A Case Study of Tamil Nadu Transport Corporations</u> 1986 (mimeographed).

in the TNCSC is more than one-third of that in all PSCs. The accumulated loss in the TNCSC at end 1983/84 was about Rs.8 crores. The loss does not take into account substantial direct subsidies for food distribution programmes which the TNCSC receives from the State government such as the subsidy for the Chief Minister's Noon-Meal Scheme which is currently of the order of Rs.90 crores per annum. In terms of foodgrain issues, the public distribution system is heavily concentrated in urban centres; the subsidy accordingly mainly benefits urban consumers.

20. There are 9 PSCs in agriculture and allied sectors such as agro-industries, fisheries, forest plantations, meat, poultry, state farms, sugarcane, tea plantation and tube-wells. All of them have either contributed to current losses during 1981-84 or have accumulated losses to their (dis) credit. Ten other PSCs include a set of PSCs engaged in welfare activities (e.g. housing for Adi-dravidars, police housing, women's development, Dharmapuri development) with the rest being engaged in diverse activities such as tourism, financing of theatres, warehousing, and promotion of overseas employment.

21. In principle, PSCs are eligible for borrowing from commercial banks while bank lending is not available for the departmental operations of government. Most of the PSCs in Tamil Nadu were established in the 1970s with the principal motivation of enlarging investible resources available to government by tapping funds from nationalised banks. This objective has been realised in some measure particularly in the case of the industrial PSCs but on the whole, as Table 23 will indicate, the PSCs have continued to depend to a very large extent on government loans. A second motivation was to provide greater autonomy and professional management to enterprises by insulating them from normal government structures. The expenditures of PSCs, for instance,

are not constrained by the detailed financial procedures to which direct government expenditures are subject. Also, PSCs have considerable freedom in recruiting personnel; they do not have to route it through the Public Service Commission. Freedom and flexibility in these matters have had their costs in reducing accountability and in inducing extravagance and waste in financial and personnel policies.

22. Overstaffing and poor management (in finance, production or marketing) have emerged as generic problems among PSCs. In addition, there have been a number of specific reasons for poor financial performance such as inconsistent co-existent objectives (promotional, commercial, welfare), deliberate under-pricing (e.g., subsidies for consumers and producers of foodgrains, for urban bus users, for buyers or mechanised boats etc.), the legacy of old and obsolete equipment (e.g. TANSI, Southern Structurals) and strong competition from the private sector in areas in which there is no prima facie rationale or comparative advantage for a public presence (e.g. bricks, ceramics, electronics, mopeds, etc.). Social objectives have not been explicitly articulated and no attempt has been made to quantify permissible losses on their account. In these circumstances, genuine social objectives have got mixed up with, and have often lent cover to, politicisation, mismanagement and job-creation in enterprises. On the whole, PSCs have had no surpluses to contribute to the exchequer while being a drain on it for share capital, loans and subsidies.

Subsidies in Irrigation[1]

23. Irrigation has been traditionally an important sector for public investment. Considerable outlays have been incurred

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1/ For a more detailed discussion of investment and returns in irrigation in Tamil Nadu, are S.Guhan Irrigation in Tamilnadu: A Survey Working Paper No.49, June 1984, Madras Institute of Development Studies, Madras.

by the government on surface irrigation works such as dams and canals and in the generation and distribution of electricity for pumpsets. The maintenance of these facilities entail recurring financial burdens for the exchequer. Access to irrigation benefits farmers in many ways. It enables the extension and intensification of cropping, crop productivity increases, and the cultivation of higher-value crops not only through water-use but the application of high-yielding seeds and fertilizers which go along with the availability of irrigation. In these circumstances, it is equitable that an appropriate proportion of additional private incomes generated by irrigation should be captured for the State so as to yield a return on the public investment incurred in providing it after meeting the costs of operation and maintenance.1/

24. Public irrigation works in Tamil Nadu are classified in two categories: (a) "Commercial" works, mainly canal irrigation works, where water charges are expected to yield an interest on investment after covering maintenance expenses and (b) non-commercial works, mainly tank and minor works, where no interest is expected. Historically, the former were viewed as 'productive works' while the latter were treated as "protective works". In the older commercial projects and under tank irrigation, water charges are collected as part of a consolidated wet assessment on land revenue while

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1/ The Irrigation Commission 1972 (vide pp. 264-265, Volume I of Report) and the National Commission on Agriculture 1976 (vide p. 65 Part V of Report) had both expressed themselves against irrigation being subsidised. Referring to the view that "irrigation projects should be undertaken not so much for the purpose of earning revenue but as a measure of social welfare" the Irrigation Commission felt that it was "highly inequitable" to call upon the general tax payer to pay for the benefits accruing to a section of the cultivators from irrigation.

specific water rates are charged in the case of newer projects and where water is supplied to land classified as "dry" (punjai). In 1955, legislation was passed for the levy of better ment charges on landowners who benefit from new projects but the yield from this source has been negligible.

25. Table 25 gives the financial results from irrigation during 1976-81 for commercial and non-commercial projects. The entire receipts from the irrigation component of land revenue, water rates and betterment levies in canal irrigation add up to only about 50 per cent of the actual maintenance expenses. Receipts in non-commercial irrigation cover only about one fourth of actual maintenance expenses. The aggregate subsidy in canal irrigation amounts to about Rs. 15 crores annually or to Rs. 69.5 per net acre while the total subsidy in tank irrigation is of the order of Rs. 2.5 crores per annum and works out per net acre to Rs. 12.5. It is important to note that actual maintenance expenses on both canal and tank systems are themselves far short of requirements for their proper up keep. If allowance is made for this, the subsidy would be significantly larger.

26. Indirect subsidies in irrigation, including the power tariff subsidy for agriculture, are thus very significant. In all they add up to the order of Rs. 200 crores per annum. The subsidy per acre is substantially higher for pumpset-using farmers with access to a more assured form of irrigation than for farmers who depend on canal irrigation, with the per acre subsidy for the latter in turn being distinctly higher than for farmers dependent on rain-fed tanks. Nor does the subsidy distinguish between large and small farmers, crops according to their value, or developed vs. backward areas. The subsidy structure in irrigation, besides being large in quantum, thus contains several regressive features.

Cost Recovery in other Major Sectors

27. While we have discussed under-pricing or hidden subsidies in power and irrigation in some detail, the issue of whether and to what extent government should seek to recover the costs of the public provision of various goods and services is a general one. Most of the "general services" provided by government such as police, administration of justice, fire services and so on are related to the basic and minimal role of the state in regard to maintaining law and order and enforcing contracts. In so far as it may not be appropriate or feasible to expect beneficiaries to bear the costs involved in such services, these costs have to be borne by the "general tax-payer". There are a whole host of other fields such as social services (e.g. education, health and medical facilities, water supply and sanitation, welfare of scheduled castes and backward classes) and economic services (e.g. agriculture and allied activities, industry, transport) in which government has chosen to play a major role as a matter of policy. The specific role of the state in each of these sectors, the extent to which services provided by government should be subsidised, and the target groups on which subsidies should be concentrated are all basic issues of policy on which there can be much debate.

28. Table 26 indicates the extent of cost-recovery in different categories of services provided in Tamil Nadu by the government in 1983/84. The overall extent of cost recovery is about 9 per cent. In all, the difference between current outlays and non-tax revenues relatable to them was of the order of Rs. 1335 crores in 1983-84. Leaving out general services, the major sectors which contributed to un-recovered costs were education (Rs. 367 crores or 28 per cent of unrecovered costs), medical and health (Rs. 256 crores or 19 per cent)

agriculture and allied activities (Rs. 227 crores or 17 per cent) and social welfare (Rs. 115 crores or 9 per cent).

29. Some illustrations will help to show that wide and general subsidies of this kind are likely to benefit the non-poor as much as, if not more than, the poor. Education in Tamil Nadu is free for every one up to the higher secondary school level and is substantially subsidiesed at higher levels. The analysis in Table 27 will indicate that the per-unit subsidy in pre-university and higher stages of education is 22.5 times that in primary education and the per-unit subsidy in secondary education was 2.5 times that at the primary level. This will illustrate that although a high proportion of the State's expenditures in this sector are incurred on primary education, it is the better-off, who are able to participate in higher educational levels, that are individually benefited most. In medical education, the receipts (Rs. 0.59 crores in 1983-84) were about 6 per cent of the outlay (Rs. 9.33 crores) and the per student subsidy in a medical college works out to about Rs. 50,000. In agriculture, input subsidies for seeds and pesticides and those related to the promotion of commercial crops are of the order of Rs. 15 crores per annum. They substantially benefit more affluent farmers who utilise inputs and services to a relatively large extent. Also indirect subsidies are complemented and supplemented by other subsidies which form a part of the government's direct expenditures. These are discussed in the course of the next Section.

Table 17: Proportions of Tax and non-Tax Revenues in Total Own Revenues 1980-85

(per cent in Total Revenue)

	Tax Revenue	Non-tax Revenue
1. Andhra Pradesh	73.0	27.0
2. Assam	48.4	51.6
3. Bihar	68.7	31.3
4. Gujarat	75.8	24.2
5. Haryana	68.5	31.5
6. Karnataka	71.7	28.3
7. Kerala	75.3	24.7
8. Madhya Pradesh	57.2	42.8
9. Maharashtra	72.5	27.5
10. Orissa	60.7	39.3
11. Punjab	77.8	22.2
12. Rajasthan	61.6	38.4
13. Tamil Nadu	84.4	15.6
14. Uttar Pradesh	72.6	27.4
15. West Bengal	81.3	18.7
All major States	72.3	27.7

Data Source: RBI Annual Surveys of State Finances.

Table 18: Structure of Non-tax Revenues in Tamil Nadu 1980-85

Source	Annual Average in 1980-85 (Rs. crores)	Per cent to Total
1. Interest Receipts	66.58	37.0
2. Dividends from enterprises	1.37	0.8
3. Receipts from General services	23.06	12.8
4. Receipts from Social & Community Services	24.96	13.9
5. Receipts from Economic services of which	63.88	35.5
(i) Agricultural Receipt	23.11	12.8
(ii) Forest receipts	18.83	10.5
Total	179.85	100.0

Source: Budget documents of the Government of Tamil Nadu

Table 19 : Financial Performance of the TNEB : 1958-85
(Rs.crores)

Year	Gross Revenue	Operating Expenditure	Operating surplus	Surplus after Interest payments and depreciation provision	Subsidy from Government
1958/59	12.07	6.82	5.25	0.36	-
1959/60	12.73	5.00	7.73	0.43	-
1960/61	15.82	5.91	9.91	1.52	-
1961/62	17.98	6.25	11.73	1.57	-
1962/63	20.19	8.51	11.68	1.69	-
1963/64	23.80	12.37	10.93	0.73	-
1964/65	28.87	14.57	14.30	1.81	-
1965/66	34.67	19.83	14.84	1.00	-
1966/67	40.30	22.56	17.74	1.16	-
1967/68	44.62	22.63	21.99	1.30	-
1968/69	50.22	25.87	24.35	1.86	-
1969/70	55.43	31.19	24.24	1.46	-
1970/71	61.03	39.10	21.93	-7.99	9.50
1971/72	68.90	44.68	24.22	-7.60	10.00
1972/73	79.73	54.84	24.89	-9.74	14.01
1973/74	91.51	69.29	22.22	-16.41	22.77
1974/75	134.52	94.77	39.75	-1.92	10.00
1975/76	163.39	116.00	47.39	+5.68	5.32
1976/77	187.02	162.76	24.26	-20.60	31.40
1977/78	201.45	165.14	36.31	-13.66	21.69
1978/79	229.83	194.84	34.99	-20.45	26.41

...contd....

Table 19......

Year	Gross Revenue	Operating Expenditure	Operating Surplus	Surplus after Interest payments and depreciation provision	Subsidy from Government
1979/80	254.23	213.64	+40.59	-20.95	29.96
1980/81	265.91	291.96	-26.05	-109.21	113.62
1981/82	283.67	363.32	-79.65	-176.38	177.56
1982/83	327.56	425.97	-98.41	-210.95	216.28
1983/84	371.84	472.46	-100.62	-213.44	213.44
1984/85	558.42	561.33	-2.91	-137.87	146.58 1/

1/ Includes subsidy due.

<u>Source:</u> Annual Accounts of the Tamil Nadu Electricity Board(various issues)

Table 20: Return on Capital investment in TNEB: 1970-85

Year	Net income (Surplus after Depreciation) (Rs.crores)	Average Net capital (Rs.crores)	Net income to Net capital (per cent)	Economic Loss (Rs.crores)
1970/71	11.75	251.09	4.68	13.36
1971/72	12.64	290.99	4.34	16.46
1972/73	11.41	324.38	3.52	21.03
1973/74	6.99	350.85	1.99	28.10
1974/75	23.11	366.70	6.30	13.56
1975/76	29.85	384.13	7.77	8.56
1976/77	5.17	401.44	1.29	34.97
1977/78	16.56	410.95	4.03	24.54
1978/79	14.19	441.00	3.22	29.91
1979/80	17.05	519.47	3.28	34.90
1980/81	-54.42	619.40	-8.79	116.32
1981/82	-111.34	682.21	-16.32	179.56
1982/83	-132.29	768.88	-17.21	209.18
1983/84	-139.20	842.12	-16.53	223.41
1984/85	-42.78	900.61	-4.75	132.84

Data Source: Annual Accounts of the Tamil Nadu Electricity Board (various issues).

Table 21: Costs, Tariffs and Sales Realisation in 1984/85

Consumer Category	Cost of generation & distribution	Tariff	Sales realisation[1]
	(paise per kwh)	(paise per kwh)	(paise per kwh)
1. Domestic	87.49	55	77.44
2. Commercial	87.49	110	123.92
3. Industry: Low tension	87.49	80.85	59.69
4. Industry: High tension	50.35	75.89	
5. Agriculture:			
Small Farmers	87.49	Nil	10.50
Other Farmers		11.49[2]	
All Consumers	64.27		48.02

1/ Includes arrears, penalties etc.
2/ Includes meter rent element.

Source: TNEB: Annual Accounts for 1984/85 and Statistics at a Glance 1984/85.

Table 22: Impact of the Agricultural Power Tariff: 1980-85

Year	Agricultural consumption (million units)	Cost of supply to agriculture (paise)	Total cost of supply to agriculture (Rs.crores)	Sales realisation from agricultural consumers (Rs.crores)	Difference between cost and realisation (Rs.crores)	No of electrified pump sets (lakh nos.)	Shortfall in realisation per pumpset (Rs.)
1980/81	2299	59.23	136.17	39.60	96.57	9.19	1051
1981/82	2354	67.40	158.66	32.78	125.88	9.46	1331
1982/83	2230	79.74	177.82	35.67	142.15	9.65	1473
1983/84	2200	92.05	202.51	32.06	170.45	9.83	1734
1984/85	2816	87.49	246.37	29.56	216.81	10.34	2097
1980/85 Annual Average					150.37		1537

<u>Source</u>: TNEB Statistics at a Glance 1984/85 and Annual Accounts and Tamil Nadu Economic Appraisal.

Table 23: Governments' Financial Involvement in PSCs: As on 31st March 1984

Sector	No.of PSCs	Total paid-up capital (Rs.crores)	Govt.share capital (Rs.crores)	Govt. loans (Rs.crores)	Govt.share capital & loans (Rs.crores)	Govt. guarantees (Rs.crores)	Total Govt. financial exposure
1.Industry	21	154.16	122.90 (57.9)	22.66	145.66 (44.7)	67.30	212.82 (41.8)
2.Transport	21	41.60	39.92 (18.8)	30.28	70.20 (21.5)	0.03	70.23 (13.8)
3.Agriculture & Allied	9	13.25	10.74 (5.1)	5.91	16.65 (5.1)	9.85	26.50 (5.2)
4.Civil Supplies	1	19.90	19.90 (9.4)	52.38	72.28 (22.2)	104.43	176.71 (34.7)
5.Other Commercial	6	9.83	7.43 (3.5)	1.40	8.83 (2.7)	-	8.83 (1.7)
6.Welfare	4	11.27	11.27 (5.3)	1.19	12.46 (3.8)	1.39	13.85 (2.8)
All	62	250.01	212.16 (100.0)	113.82	325.98 (100.0)	183.00	508.98 (100.0)

Note: Figures in parentheses are percentage to column totals.

Source: Data processed from 28th Report of the Committee on Public Undertakings of the Tamil Nadu Legislative Assembly (1985-86), April 1986.

Table 24: Financial Results of PSCs in Tamil Nadu: 1981-84

Sector	No.of PSCs	Average Annual net profit during 1981-84	Average Annual net loss during 1981-84	Average Annual total net profit or loss during 1981-1984	Economic Loss during 1981-1984	Accumulated Loss as on 31.3.1984	Paid-up capital
	(No)	(Rs.crores)	(Rs.crores)	(Rs.crores)	(Rs.crores)	(Rs.crores)	(Rs.crores)
1.Industry	21	7.61 (12)	-4.26 (8)	+3.35	11.96	35.43 (12)	154.16
2.Transport	21	1.52 (12)	-11.93 (8)	-10.41	14.59	56.82 (11)	41.60
3.Agriculture & Allied	9	0.39 (1)	-2.87 (8)	-2.48	3.81	10.02	13.25
4.Civil Supplies	1	-	-1.13 (1)	-1.13	3.12	7.66 (1)	19.90
5.Other Commercial	6	0.90 (2)	-0.95 (4)	-0.05	1.14	1.21 (4)	9.83
6.Welfare	4	-	0.51 (3)	-0.51	1.64	1.53 (2)	11.27
All	62	10.42 (27)	-21.65 (32)	-11.23	36.26	112.67 (40)	250.01

Note: Figures in parentheses indicate number of PSCs making profit or loss or with accumulated losses.

Source: Data processed from 28th Report of the Committee on Public Undertakings of the Tamil Nadu Legislative Assembly (1985-86), April 1986.

Table 25: Receipts and Expenditure in Surface Irrigation 1976-81

Receipts	1976-81 Annual Average (Rs.crores)	Expenditure	1976-81 Annual Average (Rs.crores)
A. Commercial		A. Commercial	
1. Irrigation component in land Revenue	1.95	1. Maintenance	5.88
2. Water charges	0.49	2. Interest	12.05
3. Betterment levy	0.03		
4. Other Receipts	0.44		
Total	2.91	Total	17.93
B. Non-Commercial		B. Non-Commercial	
1. Irrigation component in land Revenue	0.77	1. Maintenance	3.41
2. Other Receipts	0.11		
Total	0.88	Total	3.41
C. Total of Commercial and Non-Commercial	3.79	C. Total of Commercial and Non-Commercial	21.34

Data Source: Tamil Nadu Government Budget Documents.

Table 26: Cost Recovery in Services provided by Government 1983-84

	Revenue Expenditure (Rs.crores)	Non-tax Revenue (Rs.crores)	Unrecovered cost (Rs.crores)	Percentage of cost recovery
I. General Services	225.24	20.63	204.61	9.16
II. Social Services	795.97	30.53	765.44	3.84
1. Education	375.48	8.05	367.43	2.14
2. Medical	126.71	7.52	119.19	5.93
3. Public Health, Water supply & Sanitation	138.31	1.85	136.46	1.34
4. Housing	4.08	1.89	2.19	46.32
5. Social Welfare	120.12	4.79	115.33	3.99
6. Other social services	31.27	6.43	24.84	20.56
III. Economic Services	450.16	85.30	364.86	18.95
1. Agriculture & Allied	289.44	62.76	226.68	21.68
2. Industries	44.11	8.53	35.58	19.34
3. Other economic services	116.61	14.01	102.60	12.01
Total	1471.37	136.46	1334.91	9.27

Source: Tamil Nadu Government Budget Documents

Table 27: Per unit subsidies at different educational levels 1983/84

Level of Education	Total outlay (Rs.crores)	Non-tax revenues (Rs.crores)	Enrolment (lakhs)	Outlay per student (Rs.)	Recovery per student (Rs.)	Subsidy per student (Rs.)
1.Primary education	178.71	0.18	122.45	146	0.15	145.85
2.Secondary education	101.41	4.01	26.42	384	15.18	368.82
3.Pre-University & Higher education	63.40	1.67	1.88	3372	88.83	3283.17

Data Sources: Tamil Nadu Budget Documents and Tamil Nadu Economic Appraisal.

VI: The Pattern of Expenditure and the Plan

Structure and Growth of Outlays

The outlays of government are grouped into three categories in the Economic Classification: (a) current expenditures on wages and salaries of employees, purchases of goods and services, and transfer payments which include interest payments, grants and subsidies (b) capital expenditures which include net capital formation as well as renewals and replacements and (c) loans which may be for capital formation or for working capital or consumption. The gross outlay comprises of all these categories of expenditures. Net outlay is gross outlay minus receipts from repayments of loans advanced by government.

2. Annex Table 3 gives the annual time-series for outlays of the Tamil Nadu government during 1960-1985 and Table 28 summarises the information for quinquennial sub-periods. A comparison of Table 1 with Table 28 will show that total receipts equal net final outlays; as such, the growth of net outlays has been of the same order as that of receipts which has already been reviewed in Table 2.

Consumption and Capital Outlays

3. The first broad distinction that needs to be made is between outlays related to current consumption (including transfer payments) and those devoted to capital formation. In terms of the categories of the Economic classification, "consumption outlays" could be taken to consist of current expenditures and loans for consumption while "outlays on capital formation" would include capital expenditures and loans for capital formation. The ability to finance capital formation depends on the availability of current savings (i.e., the excess of current revenues over consumption outlays)

and of capital resources of various kinds (viz., capital receipts, net borrowings, repayments of loans and drawals from accumulated cash balances). While they determine the availability of funds, the priority given to investment and the availability of projects determine the demand and absorptive capacity for capital formation. The pattern of financing of capital formation is discussed at the end of the next section; at this stage, we will merely draw attention to the relative priority it has received in total outlays. Table 29 will show that outlays on capital formation were of the order of 32 to 34 per cent of total outlays in 1960-65 and 1965-70. In 1970-75, they sharply declined to about 25 per cent. The proportion has again increased to 32 to 33 per cent during 1975-85. Thus for most of our period, consumption outlays have been about two-thirds of total outlays and in the early 1970s they were as high as three-fourths. Adjusted for prices, the proportion of outlays on capital formation in total outlays has noticeably declined from 35 per cent in the 1960s to about 26 per cent in the 1970s. In the subsequent paragraphs we shall discuss the nature of consumption outlays and their relative growth.

Sectoral Pattern of Expenditure

4. The Functional-cum-Economic Classification of the Tamil Nadu budget is available from 1975 and can be used to obtain an idea of the relative expenditure priorities of the government during 1975-85. Table 30 will show that about 20 per cent of outlays was on general services such as general administration, police, courts etc. with the balance being about equally divided between social and economic activities. Three other major sectors, which together absorbed about 46 per cent of total outlay, were education (17.8 per cent), agriculture and allied activities (16.8 per cent) and medical, health and water supply (11.1 per cent).

The allocation for water and power development was only 9 per cent of total outlay. About 50 per cent of current expenditure were on social services with education accounting for 28 per cent. In capital expenditures, agriculture and allied activities accounted for the major share.

5. The level and broad structure of outlays in Tamil Nadu during 1980-85 is compared with the position in other major States in Table 31. Per capita total expenditure per annum in Tamil Nadu at Rs.433 in this period was higher than the all major States average of Rs.389. The revenue component of overall expenditure in Tamil Nadu (75.4 per cent) was close to the average (75.5); in relative terms, direct capital expenditure (7.1 per cent in Tamil Nadu), which is an indication mainly of outlays on irrigation, was distinctly lower than the average (13.7 per cent); on the other hand, the proportion of loans (17.5 per cent in Tamil Nadu) was significantly higher than the average (10.8 per cent). The table also compares the proportions of outlays on water and power development, financed as capital expenditure or through loans, to the total outlay on capital and loans in Tamil Nadu and other major States. This ratio was 37.3 per cent in Tamil Nadu, much lower than the all major States average of 51.9 per cent indicating once again relative under-investment on irrigation and power in Tamil Nadu.

Establishment Costs

6. The Economic Classification permits some further analysis of the nature of the government's current expenditures. Compensation to employees in the form of wages, salaries and pensions is the single most important component of current outlays. It accounted for about 33 per cent of all current outlays in the 1960s. The proportion has increased to about 43 per cent during 1975-85. This is an underestimate

since a substantial proportion of government grants (which accounted for about 23 per cent of current outlays in 1980-85) is also ultimately spent on wages and salaries by local bodies and aided educational institutions who are the major grantees. The proportion of wages and salaries in current expenditures is therefore likely to be close to 60 per cent.

7. The substantial outlay on employees' compensation (more than Rs.500 crores per annum in 1980-85) and its rising and high proportion in current outlays tends to reduce the availability of funds for other high priority items in current outlays such as maintenance of irrigation works, roads, water supply and buildings and for essential consumables (e.g. supply of drugs in hospitals and primary health centres). It also raises issues relating to the growth of bureaucracy, levels of salaries in Tamil Nadu, and the quantum of staff in the public sector in Tamil Nadu vis-a-vis other major States. Table 32 gives an idea of the growth in employment under government, quasi-government bodies and local bodies in Tamil Nadu during 1970-85 and compares it with growth in employment in the organised private sector in the same period. It will show that employment in the public sector has grown by about 77 per cent in this period as compared to a very small increase of 9 per cent in the private sector. The latter is probably an underestimate due to changes in classification and inadequate coverage; nevertheless in regard to employment in the organised sector, it is the public services which would appear to have taken on the major responsibility to provide jobs. Within the public sector, employment under the government has significantly increased in 1980-85. The rate of growth in employment under quasi-government PSCs and statutory bodies has been the fastest and at twice the rate of increase in government employment. Growth in the staff of local bodies has been sluggish and the numbers have declined in absolute terms in 1980-85 on account of the provincialisation of teachers in Panchayat Unions.

8. Table 33 compares the number of government, quasi-government and local body employees per 1000 of population and per 100,000 square kms. of area, in Tamil Nadu with the corresponding position in other major States at the end of 1981/82. Under both criteria, Tamil Nadu stands out among the top 3 States (Kerala being another). While thus public employees are relatively large in numbers in Tamil Nadu, emoluments for the numerically important categories are lower than the all-States average as Table 34 will indicate. In other words, it is overall numbers rather than (relatively) excessive emoluments that accounts for the large outlay on employees' compensation in the State.

Direct Subsidies

9. In the earlier section on non-tax revenues we have drawn attention to major indirect subsidies to be found in the areas of interest receipts, irrigation, public enterprises, and to the lack of adequate cost recovery in social and economic services. In addition, direct subsidies on the expenditure side are an important element of current expenditures. A reference to Table 28 will indicate that from a small base in 1960-65, subsidies have been the fastest growing element in current outlays during 1960-85. In particular, there has been a phenomenal increase during 1980-85 in direct subsidies (to Rs. 388 crores) compared to the immediately preceding quinquennium of 1975-80 (Rs. 54 crores). Table 35 analyses the levels and pattern of direct subsidies in this period. It will show that direct subsidies are significant in economic services particularly in cooperation (write-off of loan arrears), industry (for investment in backward areas, handloom and khadi sales rebates), food distribution (mainly arising from the Chief Minister's Noon-meal Scheme), agriculture and community development (mainly those related to the Integrated Rural Development Programme (IRDP)). The bulk of

the subsidies under social services relate to expenditures on the welfare of scheduled castes and tribes. Under general services, the major subsidy arises from the distribution of subsidised foodgrains to policemen. Direct subsidies thus cover a wide and diverse range benefiting farmers, industrialists, consumers of handlooms and khadi, school children, policemen, scheduled castes and tribes, and the rural poor. We discuss certain general issues related to subsidies in the concluding section of the paper.

10. The Chief Minister's Noon-Meal Scheme (CMNS) merits separate discussion in view of its significant financial implication. The CMNS which is being implemented since 1982 involves the provision of a noon-meal to about 70 lakh children in the age group 2 to 15. Old-age pensioners are also covered under the scheme. It is perhaps the largest State-sponsored feeding programme in the world. Impressive as the scheme is, some criticisms of it would appear to be in order. At the budgeted level of Rs. 169 crores in 1986/87, the CMNS absorbs a very high proportion of funds: it is 14 per cent of plan outlay, more than 40 per cent of the plan outlay for power, and equal to the combined plan expenditures on irrigation, industries, transport and communication. The opportunity cost of this single scheme is thus very high; in other words, it absorbs a very significant volume of resources which might have been otherwise available for expenditures on welfare and investment of equal or higher priority. Secondly, as a nutritional intervention, it is both expensive and spread too thinly; carefully targetted concentration on children under age 3, who are the most vulnerable to under-nutrition, would be a more cost-effective approach.[1/] Thirdly, children

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1/ This is the approach in the Tamil Nadu Integrated Nutrition Project which is being implemented with World Bank assistance.

from the poorest families who have not enrolled in, or dropped-out of, schools do not benefit. Fourthly, there is much scope for leakages in a dispersed scheme of this kind which involves the preparation and distribution of meals through about 60,000 outlets in the State every day of the year.

Rural bias?[1]

11. One question that comes up is whether government's fiscal operations reveal an "urban bias" or a "rural bias". Only an indicative answer can be attempted because it is impossible to decompose the ultimate impact of the revenue-expenditure streams into rural and urban components. Estimates, let alone firm data, are not available on the final incidence, rural-urban wise, of taxes or subsidies or benefits from government expenditures. Our review would however suggest that the rural population taken as a whole probably bear a lesser net burden on a per capita basis than their urban counterpart from the combined effect of taxes and subsidies. The impact of government expenditures is less certain. Facilities for health, education and electricity are heavily concentrated in urban areas but outlays on agriculture and allied sectors, IRDP and rural employment programmes, and rural water supply offset the imbalance. In sum, there is no clear evidence of an urban bias. On the other hand, there could be, especially since the latter 1970s, a rural bias in fiscal operations with a bias towards the relatively rich in rural areas being an important element of it.

1/ The issue of urban (or rural) bias extends to many aspects and is not confined to fiscal operations. The debate on this question can be followed from M.Lipton Why Poor People Stay Poor: Urban Bias in World Development Temple Smith London, 1977, and John Harriss and Mick Moore (ed.) Development and the Rural-Urban Divide Frank Cass, London, 1984.

Plan Outlays in Tamil Nadu: Level

12. We have discussed at an earlier stage the relative proportion of capital outlays and its trend over time (vide paragraph 3 above). The five year plans provide a framework for the discussion of capital formation in the wider context of incremental development expenditures undertaken in successive plan periods. We shall first discuss the overall levels of plan outlay in Tamil Nadu and their financing pattern before proceeding to comment on inter-sectoral priorities and in particular on investments on irrigation and power which are the two basic sectors of capital formation at the State level.

13. Table 36 compares per capita plan outlays in Tamil Nadu with the average for the major States during successive Plan periods from the first to the Sixth Plan. Comparison is also made between the per capita Plan outlay in Tamil Nadu with the highest per capita Plan outlay for any major State in each Plan period. Leaving out the First Plan period (1951-56), Plan outlays in Tamil Nadu have been higher than the all-major States average during the Second, Third, and Annual Plan periods (1966-69); in this period, per capita Plan outlays in Tamil Nadu have been in the range of 65 to 78 per cent of the highest level in any State. However, Tamil Nadu's position vis-a-vis the average has deteriorated during the Fourth, Fifth and Sixth Plan periods (viz., in 1969-85). The worsening in comparison with the State with the highest per capita plan outlay has been much more significant; per capita Plan outlays in Tamil Nadu have declined in this period to 36 to 43 per cent of the highest level.1/

1/ The situation has however improved in the Seventh Plan (approved outlays). Per capita plan outlay for Tamil Nadu (Rs.1188) is 106.3 per cent of the average for major States (Rs.1118). It is still only 52.8 per cent of the highest per capita Plan outlay for any State (viz., Rs.2248 for Haryana).

Central Plan Assistance

14. The overall level of plan outlays is determined by the State's own resources for the Plan and the quantum of plan assistance from the Centre. The extent to which Tamil Nadu has benefited from Central assistance for the Plan is also examined in Table 36. It shows that Central plan assistance to Tamil Nadu since 1966-69 has been less than the average for the major States and that the shortfall from the average has widened in each of the subsequent plan periods. The reason for this lies in the fact that the "Gadgil formula" for determining Central Plan assistance to the States, which has been in force since 1968, is so structured that it has had an adverse impact on Tamil Nadu. The formula is weighted in favour of States with (a) hill areas and a large tribal populations (b) higher per capita tax revenues regardless of their per capita income level (c) per capita incomes below the national average and (d) States implementing externally-aided projects. On all these counts, Tamil Nadu has been prejudiced: it does not have extensive hill areas or an appreciable tribal population; the per capita tax revenue in Tamil Nadu although high in absolute terms is not as outstanding as her tax effort in terms of the ratio of tax revenue to NSDP;[1/] and, Tamil Nadu's per capita income has been somewhat above the national average in this period.

Plan and non-plan expenditures in Tamil Nadu

15. While lower per capita Plan assistance from the Centre is one of the reasons for Tamil Nadu having a relatively low per capita Plan, it does not appear to be the major reason. The major reason is that Tamil Nadu's own

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1/ Refer to paragraphs 3 and 4 in Section IV.

resources for the lan have been inadequate to sustain a higher level of Plan outlay because of the fact that non-plan expenditures have absorbed a relatively high proportion of its total expenditures. Table 37 brings this out. During the Fourth, Fifth and Sixth Plan periods, Gujarat, Haryana, Maharashtra and Punjab have consistently had substantially higher per capita Plan outlays than Tamil Nadu; and, the excess has been largely financed by higher contributions from their own resources to the Plan. The same is true in the Fifth Plan of Andhra Pradesh, Karnataka, Madhya Pradesh and W.Bengal who have been ahead of Tamil Nadu in per capita Plan outlay and of Madhya Pradesh and W.Bengal who rank above Tamil Nadu in the Sixth Plan.

16. The relatively high proportion of non-plan expenditures in Tamil Nadu is clearly indicated in Table 38 which shows the ratio of budgetary expenditures on the Plan to total expenditures in Tamil Nadu and other major States during the Sixth Plan period (1980-85). In this period, Tamil Nadu, along with Kerala and W.Bengal, was at the bottom of the list of major States in respect of the ratio of plan expenditures to total expenditures.

Current and Capital Outlays in the Plan

16. Tamil Nadu not only has a relatively low per capita Plan but, in recent years, has also chosen to incur a very high proportion of it on current outlays (or plan revenue expenditures) rather than on developmental capital investments financed directly or through loans. Table 39 will show that in 1980-85 the proportion of revenue expenditures in total budgetary plan outlay was 65 per cent in Tamil Nadu. This was significantly higher than the average of 43 per cent for all major States and the highest by a big margin vis-a-vis any other major State. The fact that Plans in Tamil Nadu have a large current expenditure component is related to the

features, we had noticed earlier, of a high proportion of non-plan to plan expenditures and relatively low per capita plan outlays. The expenditure on the continuation and maintenance of facilities (schools, medical and health facilities, scholarship, noon-meals and so on) created during a Plan period becomes a committed non-plan expenditure in the plan period that follows. Accordingly, the latter progressively increases in relation to the former, leaving lesser resources available for incremental Plan expenditures in the subsequent period. Further more, the policy of enlarging current outlays within limited overall levels of plan outlay results in a further reduction to resources available for investment.

18. This dynamics is revealed in Table 40 which gives the sectoral composition of Plan outlays from the First to the Sixth Plan. The bulk of current outlays are absorbed by agriculture and allied activities and social and community services. The relative allocation for agriculture and allied sectors has fluctuated around 20 per cent since the 1960s. The allocation for social and community services has increased from around 20 per cent in the 1950s and 1960s to about 25 per cent in the 1970s and significantly further to 33.5 per cent in 1980-85; social and community services have claimed the largest share for any sector in 1980-85. On the other hand, the share of irrigation and power, which absorbed 63 per cent of Plan outlays in the First Plan, declined to around 40 per cent in the 1960s and 1970s. During 1980-85, their share has dropped to about 30 per cent. The proportionate allocation for industry and minerals has been more or less stagnant since the Second Plan at around 6 to 7 per cent while the share of transport and communications has declined in 1980-85 to 7.5 per cent from a peak of 11.3 per cent in the previous plan period.

Irrigation

19. Table 40 will show that outlays on irrigation absorbed 25 per cent of total plan expenditures in the First Plan. The proportion rapidly declined to around 9 per cent between 1956 and 1966 (during the Second and Third Plans) and to 4 to 6 per cent since the mid 1960s. Declining investment in irrigation is to be largely explained by the fact that Tamil Nadu had utilised a very high proportion of its canal irrigation potential by about the mid 1950s. Since the Second Plan, the scope for bringing in new areas under canal irrigation has been quite limited and many subsequent investments have had to be on relatively marginal projects.[1/] Some modernisation projects (e.g., Periyar-Vaigai) have been initiated late 1970s but the major possibility in this category, viz., the modernisation of irrigation in the Cauvery basin, has been held up because of the inter-State dispute with Karnataka. On the other hand, neglect has been largely responsible for lack of sustained investments on upgrading the tank systems which still account for about 30 per cent of irrigation in the State.[2/]

Power

20. In the power sector, there has been under investment and a declining trend in investment since the mid 1960s. This has reflected itself in inadequate supply and recurring and serious power cuts which have affected industrial and agricultural production in the State. Table 40 will indicate that

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1/ See S.Guhan Irrigation in Tamil Nadu: A Survey Madras Institute of Development Studies Working Paper No.49 June 1984.

2/ See Madras Institute of Development Studies: Tank Irrigation in Tamilnadu: Some Macro and Micro Perspectives 1983.

the relative share for power development which peaked at 42 per cent in the Second Plan, was only 35 per cent in the Fifth Plan (1974-80) and declined further to 26 per cent in the Sixth (1980-85). The principal factors which have retarded power development are: inadequate financial resources to which the poor internal resource generation in the TNEB has been a contributory factor; the exhaustion of significant hydro-sources since about the mid 1960s; and inadequate advance planning and project preparation. Insufficient resources, among other factors, have also resulted in project delays and cost escalations. Inter-State river disputes have been another reason for delays in the completion of hydro-projects such as the Pandiar-Punnampuzha (100 MW) and Kadambarai (400 MW) schemes.

21. Table 41 sets out project starts and completions in the power sector during successive plan periods. It will show that a number of projects were initiated during the Second and Third Plan periods (mid 1950-mid 1960) for a total planned capacity addition of 1440 MW. The first three stages of the Kundah project (425 MW), Ennore Thermal Station (450 MW), Mettur thermal (200 MW), Parambikulam-Aliyar projects (100 MW) and Kodayar (100 MW) were the large generation schemes started in this period. There was a decline in planning for sizable additions to capacity between about the mid 1960s and the mid 1970s with some revival thereafter, reflected in the Tuticorin power project (630 MW in three stages) which has been completed and the Kadamparai (400 MW originally conceived in 1971) and Mettur thermal projects (210 MW) which were under implementation at the end of the Sixth Plan. With a time-lag, actual capacity addition reached a peak in the Fourth Plan and has declined thereafter. The Table also indicates the extent to which Central projects (Neyveli in 1961-74 and Kalpakkam in 1980-85) have contributed to power generation capacity in Tamil Nadu.

Overview

22. The review of expenditure priorities during 1960-85 indicates a clear shift in the latter part of the period to current outlays to the detriment of capital formation. Apart from an enlargement of social services and welfare programmes, the growth in the numbers of government employees, increases to their emoluments, and a quantum jump in subsidies mainly account for the growth in current outlays. Large and increasing allocations for current outlays have had the effect of reducing the plan size, relative to that in other comparable major States, and within it, the share available for investment. While the availability of funds for investment have been thus constrained, absorptive capacities have also been low because of reduced potential for canal irrigation and hydro-electric projects, inter-State disputes, and inadequate long-term planning and project preparation on the part of government in respect of thermal power and the modernisation of tank irrigation. The investment lag in irrigation has coincided with rapid growth of groundwater irrigation in the private sector based on public investment in rural electrification, cooperative credit and highly subsidied tariffs while the power situation has been eased to some extent by Central projects in Neyveli and Kalpakkam.

Table 28: Final net outlays: 1960-85

(Rs.crores)

Outlay	1960-65	1965-70	1970-75	1975-80	1980-85
I. Current Expenditures	498.90	899.74	1560.09	2523.16	5995.13
1. Compensation of Employees	166.31	297.90	570.49	1090.24	2550.88
2. Purchase of goods and services (net)	121.71	172.02	247.31	330.04	1224.98
3. Interest	42.01	93.60	139.45	201.91	457.10
4. Grants and other transfer payments	163.78	307.86	548.50	846.56	1374.64
5. Subsidies	5.09	28.36	54.34	54.41	387.53
II. Capital Expenditures	155.50	271.45	407.29	809.59	2120.10
1. Net Capital Formation	147.21	243.87	339.27	688.79	1824.68
2. Renewals and Replacements	2.77	24.96	62.18	114.29	295.17
3. Other capital transfers	5.52	2.62	5.84	6.51	0.25
III. Loans and Advances (net)	85.64	142.11	114.12	504.88	1204.29
1. For capital formations (gross)	111.95	172.41	146.84	564.74	1110.52
2. For current consumption (gross)	17.36	29.87	72.54	243.25	790.29
3. Repayments	-43.67	-60.17	-105.26	-303.11	-696.52
IV. Final Outlay (net)	740.04	1313.30	2081.50	3837.63	9319.52

Source: Annex Table 3.

Table 29: Outlays on consumption and capital formation (gross) 1960-80

(Rs. Crores)

	1960-65	1965-70	1970-75	1975-80	1980-85
A. Consumption Outlays 1/					
(i) In current prices	516 (65.8)	930 (67.7)	1633 (74.7)	2766 (66.8)	6785 (67.7)
(ii) In constant prices of 1970/71	742 (64.2)	1018 (65.9)	1434 (76.5)	1847 (72.8)	N.A.
B. Outlays on Capital Formation 2/					
(i) In current prices	268 (34.2)	444 (32.3)	554 (25.3)	1375 (33.2)	3231 (32.3)
(ii) In constant prices of 1970/71	414 (35.8)	527 (34.1)	440 (23.5)	689 (27.2)	N.A.
C. Total Gross Outlay					
(i) In current prices	784 (100.0)	1374 (100.0)	2187 (100.0)	4141 (100.0)	10016 (100.)
(ii) In constant prices of 1970/71	1156 (100.0)	1545 (100.0)	1874 (100.0)	2536 (100.0)	N.A.

1/ Current expenditures plus loans for consumption.
2/ Capital expenditure plus loans for capital formation.

Note: Figures in parentheses are percentages to respective column totals.

Source: Table 28 and deflators in Appendix II.

Table 30: Functional Classification of Outlays: 1975-85

Sector	Current outlays (Rs.crores)	Capital expenditures including loans (Rs.crores)	Total (Rs.crores)
1.0 General Services	2349.12 (27.6)	441.70[1/] (7.8)	2790.82 (19.7)
2.0 Social and Community Services	4217.74 (49.5)	1235.08 (21.9)	5452.82 (38.5)
2.1 Education	2355.03 (27.6)	127.50 (2.3)	2482.53 (17.5)
2.2 Medical,Health Water supply & Sanitation	985.54 (11.6)	587.31 (10.4)	1572.85 (11.1)
2.3 Housing and Urban development	37.26 (0.4)	304.50 (5.4)	341.76 (2.4)
2.4 Social Welfare	640.44 (7.5)	151.69 (2.7)	792.13 (5.6)
2.5 Others	199.47 (2.4)	64.08 (1.1)	263.55 (1.9)
3.0 Economic Services	1772.40 (20.8)	3925.96 (69.6)	5698.36 (40.3)
3.1 Agriculture & Allied	1148.99 (13.5)	1222.06 (21.7)	2371.05 (16.9)
3.2 Industry and Minerals	208.67 (2.4)	289.41 (5.1)	498.08 (3.5)
3.3 Water and Power Development	95.05 (1.1)	1182.12 (21.0)	1277.17 (9.0)
3.4 Transport & Communication	88.21 (1.1)	716.08 (12.7)	804.29 (5.7)
3.5 Others	231.48 (2.7)	516.29 (9.1)	747.77 (5.3)
4.0 Other purposes	179.03 (2.1)	35.75 (0.7)	214.78 (1.5)
Total	8518.29 (100.0)	5638.49 (100.0)	14156.78 (100.0)

1/Excluding repayment of debt.

Source: Economic classification of the Tamil Nadu Budget (various issues).

Table 31: Expenditures on Revenue, Capital and Loans: 1980-85

(Per cent)

State	Revenue	Capital	Loans	Proportion of outlays on water & power in capital and loans
1. Andhra Pradesh	80.4	14.8	4.8	54.9
2. Assam	73.8	14.7	11.5	46.3
3. Bihar	75.6	17.5	6.9	54.7
4. Gujarat	71.1	15.2	13.7	55.2
5. Haryana	71.2	16.1	12.7	59.8
6. Karnataka	76.0	12.9	11.1	54.4
7. Kerala	81.4	14.1	4.5	33.7
8. Madhya Pradesh	71.3	16.0	12.7	57.6
9. Maharashtra	77.4	13.2	9.4	57.3
10. Orissa	75.5	20.8	3.7	54.1
11. Punjab	70.3	9.1	20.6	63.8
12. Rajasthan	73.8	17.8	8.4	46.0
13. Tamil Nadu	75.4	7.1	17.5	37.3
14. Uttar Pradesh	72.8	14.8	12.4	53.8
15. West Bengal	82.6	7.0	10.4	34.4
All major States	75.5	13.7	10.8	51.9

Data Source: RBI Annual Surveys of State Finances (various issues).

Table 32: Growth of Employment in Public and Organised Private Sectors: 1970-85

(000s)

Year	State Govt.	Quasi Govt. bodies	Local Bodies	Total public sector	Organised private sector
(1)	(2)	(3)	(4)	(5)=(2) to (4)	(6)
1970	328.7 (100)	151.4 (100)	184.2 (100)	664.3 (100)	650.3 (100)
1975	364.7 (111)	241.9 (160)	194.3 (105)	800.9 (121)	651.3 (100)
1980	374.6 (114)	405.5 (268)	202.0 (110)	982.1 (148)	662.1 (102)
1985	533.8 (162)	488.8 (329)	153.2 (83)	1175.8 (177)	706.0 (109)

Source: Tamil Nadu Economic Appraisal (various issues)

Table 33: Public Employees[1/] State-wise: As on 31.3.1982

	Employees per 1000 of population	Employees per 100000 sq.km.
1. Andhra Pradesh	11.86	22.93
2. Assam	12.04	30.32
3. Bihar	10.05	40.37
4. Gujarat	15.63	27.18
5. Haryana	16.50	48.47
6. Karnataka	12.68	24.52
7. Kerala	17.12	111.76
8. Madhya Pradesh	11.24	13.24
9. Maharashtra	11.48	23.40
10. Orissa	13.87	23.45
11. Punjab	15.82	53.11
12. Rajasthan	13.40	13.42
13. Tamil Nadu	16.44	61.20
14. Uttar Pradesh	12.62	47.60
15. West Bengal	14.67	90.99
All major States	13.08	30.66

1/ Includes employees in government, quasi-govt. bodies, local bodies and aided institutions.

Data Source: Report of the Eight Finance Commission 1984 Annexure III - 12 p.187.

Table 34: Comparative total monthly emoluments 1/ of certain categories as on 1.4.82

Category	Emoluments in Tamil Nadu (Rs)	All States average (Rs)
1. Peon	344	416
2. Lower Division Clerk	481	562
3. Constable	385	484
4. Primary School Teacher	481	587
5. Trained Graduate Teacher	619	770

1/ At presumptive level of 440 for Consumer Price Index.

Source: Report of the Eighth Finance Commission 1984, Annexure III-13 p.188.

Table 35: Direct expenditures on subsidies in Tamil Nadu 1980-85

Sector	Subsidies in 1980-85 (Rs.crores)	Proportion of subsidies in current expenditure (per cent)
1.General Services	10.67	0.5
2.Social and Community Services	50.30	1.2
of which		
Welfare of Scheduled Castes & Tribes	39.54	
3.Economic Services	326.56	18.4
of which		
i) Cooperation	104.95	
ii) Industry & Minerals	100.03	
iii) Food	69.95	
iv) Agriculture & Allied Activities	35.71	
v) Community Development	15.92	
Total	387.53	4.5

Data Source: Department of Evaluation and Applied Research, Government of Tamil Nadu.

Table 36: State-wise comparisons of Plan outlay & Central Plan assistance: 1951-85

(Rs.)

Plan period	Rank from Top 1/	P.C.Plan outlay in Tamil Nadu (Rs)	Highest p.c.plan outlay for any major State (Rs)	Average p.c.plan outlay for major States (Rs)	Col(3) to Col(4) (%)	Col (3) to Col(5) (%)	P.C.Central Plan assistance to Tamilnadu (Rs)	Average p.c.Central plan assistance to major States (Rs)	Col(8) to col (9) (%)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1.First Plan (1951-56)	11	28	105 (Punjab)	39	26.7	71.8	14	24	58.3
2.Second Plan (1956-61)	4	57	87 (Punjab)	51	65.5	111.8	29	26	111.5
3.Third Plan (1961-66)	7	98	126 (Punjab)	91	77.8	107.7	53	53	100.0
4.Annual Plans (1966-69)	6	71	91 (Haryana)	60	78.0	118.3	32	34	94.1
5.Fourth Plan (1969-74)	6	134	358 (Haryana)	137	37.4	97.8	48	58	82.8
6.Fifth Plans (1974-80)	11	272	748 (Punjab)	327	36.4	83.2	72	86	83.7
7.Sixth Plan (1980-85)	9	765	1793 (Haryana)	847	42.7	90.3	161	208	77.4

1/ Among 14 major States excluding Assam, Punjab and Haryana combined during First to Third Plans.

Data Source: Government of Tamil Nadu: Memorandum to the Eighth Finance Commission, p.16

Table 37: Plan Financing State-wise: 1969-85

(Rs.)

State	Fourth Plan		Fifth Plan		Sixth Plan	
	P.C.Plan outlay (Rs)	P.C.Own resources (Rs.)	P.C.Plan outlay (Rs)	P.C.Own resources (Rs.)	P.C.Plan outlay (Rs)	P.C.Own resources (Rs.)
1.Andhra Pradesh	98	45	307	219	713	505
2.Bihar	85	27	230	146	572	348
3.Gujarat	204	146	444	364	1378	1153
4.Haryana	358	282	599	498	1793	1559
5.Karnataka	128	71	341	253	773	589
6.Kerala	156	76	267	154	726	524
7.Madhya Pradesh	114	53	331	251	912	669
8.Maharashtra	199	152	466	399	1225	1051
9.Orissa	114	43	267	160	684	383
10.Punjab	316	244	748	649	1444	1223
11.Rajasthan	120	37	275	162	786	543
12.Tamil Nadu	134	86	272	200	765	604
13.Uttar Pradesh	132	74	277	187	662	444
14.West Bengal	82	34	281	212	790	636
All 14 States	137	79	327	241	847	639

Data Source: Same as for Table 36.

Table 38: Proportion of Plan expenditure to Total expenditure State-wise: 1980-85

State	Total expenditure (Rs.crores)	Plan expenditure (Rs.crores)	Col(3) to Col (2) (per cent)
(1)	(2)	(3)	(4)
1.Andhra Pradesh	10417	3547	34.05
2.Assam	3642	1477	40.55
3.Bihar	8821	3114	35.30
4.Gujarat	8719	3288	37.71
5.Haryana	3879	1609	41.48
6.Karnataka	8406	2820	33.54
7.Kerala	5226	1606	30.73
8.Madhya Pradesh	9740	4210	43.23
9.Maharashtra	17250	5576	32.33
10.Orissa	4713	1935	41.06
11.Punjab	5026	1851	36.84
12.Rajasthan	6573	2358	35.87
13.Tamil Nadu	10490	3210	30.60
14.Uttar Pradesh	15832	6594	41.65
15.West Bengal	9559	2914	30.48
All major States	128293	46109	35.94

Data Source: RBI Annual Surveys of State Finances (various issues).

Table 39: Proportion of Plan Revenue Expenditure in Plan Expenditure State-wise: 1980-85

State	Plan Expenditure (Rs.crores)	Plan Revenue Expenditure (Rs.crores)	Col(3) to Col (2) (per cent)
(1)	(2)	(3)	(4)
1.Andhra Pradesh	3547	1755	49.5
2.Assam	1477	631	42.7
3.Bihar	3114	1372	44.1
4.Gujarat	3288	1107	33.7
5.Haryana	1609	596	37.1
6.Karnataka	2820	1340	47.5
7.Kerala	1606	706	44.0
8.Madhya Pradesh	4210	1722	40.9
9.Maharashtra	5576	1997	35.8
10.Orissa	1935	919	47.5
11.Punjab	1851	493	26.6
12.Rajasthan	2358	849	36.0
13.Tamil Nadu	3210	2085	65.0
14.Uttar Pradesh	6594	2583	39.2
15.West Bengal	2914	1592	54.6
All major States	46109	19747	42.8

Data Source: RBI Annual Surveys of State Finances.

Table 40: Sectoral Composition of State Plan outlays in Tamil Nadu: 1951-85

	First Plan (1951-56)	Second Plan (1956-61)	Third Plan (1961-66)	Annual Plans (1966-69)	Fourth Plan (1969-74)	Fifth Plans (1974-80)	Sixth Plan (1980-85)
1. Agriculture and allied activities (including cooperation)	9.68 (12.0)	32.50 (17.3)	80.05 (23.1)	69.42 (26.1)	111.62 (20.0)	231.66 (15.0)	787.44 (21.2)
2. Social & Community Services	16.05 (20.0)	37.96 (20.2)	80.25 (23.1)	52.50 (19.7)	142.82 (25.6)	389.88 (25.2)	1248.00 (33.5)
3. Irrigation	20.15 (25.0)	17.54 (9.3)	31.23 (9.0)	12.74 (4.8)	24.45 (4.4)	99.29 (6.4)	148.63 (4.0)
4. Power	30.28 (37.7)	79.17 (42.2)	119.43 (34.4)	104.06 (39.1)	213.89 (38.2)	540.49 (35.0)	980.40 (26.3)
5. Industry & Minerals	1.53 (1.9)	14.08 (7.5)	23.73 (6.8)	16.56 (6.2)	33.00 (5.9)	97.78 (6.3)	246.21 (6.6)
6. Transport & Communication	2.70 (3.4)	5.52 (2.9)	11.74 (3.4)	10.44 (3.9)	30.73 (5.5)	174.99 (11.3)	280.10 (7.5)
7. Others	-	0.99 (0.6)	0.72 (0.2)	0.46 (0.2)	2.45 (0.4)	10.58 (0.8)	31.24 (0.9)
Total	80.39 (100.0)	187.76 (100.0)	347.15 (100.0)	266.18 (100.0)	558.96 (100.0)	1544.67 (100.0)	3722.02 (100.0)

Source: Tamil Nadu Economic Appraisal (various issues)

Table 41: Profile of power generation 1951-85

(in MW of capacity)

Plan Period	New Project Starts			Project Completions			Central Project Completions
	Hydro	Thermal	Total	Hydro	Thermal	Total	
First Plan (1951-56)	-	-	-	70	30	100 (20)	-
Second Plan (1956-61)	625	-	625 (125)	250	30	280 (56)	
Third Plan (1961-66)	335 1/	480	815 (163)	325	-	325 (65)	300 2/
Annual Plans (1966-69)	-	-	-	200	-	200 (67)	200 2/
Fourth Plan (1969-74)	230	210	440 (88)	255	370	625 (125)	100 2/
Fifth Plans (1974-80)	-	420	420 (70)	145	320	465 (78)	
Sixth Plan (1980-85)	530 3/	210	740 (148)	-	420	420 (84)	235 4/

1/Including Pandiar Punnampuzha (100 MW) which has not been proceeded with on account of inter-State dispute.

2/From Neyveli (thermal).

3/Including Kadamparai (400MW) originally initiated in 1971 and delayed due to inter-State dispute.

4/From Kalpakkam (nuclear).

Note: Figures in parantheses are annual averages.

Source: TNEB Statistics at a Glance 1984/85

VII: Debt and Financing of Capital Formation

Having reviewed the revenues and expenditures of the State, it remains to discuss the borrowings of government which bridge the gap between expenditures and the revenues available to finance them. The discussion of debt leads to the discussion - once again - of capital formation: its growth, levels and pattern of financing in different periods.

Sources of borrowing and composition of debt

2. The sources of borrowing for the State are (i) loans from the Government of India (GOI) (ii) loans raised through bond issues in open market operations (iii) loans negotiated with public financing institutions such as the National Cooperative Development Corporation, the National Bank for Agriculture and Rural Development, the Life Insurance Corporation of India etc. (iv) State Provident Funds and other savings deposits and (v) floating loans such as ways and means advances and overdrafts from the RBI.

3. Table 42 on the composition of the Tamil Nadu's outstanding debt at the end of 1984-85 will show that loans from the GOI have been 49.4 per cent of total debt and have provided the main source of borrowings. GOI loans are substantially general purpose or "block loans" for Plan schemes which carry a maturi'y of 15 years and an interest rate of 7.5 per cent per annum. The other major sources are small savings loans (18.9 per cent of total debt) and open market loans (16.4 per cent). Small savings loans are extended for 25 years at an interest rate of 10 per cent per annum. Market loans are currently raised with a maturity of 15 years and carry an interest rate of 9 per cent per annum.

Growth in Borrowings

4. The profile of borrowings during 1960-85 set out in Table 43 will show that the growth in debt, both gross and net, has been much slower than the growth in current revenues. Gross borrowings having nearly doubled in 1965-70 over the previous quinquennium remained at about the same level in 1970-75. Thereafter, there has been a steady growth with the level in 1980-85 exceeding three times that in 1970-75. The corresponding growth in net borrowings has been much more rapid with the level in 1980-85 being about 6.5 times that in 1970-75.

5. Table 44 on the sources of borrowing will indicate that in recent years Tamil Nadu has relied relatively more on small savings, institutional and internal sources (such as provident funds) than on the GOI and the open-market to meet its borrowing needs.

Relative Indebtedness of Tamil Nadu

6. There is evidence that the level of the government's indebtedness in Tamil Nadu is relatively low when compared to the position in other major States. Table 45 will show that outstanding debt per capita in Tamil Nadu (1983-84) was the lowest for all major States. Debt to SDP in Tamil Nadu was also lower than the corresponding ratio in most other major States. A variety of reasons may explain the low level of Tamil Nadu's public debt: the lack of major capital projects which could have absorbed Central loans, the relatively low levels of Plan outlay and Central Plan assistance, and the relative absence of major natural calamities which would have entitled non-plan loans from the Centre.

7. While these factors have a bearing on Central loans, which constitute the major source of borrowings, it is also relevant that Tamil Nadu has not been allowed adequate access to market borrowings consistent with her eminently credit-worthy position. This is brought out in Table 46 which shows that Tamil Nadu ranked 10th out of 15 major States in net per capita market borrowings during 1973-83 with the level of such borrowing being only 43.4 per cent of that in the most favoured State (Haryana).

Assets and Liabilities

8. Net borrowings can be needed or used for a variety of purposes: (a) to meet deficits in the current account i.e., shortfalls in current revenues with reference to current expenditures (b) for direct capital expenditures e.g., on irrigation projects or share capital investments (c) for loans for capital formation (e.g. power projects) or for working capital or consumption (e.g. agricultural loans for inputs or meeting losses in PSCs). Throughout 1960-85, Tamil Nadu has had a current account surplus and has not needed to cover current deficits with borrowing. Accordingly, debt has been wholly deployed for capital expenditures and for relending to enterprises and others for capital and consumption purposes. At the end of 1984-85, such "assets" in terms of cumulative capital expenditures, loans advanced by government, and other investments totalled to Rs.3720 crores which was well in excess of the "liabilities", in terms of outstanding debt, of Rs.2304 crores.1/

9. This comparison could give a misleadingly comfortable impression for two reasons. Firstly, not all loans have resulted in productive assets in as much as loans have been

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1/ Appendix XII to Tamil Nadu Budget Memorandum 1986/87.

extended for consumption purposes and for covering losses (as in the case of the TNEB). Secondly, the "assets" of government whether power projects or investments on irrigation or share capital in PSCs have not generated cash to amortise the capital sunk in them. As we have seen, receipts from "commercial" irrigation projects are not adequate to cover maintenance costs let alone yield any return on investment; the TNEB, over the years, has accumulated a huge loss; and the same is the situation with other public enterprises as a whole. Accordingly, "assets" have not generated internal surpluses to retire "liabilities" incurred by the government for creating them. On the other hand, liabilities have resulted to a large extent in creating further liabilities! In this situation, apart from not borrowings, the levels of current savings have been of crucial importance in determining the extent of capital formation as will be evident from the discussion in the paragraphs that follow.

Capital formation and its financing

10. The levels of capital formation and its pattern of financing in different periods provide a summatory framework that brings out the sources and uses of resources. Capital formation (viz., capital expenditures and loans for capital formation) is financed from (a) current savings and (b) capital resources (viz., net borrowings, loan repayments, capital receipts and drawals from cash balances). Current savings are the excess of current revenues over current outlays (viz., current expenditures and loans for consumption). Major variations in the level of current revenues have occurred from one period to another from (a) increases in the share of Central taxes and (b) fluctuations in State excise revenues dependent on prohibition policy. It will be useful to separately identify their impact in examining the levels of current revenues and of current savings.

11. The analysis of capital formation and its financing is given in Tables 47 and 48. Table 47 gives the sources of financing while Table 48 brings out the incremental use of resources in the four quinquennia during 1965-85 over the previous five-year period in each case. Table 47 will show that current revenues excluding tax transfers and excise revenues have throughout been inadequate to finance current outlays. The deficit on this account (row 3) significantly increased in 1970-75 with reference to the position in the 1960s and was stabilised in 1975-80 only to increase very sharply in 1980-85. Tax transfers from the Centre (row 4) have steadily increased; in each period they have been twice or more than the level in the previous one. Excise revenues, while insignificant in the 1960s and early 1970s, (row 5), have been an important source of revenue in 1970-75 and have very sharply increased in 1980-85. Capital resources (row 7) slightly declined in 1970-75 over 1965-70 but rose significantly in the subsequent periods.

12. Table 48 traces the pattern from one period to another in the incremental availability and use of resources. In 1965-70, the increase in current deficit was contained and, despite prohibition, increases in tax shares and capital resources helped to achieve a good step up in capital formation. 1970-75 represented a down turn. The current-deficit increased sharply and capital resources declined; despite the increase in tax shares and the availability of excise revenues, the increment to capital formation was significantly less than in 1965-70. A number of factors helped to improve the situation in 1975-80. The increase in the current deficit was negligible; both capital resources and tax shares increased significantly, the latter largely because of the doubling in excise shares from 1979-80 (Seventh Finance Commission); and despite the loss of State excise revenues, it was possible

to realise a large increase in capital formation. In 1980-85, the current deficit widened considerably but the deterioration was more than offset by increases in tax shares, the re-appearance to a sizable extent of excise revenues and larger capital resources. In the result, capital formation went up but proportionately only to the level (about 32 to 33 per cent of total outlay) in 1975-80 which was a "dry" period for excise revenues.

13. Table 47 also shows the ratio of current savings (net of excise revenues) to current revenues (net of excise) and the contribution from such current savings to outlays on capital formation in different periods. The effect of excise revenues has been deducted in these comparisons not only because their policy-induced fluctuations confound comparability but also because they may not be available in future if, as announced, prohibition is re-introduced. The ratio of current savings to current revenues steadily increased in the 1960s; it sharply dropped in 1970-75 and sharply rose again in 1975-80 but declined in 1980-85 to less than the level in 1965-70. The contribution from current savings to outlays on capital formation reached a peak of 32.6 per cent in 1975-80 but was nearly halved in 1980-85 despite the large increase in tax shares. This was mainly because of the considerable increase in current outlays in this period.

14. In the longer term, capital formation is likely to depend to a greater extent than in the past on the level of current savings because, as repayment burdens accumulate, the rate of growth in net borrowings will decelerate. Revenue transfers from the Centre are not likely to increase as fast as they have in the past; revenue deficits have escalated in the Central budgets and the overall share to States from

Union excise duties would appear to have reached some sort of a plateau.[1/] The loss in State excise revenues will be substantial if prohibition is reintroduced. In these circumstances, the task of enlarging current savings will have to address itself mainly to increasing the State's own tax and non-tax revenues and to the containment of current outlays. In the alternative, the prospect will be a decline in real capital formation.

1/ While the Seventh Finance Commission (1979-84) doubled States' share in Union excise duties from 20 to 40 per cent, the Eighth Finance Commission (1984-89) has further increased the share only to 45 per cent with the increment being allocated entirely to States in need of gap grants. On the size and growth in Central revenue deficits in 1975-85 and the extent to which revenue transfers to States have contributed to them - see S.Guhan, 'Fiscal Policy, Projections and Performance' in Economic and Political Weekly, Bombay, April 12, 1986.

Table 42: Composition of Government debt in Tamil Nadu: As on 31.3.1986

Source of debt	Outstanding debt on 31.3.85 (Rs.crores)	Per cent to total
1.Government of India	1139.11	49.4
2.Market Loans	376.81	16.4
3.Small Savings Loans	434.69	18.9
4.Provident Funds etc.	175.28	7.6
5.Institutional sources	84.30	3.6
6.Ways and means advances	92.21	4.0
7.Others	1.90	0.1
Total	2304.30	100.0

Source: Appendix IX to Tamil Nadu Budget Memorandum 1986-87.

Table 43: Growth in Government borrowings in Tamil Nadu: 1960-85

(Rs.crores)

	1960-65	1965-70	1970-75	1975-80	1980-85
1.Gross Borrowings	283 (100)	555 (196)	584 (189)	905 (320)	1761 (622)
2.Net Borrowings	185 (100)	270 (146)	187 (101)	582 (315)	1215 (657)
3.Current Revenues	544 (100)	1019 (187)	1836 (337)	3235 (595)	8001 (1471)

Source: Annex Table 1.

Table 44: Sources of Gross Borrowing: 1960-85

(per cent to total)

Quinquennium	GOI	Market	Other
1960-65	66.7	17.5	15.8
1965-70	51.4	16.2	32.4
1970-75	69.2	19.6	11.2
1975-80	70.7	15.5	13.8
1980-85	60.8	12.8	26.4

Source: Annex Table 1.

Table 45: <u>Relative Indebtedness State-wise: 1983/84</u>

State	Outstanding debt per capita (Rs.)	Debt to SDP (per cent)
1. Andhra Pradesh	480	52.0
2. Assam	751	86.6
3. Bihar	468	67.3
4. Gujarat	603	41.7
5. Haryana	755	43.9
6. Karnataka	435	39.8
7. Kerala	565	51.0
8. Madhya Pradesh	481	57.1
9. Maharashtra	565	36.7
10. Orissa	641	73.3
11. Punjab	691	33.7
12. Rajasthan	781	77.1
13. Tamil Nadu	396	36.0
14. Uttar Pradesh	450	57.0
15. West Bengal	645	54.7
All major States	538	

<u>Source</u>: Report of the Eighth Finance Commission 1984. Annexure XIV-3, p.264.

Table 46: Relative access of major States to market borrowings (net) in 1973-83.

State	Net market borrowing (1973-83) (Rs.crores)	Net p.c. market borrowing (1973-83) (Rs.)
1.Andhra Pradesh	214	40.0
2.Assam	63	31.6
3.Bihar	141	20.2
4.Gujarat	135	39.7
5.Haryana	94	73.2
6.Karnataka	140	37.8
7.Kerala	119	46.8
8.Madhya Pradesh	68	13.0
9.Maharashtra	153	24.3
10.Orissa	106	40.0
11.Punjab	61	36.1
12.Rajasthan	235	68.4
13.Tamil Nadu	154	31.8
14.Uttar Pradesh	424	38.3
15.West Bengal	97	18.7
All major States	2204	33.4

Data Source: Government of Tamil Nadu: Memorandum to the Commission on Centre-State Relations 1985, Table 6, pp.66-67.

Table 47: Financing of Capital Formation 1960-85

(Rs.crores)

	1960-65	1965-70	1970-75	1975-80	1980-85
1. Current Revenues net of tax shares and excise	459.88	848.98	1297.32	2419.78	5495.54
2. Current outlays 1/	516.26	929.61	1632.63	2766.41	6785.42
3. Deficit(1-2)	-56.38	-80.63	-335.31	-346.63	-1279.88
4. Tax share	82.12	166.09	394.47	794.80	1808.73
5. Excise revenues	1.77	3.77	144.46	20.46	696.30
6. Current surplus after taking into account tax shares and excise revenue (3+4+5)	27.51	89.23	203.62	468.63	1215.15
7. Capital resources 2/	239.94	354.63	350.51	905.70	2015.47
8. Outlays on capital formation 3/ (6+7)	267.45	443.86	554.13	1374.33	3230.62
Memo					
A. Current savings to current revenues (net of excise): per cent	4.7	8.4	3.5	13.9	7.1
B. Contribution to current savings (net of excise) to capital formation: per cent	9.6	19.3	10.7	32.6	16.1

1/Current expenditures and loans for consumption

2/Net borrowings, loan repayments, capital receipts and drawals from cash balance.

3/Capital expenditures and loans for capital formation.

Source: Processed from Annex Tables 1,2 and 3.

Table 48: Incremental financing of capital formation 1965-85

	(Increase over previous quinquennium in Rs.crores)			
	1965-70	1970-75	1975-80	1980-85
1. Current Revenues net of tax shares and excise revenues	389.10	448.34	1122.46	3075.76
2. Current outlays	413.35	703.02	1133.78	4019.01
3. Deficit (1-2)	-24.25	-254.68	-11.32	-943.25
4. Tax shares	83.97	228.38	400.33	1013.93
5. Excise revenues	2.00	140.69	-124.00	675.84
6. Surplus available for capital formation (3+4+5)	61.72	114.39	265.01	746.52
7. Capital resources	114.69	-4.12	555.19	1109.77
8. Outlays on capital formation (6+7)	176.41	110.27	820.20	1856.29

Source: Derived from Table 47.

VIII: Major Issues of Policy

The review of budgetary trends during 1960-85 has shown that this period of a quarter century has witnessed a very significant growth in the size of government fiscal operations in Tamil Nadu. In money terms there has been a phenomenal increase from about Rs. 100 crores in 1960-61 to nearly Rs. 2400 crores by 1984-85 in net final outlays as well as in the receipts which have financed them. While the resource mobilisation effort on the part of government, elasticity of revenues to growth in State income, and inflation have all contributed to the increase in the nominal size of the budget, it is clear that Governments in Tamil Nadu have made a consistent effort at mobilising resources for enlarging and diversifying their activities. This is evident from the fact that overall resources have risen from about 12 per cent of NSDP in 1960-65 to over 20 per cent in 1980-85 with the increase in the ratio being particularly pronounced during 1970-85 owing in part to increased revenue transfers from the Centre and the relaxation of prohibition in the early 1970s and since the early 1980s.

2. Long-term deficit financing being ruled out, the resources available to the State government have to consist of current (tax and non-tax) revenues and of borrowings. Of these, current revenues have grown much faster than borrowings; and, most of the growth in current revenues has come from continual increases to tax revenues. Among the major States in India, Tamil Nadu has shown an outstanding performance in terms of the growth and level of tax revenue and in its tax effort considered in relation to per capita income. The other side of the picture is that the tax structure is highly skewed in favour of indirect taxes to which sales taxes and the excise revenue from liquor currently contribute about 78 per cent. The ratio of direct to indirect

taxes has steadily declined; the contribution of direct taxes to total tax revenue is at present insignificant; and the proportion of direct taxes on agriculture to NSDP in the sector has declined over time from a level which was even initially low. In contrast to the striking growth in tax revenues, non-tax revenues have been sluggish. The main reason for this are (a) significant indirect subsidies which are reflected in low proportions of cost recovery from investments (e.g. irrigation), interest on loans (mainly to the Tamil Nadu Electricity Board) and economic and welfare services provided by the State (e.g. education, health, agricultural inputs) and (b) low or negative returns from public sector enterprises including notably the Electricity Board.

3. Looking to the future, the continued need to mobilise and conserve financial resources for investment and welfare at the State level does not require much emphasis in a context of high poverty and a multitude of unmet social wants. In this effort, as we have shown, current own revenues have played, and will be required to play, the dominant role because they are needed not only for financing current outlays but also for substantially supplementing net borrowings for capital formation (vide Section VIII). It is in this context that we will have to take stock of past fiscal performance and, on that basis, identify issues for the future.

4. Turning to taxes, continued and significant additional taxation via sales taxes may be neither possible nor desirable. High levels of central excise duties limit the scope for increasing sales taxes which cascade on them; a further constraint arises from the need to harmonise the rates in Tamil Nadu with those in other States in order to avoid trade diversion; and any significant widening of the tax base (e.g. by extending sales taxes to foodgrains or edible commodities

at present exempted) can only worsen the already regressive impact of the tax. The second major tax source, which consists of excise revenues, depends on the consumption of alcohol, particularly arrack which is generally consumed by the relatively poor. Among other things, drink worsens poverty and inequality and is a source of political corruption. In the Indian context, there is a strong case for prohibition; successive outstanding Chief Ministers and political leaders of the State viz., Rajaji, Kamaraj and Anna were unswerving in their commitment to it; and the present government have themselves announced their intention to prohibit the sale of arrack and toddy from 1987. Ways and means will therefore have to be found to compensate for the loss of revenue on account of prohibition.

5. Indirect taxes, other than sales and excise taxes, have grown at a relatively slow pace. It should be possible to increase the yield from them; in particular, by finding ways and means to check the considerable evasion that takes place in stamp duties and registration because of the under-reporting of property values during sales. Undoubtedly also, there is scope for increasing direct taxes on agriculture and on rural and urban wealth. The political cost involved in this will however be high while the economic pay-off may be low because rates and exemptions in the State's direct taxes would have to be in tune with Central direct taxes on non-agricultural incomes; and the latter have been significantly softened in the 1980s. Moreover, well-known and well-established methods of evasion, such as legal and informal partitions of land and property, are likely to frustrate any attempt to achieve progression in the levy of direct taxes as the State level.

6. In these circumstances, the long term policy thrust will have to be on improving non-tax sources (a) by reducing indirect subsidies and improving cost recovery and (b) increasing efficiency and returns from the public sector. Section IV

of the paper has indicated that there is much scope on both fronts. The criticism of subsidies rests not on the principle but on its practice. Subsidies as a negative-tax mechanism for transferring incomes or reducing costs to the economically weaker sections of the people are undoubtedly justified in a poor and unequal society. However, in as much as each of the subsidies extended directly or indirectly by the state is explicitly or implicitly meant for some target group, several legitimate concerns arise and can not be ignored. Does the subsidy reach all those in the target group? Does it reach only those in the target group or is it diverted outside of it? If general taxation which has to finance the cost of subsidies is, by and large, regressive what is the combined effect on welfare of taxes-cum-subsidies? In a situation where the quality of subsidised services in education, health, water supply and sanitation (viz., the major sectors in which cost recovery is low) is poor, would it not be desirable to appropriately increase cost recovery in these sectors in order to raise resources for upgrading the quality of public services?

7. In the absence of detailed studies, it is not possible to attempt definitive answers to these issues but there is enough indicative evidence to suggest that a significant proportion of the numerous and varied subsidies in the State budget may very largely represent transfers to the non-poor instead of to the poor. Agricultural subsidies, which constitute the bulk of subsidies, relating to water charges, the agricultural power tariff, procurement price premia and the pricing of agricultural inputs have an in-built tendency to benefit more affluent farmers who are the ones with access to land, water, pumpsets, the potential to use and benefit from inputs to a relatively larger degree, and larger marketable surpluses to sell. Besides, they are the ones who largely benefit from the fertiliser subsidy extended by the Centre.

Evaluations indicate that 15 to 25 per cent of beneficiaries from subsidies provided under the IRDP are the 'non-poor' with the proportion being as high as 40 to 50 per cent in certain areas. In the industrial sector, major subsidies are accounted for by "incentives" for investments in backward areas and by the handloom rebate. The former tends to benefit large and medium rather than small entrepreneurs[1/] and the latter gets diverted to traders and master-weavers rather than benefiting producers or consumers. Similarly, free educational, medical, health, water supply and sanitation services have been provided widely without reference to the ability-to-pay; increased cost-recovery in these sectors should be possible and will enable the upgradation and extension of such basic needs. In all, there would appear to be considerable scope to restructure the quantum and targeting of subsidies.

8. The second major area for improving non-tax resources lies in increasing returns from the public sector. Here again subsidies (such as the agricultural power tariff) have made a significant contribution to losses. PSCs have proliferated in Tamil Nadu since 1970 and are to be found in many areas in which there would appear to be no rationale for the presence of the public sector. Detailed analysis is necessary to identify the extent to which losses in PSCs have arisen from initial uneconomic decisions relating to location, product, scale and technology and from politicisation, mismanagement, over-staffing, under-pricing and poor marketing in actual operations. A two-pronged effort to improve efficiency and to reduce subsidies will be necessary if the State is to get a fair return from the large investments it has made on the public sector.

1/ See in this connection K. Bharathan <u>Development through Industrialisation: An Analysis and Case Study of Backward Area Development</u>, Madras Institute of Development Studies Working Paper No. 24, October 1981.

9. Turning to expenditure priorities, the review brings out that there has been a clear shift in recent years from capital outlays, notably on irrigation and power, to current outlays largely on agriculture and social services. Larger resources devoted to current outlays crowd out monies available for investment not only at a single point of allocation in the Plan or in a budget but also in the long term because programmes relating to social and welfare services once begun have to be continued and maintained, with allocations needed for the purpose becoming the first claim on current resouces. We have shown in Section VI that such continual accretions to non-Plan expenditures have been a major reason for Tamil Nadu having a relatively low per capita Plan outlay in comparison with other major States. Each Plan represents the funds available for completion of capital projects that have spilled-over from the previous one and for new or incremental projects and programmes to be taken up as fresh starts. Accordingly, lesser funds available for the Plan have the effect of restricting funds for project completion (thus increasing their costs and delaying their benefits), for initiating new projects and programmes, and for enlarging worthwhile existing programmes.

10. The scope for further investments in irrigation will lie mainly in the modernisation of the old canal systems (particularly in the Cauvery basin) and in improvements to tank irrigation. While inter-State water disputes have delayed the modernisation of the Cauvery system, neglect has been largely responsible for under-investment in improving tank irrigation. Inadequate investments on power generation as well as on transmission and distribution, in addition to droughts and efficiency factors, have resulted in frequent and severe power cuts affecting both industry and agriculture. Tamil Nadu has had to pay a high price for the under-investment

in power in terms of fore-gone industrial investment and production. With the exhaustion of hydro-potential, Tamil Nadu will have to depend in the future on thermal projects which have relatively high capital and operating costs. This will entail considerably increased resource allocations to this sector, cost reductions through better project implementation and efficiency improvements, and a tariff policy that is continually adjusted to changes in the cost structure and designed to improve capacity utilisation through pricing policies.

11. Within the current outlays of government, education, medical, health and water supply, and agricultural services have claimed a major share. In all these sectors, the progress achieved in Tamil Nadu, although relatively high, is by no means outstanding. The overall literacy level in Tamil Nadu (45.8 per cent in 1981) is far behind that of Kerala (69.2 per cent) and there are significant differentials in literacy levels within the State: rural-urban, male-female and SC/ST vs others. The crude death rate and the infant mortality rate in Tamil Nadu are also much higher than in Kerala. Medical and health facilities in Tamil Nadu are highly concentrated in urban areas. Since the mid-1970s, there has been no clear growth in the productivity of rice which is the main crop. These illustrative facts will indicate that while more resources will have to be devoted to these basic sectors of development, greater cost-effectiveness needs to be achieved in their application.

12. Local bodies viz., Corporations, Municipalities, Panchayat Unions and Panchayats can play a major role in the economic and efficient provision of basic needs such as school education, primary health care, water supply and sanitation, nutrition etc. In the process, they could also raise hitherto untapped resources at a local level for capital

and recurring expenses involved in the provision of such basic services. Unfortunately, since 1970 governments in Tamil Nadu have retrogressed on decentralisation towards which a major impetus was given in the late 1950s.

13. Apart from social services, a significant component of current outlays consists of welfare outlays the most important of which is the Chief Minister's Noon-Meals Scheme (CMNS). As discussed in Section VI, this scheme with a current annual outlay of about Rs. 170 crores has a very high opportunity cost. At one level, exceptionally large recurring allocations to a single scheme raises issues as to the relative priority to be given to long-term investments vs. current consumption. At another level, without questioning the justification in the aggregate for sizable welfare allocations, it may be legitimate to point out that it is a distortion of priorities to spend so much on nutrition if such expenditures have the effect of denying much needed resources for complementary purposes such as primary health care, elementary education and water supply and sanitation without which nutrition alone can produce no lasting benefits for the very children and adolescents covered in the scheme. Besides, the claims that other vulnerable groups have on the welfare budget, such as pregnant and feeding mothers, the handicapped, the widowed and the old, can not be overlooked. Thus the CMNS is an illustration of an unbalanced approach to social expenditures even if one does not question it vis-a-vis investment.

14. Given the need to conserve resources and to put them to the best use, every effort will clearly have to be made to check evasion in revenues, leakages from government programmes and projects, wasteful and ostentatious expenditures, and inefficiencies in investment, maintenance and operations

which reduce the ratio of benefits to costs in government projects and programmes. One underlying cause behind many of these ills is political and bureaucratic corruption which have emerged as a major factor in Tamil Nadu in the last decade.1/

15. The review indicates (vide Section VII) that employment levels under government and the PSCs in Tamil Nadu is relatively high and wages and salaries are a significant and increasing component in current outlays. At the same time, emoluments to public employees in Tamil Nadu are relatively low vis-a-vis those in many other major States and certainly with reference to the employees of the Central government. Continual pressures can therefore be expected for upgrading emoluments in Tamil Nadu; in turn, this will increase the salaries component in government expenditures. Among various economy measures, the strictest control will have to be maintained on the growth of staff with every effort being made to increase the productivity of government employees.

16. We have so far commented on the key problem areas to which attention needs to be given in mobilising, conserving and using resources for development at the level of the State government. In the matter of Central resource flows to the State, Tamil Nadu has had some legitimate grievances. The gap-filling approach of successive Finance Commissions has

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1/ The DMK government was formally dismissed in January 1976 on charges of corruption and an Enquiry Commission found evidence to support several of the charges. Similarly, charges of corruption have been made, and are pending enquiry in some cases, in respect of the AIADMK government and of individual members of the Cabinet. Many observers would agree that the level of bureaucratic corruption in Tamil Nadu is also high. Academic students of corruption in South India will find of interest Robert Wade 'The System of Administrative and Political Corruption: Canal Irrigation in South India' in Journal of Development Studies 18 No.3 1982 and Robert Wade 'The Market for Public Office: Why the Indian State Is Not Better at Development' in World Development 13 No.4 1985.

prejudiced States which have shown greater fiscal discipline, like Tamil Nadu, while benefiting States which have incurred large non-Plan deficits. As explained in Section VII, the Gadgil formula which regulates Central assistance for the Plan has worked in ways that have been less than just to Tamil Nadu. Tamil Nadu has also not been provided the access to market borrowings which its eminently credit-worthy position deserves. In all these matters, the State will have to effectively press its objective and legitimate claims on the Centre. Having said this it is necessary to point out that the large increase in the transfers which occurred with the Seventh Finance Commission (1979-84) doubling States' shares in Union excise duties from 20 to 40 per cent is not likely to be repeated. In the long-term, incremental resources for capital formation will therefore have to be found increasingly from current savings related to the State's own revenues and the restriction of current outlays.

17. Our analysis and critique of fiscal policies has been in terms of their deviation from a broad concept of economic rationality and of what may be done to return to it. The discussion will have to be concluded with some comments on politics as it has unfolded in Tamil Nadu during this period: on one hand, it explains fiscal performance and on the other, it is a constraint on prospective reform. During 1960-85, which is the period of this survey, Tamil Nadu has been successively governed by three political parties viz., the Congress (upto 1967), the DMK (1967-early 1976) and the AIADMK (mid 1977 onwards) except for two interludes of President's rule (early 1976-mid 1977 and part of 1980). Under all these dispensations what could be referred to as the 'agriculturists lobby' has been consistently successful in perpetuating or obtaining low taxes, low water charges, highly concessional power tariffs, subsidies

on agricultural inputs, loan write-offs and in edging up paddy procurement prices. The broad difference has been that while historically the rural elite had influenced the Congress from within, they have had to adopt confrontationary tactics vis-a-vis the regional parties who, by and large, have not depended on their direct political support.[1/] The rapid growth of pumpset irrigation from about the mid 1960s, enabled by the impetus given to rural electrification in the Congress period, has added economic strength to affluent paddy and cash-crop farmers who were already socially and politically powerful in their local areas. For large, medium and small farmers alike, demands for low tariffs, low taxes and higher subsidies have provided a rallying platform. The accommodation of such demands has in turn provided the motivation and wherewithal to press further claims. At the same time, the regional parties have sought to undermine the rural elite by downgrading rural local institutions (Co-operatives, Panchayat Unions and Panchayats) which had provided the traditional power base for the Congress party. This has centralised the bureaucracy and resulted in its politicisation from above and through ruling party cadres in local areas; the absence of local level accountability conceivably has also been a factor in increasing bureaucratic corruption at the grass-roots level. Moreover, the disestablishment of local level institutions has had the effect of re-channelling the political energies of the rural elite from participatory into agitational forms for making their influence felt.

1/ An increase of 2 paise in the power tariff for pumpsets in 1971, for instance, led to violent agitation in Coimbatore which was widely believed to have had support from the Congress party.

18. While alienating the rural elite in some ways and appeasing them in others, the regional parties have also sought to source their strength in mass politics and leadership-charisma over the heads as it were of the rural elite. The fiscal reflection of this process is the enlargement and extension of subsidised economic and welfare services of which the CMNS and the free supply of electricity to small farmers are the most striking examples. Needed resources for such purposes have had to be found partly by relaxing prohibition and partly by the shift from investment to current outlays in annual budgets and in the Plan. The latter trend has been facilitated by the fact that Tamil Nadu in the post-1960s has not had unutilised irrigation and hydro-electric potentials to be exploited to any significant extent in the public sector. In the absence of a long-term vision there has been no advance planning and project preparation in the energy sector and for the modernisation of irrigation. Objective conditions as well as political, administrative and technical factors have thus created an investment vacuum. This has enabled, and has been filled by, a significant growth in current expenditures.

19. With the split in the DMK in 1972 and the ascendancy to power of the AIADMK in 1977, partisan politics between the two formations has become extremely intense leading to a situation of competitive populism.1/ The ruling party has had to improve upon subsidies and welfarist programmes initiated by its predecessor-in-power, and subsequently its main opposition, with the latter using, or being used by various pressure groups - farmers, government employees,

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1/ A striking illustration of this was the government announcement of free electricity to small farmers prior to the State Assembly elections in December 1984 and the retaliatory compaign promise from the DMK, its main contender, of free electricity supply to <u>all</u> farmers!

teachers, traders, bus and cinema operators, the urban middle class etc. - to advance claims and concessions from time to time. In this competitive and insecure environment, the political time-horizon has shrunk at each stage to the on-coming election. Inevitably, long-term planning, a long-term fiscal policy based on equity, efficiency and economy, and fiscal discipline in general have become the casualties. In this respect, the experience in Tamil Nadu is not peculiar. All over India, politics has been in command[1/] but only perhaps more so in Tamil Nadu because of its unique three-party history and situation.

1/ For perceptions of the politics of public expenditure at an all-India level J.F.J.Toye Public Expenditure and Indian Development Policy 1960-70 Cambridge University Press 1981, R.Wade, Review of Toye (1981) in Economic Development and Cultural Change 1984, and P.K.Bardhan The Political Economy of Development in India Basil Blackwell 1984 will be of interest.

Annex Table 1: Sources of Receipts 1960-65

(Rs. Crores)

	1960/61(RE)	1961/62(BE)	1962/63	1963/64	1964/65
I. Current Revenues	83.10	81.37	109.48	126.51	143.31
1.0 Tax Revenues	54.93	55.67	68.78	81.21	92.10
1.1 Share of Central Taxes	13.72	13.90	16.53	19.12	18.85
1.2 State direct taxes	6.32	6.41	5.57	7.40	6.94
1.3 State indirect taxes	34.89	35.36	46.68	54.69	66.31
2.0 Non-tax Revenues	28.17	25.70	40.70	45.30	51.21
2.1 Profits and dividends from departmental and other enterprises	0.50	0.31	-0.21	-0.40	-0.04
2.2 Interest Receipts	7.05	7.42	8.39	7.61	8.37
2.3 Other non-tax revenue	20.62	17.97	32.52	38.09	42.88
II. Capital Receipts	2.34	2.36	2.82	2.54	2.73
3.0 Internal resources of departmental under takings	0.71	0.61	0.87	0.95	1.11
4.0 Capital transfers	1.63	1.75	1.95	1.59	1.62
III. Borrowings (net)	17.69	30.72	36.84	46.79	52.63
5.0 Market loans (net)	8.48	8.03	10.23	-9.60	9.07
6.0 Loans from GOI (net)	8.36	19.11	21.36	38.37	28.86
7.0 Other loans (net)	0.85	3.58	5.25	18.02	14.70
IV. Drawals from cash balance	-0.71	4.35	2.27	-1.58	-5.52
V. Total Receipts	102.42	118.80	151.41	174.26	193.15

Annex Table 1: Sources of Receipts 1965-70

(Rs. Crores)

	1965/66	1966/ 67(RE)	1967/68	1968/69	1969/70
I. Current Revenues	160.64	178.70	201.94	239.01	238.55
1.0 Tax Revenues	130.28	121.71	141.93	154.29	177.89
1.1 Share of Central taxes	20.07	28.99	32.39	38.30	46.34
1.2 State direct taxes	7.99	6.60	6.90	5.17	5.18
1.3 State indirect taxes	75.22	86.12	102.64	110.82	126.37
2.0 Non-tax Revenues	57.36	56.99	60.01	84.72	60.66
2.1 Profits and dividends from departmental and other enterprises	0.11	0.26	-6.35	-6.05	-7.95
2.2 Interest receipts	9.09	10.56	14.89	25.03	12.48
2.3 Other non-tax revenue	48.16	46.17	51.47	65.74	56.13
II. Capital Receipts	3.17	3.07	4.05	3.70	3.98
3.0 Internal resources of departmental undertakings	1.33	1.36	1.73	2.03	2.14
4.0 Capital transfers	1.84	1.71	2.32	1.67	1.84
III. Borrowings (net)	69.27	46.89	49.08	55.22	49.47
5.0 Market loans (net)	13.94	12.99	8.37	6.46	10.87
6.0 Loans from GOI (net)	35.95	26.74	23.29	1.10	13.11
7.0 Other loans (net)	19.38	7.16	17.42	47.66	25.49
IV. Drawals from cash balance	-	6.95	-1.91	-1.83	3.35
V. Total Receipts	233.08	235.61	253.16	296.10	295.35

Annex Table 1: Sources of Receipts 1970-75

(Rs. Crores)

		1970/71	1971/72	1972/73(RE)	1973/74	1974/75
I.	Current Revenues	268.80	329.48	381.31	410.42	446.24
1.0	Tax Revenues	205.25	261.70	296.07	356.46	446.24
1.1	Share of Central taxes	56.70	71.42	85.07	84.72	96.56
1.2	State direct taxes	5.98	6.29	5.19	10.02	5.65
1.3	State indirect taxes	142.57	183.99	205.81	261.72	300.03
2.0	Non-tax Revenues	63.55	67.78	85.24	53.96	44.00
2.1	Profits and dividends from departmental and other enterprises	-10.11	-12.44	-13.92	-15.35	-12.05
2.2	Interest Receipts	11.87	23.41	33.58	7.87	9.48
2.3	Other non-tax revenue	61.79	56.81	65.58	61.44	46.57
II.	Capital Receipts	4.60	3.80	3.41	12.25	6.90
3.0	Internal resources of departmental undertakings	2.17	2.09	1.58	1.62	1.19
4.0	Capital transfers	2.43	1.71	1.83	10.63	5.71
III.	Borrowings (net)	26.82	40.37	38.27	24.12	57.06
5.0	Market loans (net)	12.46	13.06	10.23	13.64	14.61
6.0	Loans from GOI (net)	19.60	-11.78	74.54	10.90	31.21
7.0	Other loans (net)	-5.24	39.09	-46.50	-0.42	11.24
IV.	Drawals from cash balances	0.56	-8.38	13.66	9.13	12.68
V.	Total Receipts	300.78	365.27	436.65	455.92	522.88

Annex Table 1: Sources of Receipts 1975-80

(Rs. Crores)

	1975/76	1976/77	1977/78	1978/79	1979/80
I. Current Revenues	491.83	559.56	607.68	720.53	855.44
1.0 Tax Revenues	439.44	472.66	498.98	592.54	745.58
1.1 Share of Central taxes	121.72	127.72	135.88	147.72	261.76
1.2 State direct taxes	15.27	8.93	10.86	17.22	15.43
1.3 State indirect taxes	302.45	336.01	352.24	427.60	468.39
2.0 Non-tax Revenues	52.39	86.90	108.70	127.99	109.86
2.1 Profits and dividends from departmental and other enterprises	-17.58	-12.12	-17.29	-17.16	-24.86
2.2 Interest receipts	9.61	14.05	15.39	20.55	20.85
2.3 Other non-tax revenue	60.36	84.97	110.60	124.60	113.69
II. Capital Receipts	3.11	4.85	6.16	1.80	8.74
3.0 Internal resources of departmental undertakings	0.38	0.02	0.24	0.02	0.02
4.0 Capital transfers	2.73	4.83	5.92	1.78	8.72
III. Borrowings (net)	92.18	84.72	155.50	139.10	110.00
5.0 Market loans (net)	26.05	12.58	13.85	13.20	13.31
6.0 Loans from GOI (net)	27.95	67.67	103.82	122.03	91.76
7.0 Other loans (net)	38.18	4.47	37.83	3.87	4.93
IV. Drawals from cash balance	-16.69	1.55	9.15	-3.66	6.08
V. Total Receipts	570.43	650.68	778.49	857.77	980.26

Annex Table 1: Sources of Receipts 1980-85

(Rs. Crores)

	1980/81	1981/82	1982/83	1983/84	1984/85(RE)
I. Current Revenues	1192.68	1339.39	1568.30	1819.80	2080.40
1.0 Tax Revenues	929.07	1166.96	1363.65	1544.16	1782.64
1.1 Share of Central taxes	291.42	327.33	355.05	401.00	433.93
1.2 State direct taxes	3.02	14.75	13.91	12.16	28.35
1.3 State indirect taxes	634.63	824.88	994.69	1131.00	1320.36
2.0 Non-tax Revenues	263.61	172.43	204.65	275.64	297.76
2.1 Profits and dividends from departmental and other enterprises	23.93	-24.14	-31.31	-32.83	-38.83
2.2 Interest receipts	15.68	30.19	27.75	28.84	30.57
2.3 Other non-tax revenue	71.96	166.38	208.21	279.63	305.52
II. Capital Receipts	1.74	4.21	9.75	5.11	5.68
3.0 Internal resources of departmental undertakings	0.03	0.03	0.05	0.04	0.05
4.0 Capital transfers	1.71	4.18	9.70	5.07	5.63
III. Borrowings (net)	183.80	202.33	297.21	339.20	192.88
5.0 Market loans (net)	14.72	15.09	17.62	20.35	23.75
6.0 Loans from GOI (net)	14.41	107.05	120.72	192.49	152.53
7.0 Other loans (net)	54.67	80.19	158.87	126.36	16.60
IV. Drawals from cash balance	1.77	-12.84	7.27	-3.26	84.10
V. Total Receipts	570.43	650.68	778.49	857.77	980.26

Annex Table 2: Tax Revenues 1960-65

(Rs. Crores)

	1960/61	1961/62	1962/63	1963/64	1964/65
1.Land Revenue	7.66	6.01	7.27	9.06	9.03
2.Agricultural Income Tax	1.34	1.42	1.16	1.35	1.43
3.Urban Land Tax	-	-	-	-	0.01
4.Sales Taxes	19.12	21.26	24.80	27.01	35.30
5.State Excise Duties	0.25	0.33	0.38	0.41	0.40
6.Stamps	6.20	5.93	8.61	9.45	10.39
7.Registration fees	1.07	1.13	1.24	1.51	1.62
8.Motor Vehicle Tax	6.05	7.03	10.19	12.34	13.00
9.Entertainment Taxes	2.46	2.28	2.68	3.89	4.41
10.Other taxes	-	0.29	1.89	2.84	3.82
11.Total	44.15	45.68	58.22	67.86	79.41

Note: Land Revenue is net of irrigation component but includes local cess and local cess surcharge. Stamps and Entertainment taxes are gross including local body shares.

Data Source: Budget documents of the Tamil Nadu Government (various issues)

Annex Table 2: Tax Revenues 1965-70

(Rs. Crores)

	1965/66	1966/67	1967/68	1968/69	1969/70
1. Land Revenue	16.83	7.98	9.72	8.46	8.51
2. Agricultural Income Tax	1.23	1.46	1.62	1.88	1.97
3. Urban Land Tax	0.41	0.01	0.42	0.01	0.40
4. Sales Taxes	40.95	48.77	56.47	61.12	72.16
5. State Excise Duties	0.49	0.51	0.76	0.84	1.17
6. Stamps	12.11	13.76	15.58	16.13	17.78
7. Registration Fees	1.81	2.03	2.30	2.60	2.76
8. Motor Vehicle Tax	13.31	14.96	16.83	18.65	19.47
9. Entertainment Taxes	5.12	5.81	6.70	7.58	7.77
10. Other Taxes	4.98	6.64	8.10	9.11	9.87
Total	97.24	101.93	118.50	126.38	141.86

Note: Land Revenue is net of irrigation component but includes local cess and local cess surcharge. Stamps and Entertainment taxes are gross including local body shares.

Data Source: Budget documents of the Tamil Nadu Government. (various issues).

Annex Table 2: Tax Revenues 1970-75

(Rs.Crores)

	1970/71	1971/72	1972/73	1973/74	1974/75
1.Land Revenue	11.29	11.15	15.88	17.24	9.57
2.Agricultural Income Tax	1.83	2.01	2.18	2.17	2.11
3.Urban Land Tax	1.09	0.89	1.25	1.24	2.26
4.Sales Taxes	81.86	98.97	114.02	132.25	187.88
5.State Excise Duties	1.40	22.23	39.15	56.46	25.22
6.Stamps	18.68	21.10	23.01	28.79	30.54
7.Registration Fees	3.36	3.37	3.46	3.99	4.24
8.Motor Vehicle Tax	21.84	22.99	26.15	27.63	39.08
9.Entertainment Tax	8.63	9.82	10.92	12.94	15.93
10.Other Taxes	10.97	11.30	5.90	3.70	5.72
11.Total	160.95	203.83	241.92	286.41	322.55

Note: Land Revenue is net of irrigation component but includes local cess and local cess surcharge. Stamps and Entertainment taxes are gross including local body shares.

Data Source: Budget documents of the Tamil Nadu Government. (various issues)

Annex Table 2: Tax Revenues 1975-80

(Rs.Crores)

	1975/76	1976/77	1977/78	1978/79	1979/80
1.Land Revenue	10.57	10.26	11.64	13.08	11.24
2.Agricultural Income Tax	2.40	2.44	5.17	10.32	6.82
3.Urban Land Tax	2.16	2.69	1.55	2.00	1.99
4.Sales Taxes	208.93	229.34	241.86	293.51	324.77
5.State Excise Duties	3.10	4.66	4.19	3.33	5.18
6.Stamps	28.56	26.62	31.04	41.17	44.95
7.Registration Fees	4.01	3.19	3.52	5.44	6.08
8.Motor Vehicle Tax	44.01	48.59	49.45	57.11	68.57
9.Entertainment Taxes	18.59	21.33	20.85	23.80	25.81
10.Other Taxes	4.49	9.99	5.17	15.56	6.02
11.Total	326.82	359.11	374.44	465.32	501.43

Note: Land Revenue is net of irrigation component but includes local cess and local cess surcharge. Stamps and Entertainment taxes are gross including local body shares.

Data Source: Budget documents of the Tamil Nadu Government (various issues).

Annex Table 2 : Tax Revenues 1980-85

(Rs. Crores)

	1980/81	1981/82	1982/83	1983/84 RE	1984/85
1. Land Revenue	6.84	12.43	12.49	12.75	15.08
2. Agricultural Income Tax	5.68	4.35	2.73	2.78	2.84
3. Urban Land Tax	2.75	2.44	2.96	3.50	3.60
4. Sales Taxes	456.89	543.57	633.78	687.42	816.00
5, State Excise Duties	12.57	110.39	152.13	218.00	203.21
6. Stamps	53.06	64.01	73.33	78.99	85.10
7. Registration Fees	6.84	9.12	9.85	10.72	11.28
8. Motor Vehicle Tax	81.33	73.28	77.93	93.53	91.61
9. Entertainment Tax	29.28	31.53	36.73	37.46	38.21
10. Other Taxes	10.03	12.89	32.37	12.39	12.92
11. Total	665.27	864.01	1034.30	1157.54	1279.85

Note: Land Revenue is net of irrigation component but includes local cess and local cess surcharge. Stamps and Entertainment taxes are gross including local body shares.

Data Source: Budget documents of the Tamil Nadu Government (various issues).

Annex Table 3: Outlays 1960-65

(Rs. Crores)

	1960/61 (RE)	1961/62 (BE)	1962/63	1963/64	1964/65
I. Current Expenditure	75.27	81.19	107.69	109.95	124.80
1.0 Consumption Expenditure	47.69	51.32	60.16	60.44	68.41
1.1 Compensation of employees	27.40	29.50	34.99	35.32	39.10
1.2 Purchase of goods and services (net)	20.29	21.82	25.17	25.12	29.31
2.0 Transfer Payments	27.58	29.87	47.53	49.51	56.39
2.1 Interest	4.09	4.76	9.16	11.26	12.74
2.2 Grants	20.49	22.30	31.49	29.26	33.89
2.3 Subsidies	1.02	0.96	1.11	0.96	1.04
2.4 Other transfers	1.98	1.85	5.77	8.03	8.72
II Capital Expenditure	19.65	22.81	28.52	40.53	43.99
3.0 Net Capital Formation 1/	18.07	21.48	26.54	38.73	42.39
4.0 Renewals and Replacements	0.10	0.13	0.86	0.80	0.88
5.0 Other Capital Transfers	1.48	1.20	1.12	1.00	0.72
III Loans & Advances (net)	7.50	14.80	15.20	23.78	24.36
6.0 Loans & Advances (gross)	22.06	21.37	22.99	31.28	31.61
6.1 For capital formation	18.59	18.09	17.62	27.04	30.61
6.2 For current consumption	3.47	3.28	5.37	4.24	1.00
7.0 Deduct Repayments	-14.56	-6.57	-7.79	-7.50	-7.25
IV Final Outlay (net)	102.42	118.80	151.41	174.26	193.15

1/ Includes new outlay, net increase in stocks, investment in shares and debentures and capital grants.

Annex: Table: Outlays 1965-70

(Rs. crores)

	1965/66	1966/67	1967/68	1968/69	1969/70
I. Current Expenditure	147.11	161.77	174.18	197.19	219.49
1.0 Consumption Expenditure	81.22	82.67	90.53	103.43	112.07
1.1 Compensation of employees	48.93	54.36	58.31	66.54	69.76
1.2 Purchase of goods and services(net)	32.29	28.31	32.22	36.89	42.31
2.0 Transfer Payments	65.89	79.10	83.65	93.76	107.42
2.1 Interest	15.52	20.28	17.24	18.46	22.10
2.2 Grants	39.81	45.54	49.35	53.69	61.08
2.3 Subsidies	0.87	1.21	6.68	9.03	10.57
2.4 Other transfers	9.69	12.07	10.38	12.58	13.67
II. Capital Expenditure	55.70	47.58	53.24	62.00	52.93
3.0 Net Capital Formation 1/	54.30	46.29	45.03	54.07	44.18
4.0 Renewals & Replacements	0.83	0.66	7.65	7.40	8.42
5.0 Other Capital Transfers	0.57	0.63	0.56	0.53	0.33
III. Loans And Advances (net)	30.27	26.26	25.74	36.91	22.93
6.0 Loans and Advances(gross)	41.35	35.80	38.39	51.38	35.36
6.1 For capital Formation	37.37	30.68	34.27	46.38	23.71
6.2 For Current Consumption	3.98	5.12	4.12	5.00	11.65
7.0 Deduct Re-payments	-11.08	-9.54	-12.65	-14.47	-12.43
IV. Final Outlay(net)	233.08	235.61	253.16	296.10	295.35

1/ Includes new outlays, net increase in stocks, investment in shares and debentures and capital grants.

Annex Table 3 : Outlays 1970-75

(Rs. Crores)

	1970/71	1971/72	1972/73 (RE)	1973/74	1974/75
I. Current Expenditure	239.04	282.45	326.87	345.27	366.46
1.0 Consumption Expenditure	129.34	137.50	155.99	182.74	212.23
1.2 Compensation of employees	77.94	99.95	109.07	133.70	149.83
1.2 Purchase of goods and services (net)	51.40	37.55	46.92	49.04	62.40
2.0 Transfer Payments	109.70	144.95	170.88	162.53	154.23
2.1 Interest	20.61	31.25	34.30	28.81	24.48
2.2 Grants	67.16	79.85	89.49	101.37	105.65
2.3 Subsidies	6.60	14.46	20.74	11.28	1.26
2.4 Other transfers	15.33	19.39	26.35	21.07	22.84
II. Capital Expenditure	43.12	67.57	93.08	85.27	118.25
3.0 Net Capital Formation 1/	32.66	56.68	81.07	69.98	98.88
4.0 Renewals and Replacements	10.15	10.26	10.33	14.22	17.22
5.0 Other Capital Transfers	0.31	0.63	1.68	1.07	2.15
III. Loans and Advances (net)	18.62	15.25	16.70	25.38	38.17
6.0 Loans and Advances (gross)	34.64	32.06	38.44	47.28	66.96
6.1 For Capital formation	21.33	19.56	29.04	28.31	48.60
6.2 For Current Consumption	13.31	12.50	9.40	18.97	18.36
7.0 Deduct Repayments	-16.02	-16.81	-21.74	-21.90	-28.79
IV. Final Outlay (net)	300.78	365.27	436.65	455.92	522.88

1/ Includes new outlays, net increase in stocks, investment in shares and debentures and capitalgrants.

Annex Table 3 : Outlays 1975-80

(Rs. Crores)

	1975/76	1976/77	1977/78	1978/79	1979/80
I. Current Expenditure	404.14	462.39	493.80	556.20	606.63
1.0 Consumption Expenditure	231.46	259.47	265.86	321.24	342.25
1.1 Compensation of employees	169.10	191.44	205.75	264.37	259.58
1.2 Purchase of goods and services(net)	62.36	68.03	60.11	56.87	82.67
2.0 Transfer Payments	172.68	202.92	227.94	234.96	264.38
2.1 Interest	34.77	39.60	40.03	46.13	41.38
2.2 Grants	108.20	125.10	147.02	143.03	169.76
2.3 Subsidies	5.02	5.80	11.30	13.30	18.99
2.4 Other transfers	24.69	32.42	29.59	32.50	34.25
II. Capital Expenditure	134.44	131.29	162.56	179.84	201.46
3.0 Net Capital Formation 1/	120.68	115.50	135.29	150.07	167.25
4.0 Renewals and Replacements	13.37	13.69	24.71	28.85	33.67
5.0 Other Capital Transfers	0.39	2.10	2.56	0.92	0.54
III. Loans and Advances (net)	31.85	57.00	122.13	121.73	172.17
6.0 Loans and Advances(gross)	78.15	105.39	173.34	198.60	252.51
6.1 For Capital formation	50.08	79.61	131.31	180.51	123.23
6.2 For Current Consumption	28.07	25.78	42.03	18.09	129.28
7.0 Deduct Repayments	46.30	-48.39	-51.21	-76.87	-80.34
IV. Final Outlay(net)	70.43	650.68	778.49	857.77	980.26

1/ Includes new outlay, net increase in stocks, investment in shares and debentures and capital grants.

Data Source: Economic Classification of the Tamil Nadu Budget(various issues).

Annex Table 3: Outlays 1980-85

(Rs. Crores)

	1980/81	1981/82	1982/83	1983/84	1984/85 (RE)
I. Current Expenditure	891.18	1009.17	1164.43	1356.59	1573.26
1.1 Compensation of employees	298.06	422.28	521.83	597.68	711.03
1.2 Purchase of goods and services (net)	149.22	196.47	277.51	283.64	318.14
2.0 Transfer Payments	443.90	390.42	365.59	475.27	544.09
2.1 Interest	72.31	73.80	80.75	104.08	126.16
2.2 Grants	305.22	152.45	182.82	205.46	243.02
2.3 Subsidies	24.43	114.27	44.75	103.18	100.90
2.4 Other transfers	41.94	49.90	57.27	62.55	74.01
II. Capital Expenditure	235.45	373.29	440.27	571.49	499.60
3.0 Net Capital Formation 1/	191.09	299.30	378.93	503.79	451.57
4.0 Renewals and Replacements	44.74	73.58	61.29	67.35	48.21
5.0 Other Capital Transfers	-0.38	0.41	0.05	0.35	-0.18
III. Loans and Advances (net)	253.36	150.63	277.33	232.77	290.20
6.0 Loans and Advances (gross)	384.64	347.05	383.79	408.68	376.65
6.1 For Capital Formation	160.78	178.75	238.92	263.50	268.57
6.2 For Current Consumption	223.86	168.30	144.87	145.18	108.08
7.0 Deduct Repayments	-131.28	-196.42	-106.46	-175.91	-86.45
IV. Final Outlay (net)	1379.99	1533.09	1882.53	2160.85	2363.06

1/ Includes new outlay, net increase in stocks, investment in shares and debentures and capital grants.

Data Source: Economic Classification of the Tamil Nadu Budget (various issues).

Appendix I: Classification of Budgetary Receipts and Expenditures

The Accounting Classification

The Annual Financial Statement (popularly known as the Budget) basically classifies estimated actual receipts and expenditures during the year in three broad divisions: (a) revenue (b) capital including loans and advances and (c) the public account. The first two are within the "Consolidated Fund" while the public account covers transactions in funds, deposits etc. where government acts in effect as a banker. Broadly, the revenue account includes tax and non-tax receipts and grants on the receipt side and expenditures of a current or recurring nature on the disbursements side. The latter are classified functionally according to categories of services and the spending departments under each. Receipts under the capital account include borrowings and repayments of loans advanced by government. Capital disbursements include direct investments (e.g. on irrigation, industrial units, roads, buildings), share capital investments, and loans and advances. These again are classified according to categories of services. The functional categories used are: (i) General Services such as collection of taxes, debt servicing, administrative and other general services (ii) Social and community services such as education, medical, family welfare, public health, sanitation, water supply, housing and urban development, welfare of scheduled castes and tribes and backward classes and (iii) economic services such as agriculture and allied services, irrigation, community development, industries, power, transport and communications.

Development and non-development

2. In the annual RBI surveys of State Finances, expenditures are classified in three broad divisions: (i) Developmental which includes social and community services and economic services (ii) Non-development which includes general services such as those relating to organs of State, fiscal services, debt services and administrative services and (iii) compensation and assignment to local bodies and Panchayati Raj institutions.

Plan and non-plan

3. In general, developmental projects and programmes which are new starts or an expansion/extension of existing ones form part of the Plan. The Plan also includes (a) spill-over expenditures during the particular plan period on unfinished capital projects continuing from previous plans and (b) maintenance expenditures on new programmes (e.g. schools, hospitals) initiated during the plan period. At the beginning of any plan period, expenditures on the maintenance of projects/programmes started in the previous plan period become "committed" expenditures which are "non-plan" in the (new) plan period concerned. Much of so-called non-plan expenditures are developmental in nature as they are incurred on the maintenance of development projects/programmes. While thus, by definition, plan expenditures are entirely developmental,

[illegible] developmental expenditures can be either plan or non-plan depending on whether they pertain to new starts or to maintenance.

The Economic Classification

4. The Economic Classification of the Tamilnadu Budget (annually issued by the Department of Evaluation and Applied Research) contains 6 basic accounts the format of which is reproduced in the Annexure. Intra-budgetary transfers are

eliminated in the classification and only final disbursements and receipts are reflected. Each issue of the classification gives detailed explanatory notes on the methodology and reconciles the totals with those in the Annual Financial Statement. In Annex Tables 1 and 3 of this paper, we have consolidated the accounts in the Economic Classification into two compact tables on sources and uses of budgetary transactions.

Annexure: Format of the Economic Classification of the Budget

Account No.I: Current Account of Government

Sources	Uses
1.Tax Revenue	1.Consumption Expenditure
2.Income from Property & Entrepreneurship	2.Transfer Payments
3.Transfers from Households	3.Savings on current Account
4.Revenue Grants,Contributions & Recoveries	4.Total
5.Total	

Account No.II: Current Account of Departmental Undertakings

Sources	Uses
1.Gross Sale Proceeds	1.Wages & Salaries
2.Interest on DRF	2.Goods & Services
3.Total	3.Repairs & Maintenance
	4.Interest
	5.Depreciation
	6.Retained Profits
	7.Profits transferred to Govt.
	8.Total

Account No.III: Capital Amount of Govt. & Deptl. Undertakings

Sources	Uses
1.Gross Savings	1.Gross Capital Formation
2.Capital Transfers	2.Capital Transfers
3.Balance on all transactions in current & capital account	3.Total
4.Total	

Account No.IV: Changes in Financial Assets

Sources	Uses
1.Repayment of loans	1.Investment in Shares & Debentures
2.Net increase in financial assets	2.Loans & Advances
3.Total	3.Total

Account No.V: Changes in Financial Liabilities

Sources	Uses
1.Public Debt	1.Repayment of Debt
2.Small savings, Provident Funds etc.(net)	2.Net increase in financial liabilities
3.Inter-State Settlements (net)	3.Total
4.Cash Balance Investment Account (net)	
5.Other Debt (net)	
6.Total	

Account No.VI: Cash and Capital Reconciliation Account

Sources	Uses
1.Net increase in financial liabilities (from Account V)	1.Deficit on all transactions in current and capital account (from Account III)
2.Decrease in Cash Balance	2.Net increase in financial assets (from Account IV)
3.Total	3.Increase in Cash Balances
	4.Total

Appendix II: Note on Deflators

It is necessary to choose a suitable price index (or deflator) to convert the disbursements in current prices into a constant price series. The National Accounts Statistics annually issued by the Central Statistical Organisation gives current and constant prices series (in 1970/71 prices) for (a) consumption expenditures of State governments and (b) gross capital formation in public administration. Implicit price deflators have been derived from these series. We have used the consumption expenditure deflator for current outlays and loans for consumption (gross) and the capital formation deflator for capital outlays and loans for capital formation (gross) in the Economic Classification.1/ Gross final outlays in constant prices have been arrived at by aggregating current and capital outlays in constant prices. The current and constant series for gross outlays gives an implicit deflator for gross outlays.

2. The implicit overall deflators for each year for gross outlays has been used to convert receipts in the current price series into constant prices. The value of a rupee of receipts being the outlays on which it is expended, it is logical to use the outlays deflator to receipts as well.

3. The deflators used are given in the Annexure for 1960/61 to 1979/80. For convenience, they are given in the form of their inverse viz., the conversion factors which when multiplied with current prices yield corresponding constant prices.

1/For a somewhat different choice of deflators see K.N.Reddy, J V M Sharma and Narain Sinha Central Government Expenditure: Growth. Structure and Impact (1950-51 to 1977-78) NIPFP, New Delhi 1984.

Annexure: Conversion Factors for Converting current prices to constant prices of 1970/71

Year	For Current Outlays	For Capital Outlays	Implicit conversion factors for gross outlays
1960/61	1.54	1.69	1.59
1961/62	1.49	1.63	1.54
1962/63	1.47	1.58	1.50
1963/64	1.40	1.51	1.44
1964/65	1.34	1.45	1.38
1965/66	1.27	1.36	1.30
1966/67	1.20	1.22	1.21
1967/68	1.07	1.15	1.10
1968/69	1.02	1.13	1.06
1969/70	0.99	1.07	1.01
1970/71	1.00	1.00	1.00
1971/72	0.95	0.93	0.95
1972/73	0.90	0.86	0.89
1973/74	0.84	0.76	0.82
1974/75	0.76	0.62	0.72
1975/76	0.72	0.57	0.68
1976/77	0.68	0.55	0.64
1977/78	0.66	0.53	0.61
1978/79	0.66	0.48	0.59
1979/80	0.64	0.43	0.58

Source: Central Statistical Organisation: National Accounts Statistics (various issues).

Appendix III: Centre-State tax jurisdictions and fiscal transfers[1]

Tax Jurisdiction

1. The taxes that can be levied by the Union and the States are laid down as part of their respective legislative jurisdictions in Lists I (Union) and II (States) to the Seventh Schedule to the Constitution of India. The major taxes included in the Union List are: taxes on income other than agricultural income (income-tax); duties of customs including export duties; duties of excise on manufactured goods except alcoholic liquors, opium and other narcotics; corporation tax; estate duty in respect of property other than agricultural land; certain types of stamp duties (vide entries 82 to 92A in List I).

2. The tax sources available to the States are (i) land revenue (ii) taxes on agricultural income (iii) duties in respect of succession to agricultural land (iv) estate duty in respect of agricultural land (v) taxes on land and buildings (vi) taxes on mineral rights (vii) duties of excise on alcoholic liquors, opium and other narcotics (viii) taxes on the entry of goods into a local area (Octroi) (ix) taxes on the consumption or sale of electricity (x) taxes on the sale or purchase of goods other than newspapers (xi) taxes on advertisements other than those published in newspapers (xii) taxes on goods and passengers carried by road or on inland waterways (xiii) taxes on vehicles used on roads (xiv) taxes on animals and boats. (xv) tolls (xvi) taxes on professions, trades, callings and employments (xvii) capitation taxes (xviii) taxes on luxuries including taxes on entertainments, amusements, betting and gambling and (xix) stamp duties other than those in List I (vide entries 45 to 63 in List II).

1/For further details see S.Guhan The Finance Commissions: A Critique and A Concept, Madras Institute of Development Studies, Working Paper No.30, November 1982 and S.Guhan 'Devolution Criteria: From Gamble to Policy' in Economic and Political Weekly, Bombay, December 1, 1984.

3. Tax assignments and tax sharing

Stamp duties and duties of excise on medicinal and toilet preparations levied by the Union are collected and retained by the State within their jurisdiction (Article 268 of the Constitution).

4. Certain taxes levied and collected by the Government of India, but assigned to the States, according to principles to be formulated by Parliament by law, are specified in Article 269.

5. Taxes levied and collected by the Union but which shall or may be distributed among the States are taxes on income, other than Corporation tax (Article 270) and Union excise duties (Article 272). The principles of distribution are to be recommended by the Finance Commissions (Article 280).

6. The States have voluntarily agreed to allow the Union to levy additional excise duties in lieu of sales taxes on cotton fabrics, woollen fabrics, rayon or artificial silk fabrics, sugar and tobacco including manufactured tobacco. The understanding is that the proceeds will be wholly distributed back to them according to some appropriate formula that will correspond as closely as possible to the revenues that each of them would have derived if they had continued with sales taxes.

Finance Commissions

7. Since the Constitution, eight Finance Commissions have been established and have given their recommendations in respect of matters referred to them. The most important of these relate to (a) the extent of tax sharing under Articles 270 (income taxes) and 272 (excise duties) and (b) the principles according to which the quantum of taxes to be transferred to the States should be distributed among them.

8. The extent of tax sharing under each Finance Commission is given in Table A and the principles adopted for inter-State distribution are summarised in Table B.

Table A: Shares of taxes transferred under Finance Commissions

Commission (Award Period)	Income taxes per cent	Excise duties Coverage	Per cent
First(1952-57)	55	Tobacco, matches and vegetable products	40
Second(1957-62)	60	Above plus sugar coffee, tea, paper and vegetable non-essential oils	25
Third(1962-66)	66.67	All commodities yielding Rs.50 lakhs per year except motor spirit	20
Fourth(1966-69)	75	All items1/	20
Fifth(1969-74)	75	All items	20
Sixth(1974-79)	80	All items	20
Seventh(1979-84)	85	All items	40
Eighth(1984-89)	85	All items	45

1/There has been some differences in the treatment of regulatory duties, and special excise from award to award in the IV to VIII commissions. Earmarked cesses are excluded.

Table B: Criteria for Tax-sharing Used By Finance Commissions

(percentages)

Commission (Award Period)	Income-tax		Excise Duties				
	Population	Contribution	Population	Specific Indicators	Aggregate Indicators 1/		
					Inverse	Distance	Poverty
First (1952-57)	80	20	100	-	-	-	-
Second (1957-62)	90	10	90	10	-	-	-
Third (1962-66)	80	20	- 2/	-	-	-	-
Fourth (1966-69)	80	20	80	20	-	-	-
Fifth (1969-74)	90	10	80	20	-	-	-
Sixth (1974-79)	90	10	75	-	-	25	-
Seventh (1979-84)	90	10	25	-	25	25 3/	25
Eighth (1984-89) 4/	-	10	25	-	25	50	-

Notes: 1/ 'Inverse' and 'Distance' are with reference to per capita SD .
2/ The Third Commission did not specify its exact formula beyond saying that 'population was the major factor'.
3/ The revenue equalisation formula was in effect the distance criterion.
4/ The formula for excise-sharing was also used for 90 per cent of income taxes.

Appendix IV: Background Information on State Taxes[1/]

Land Revenue

1. The system of land revenue is based on the ryotwari settlement introduced at the close of the 19th century in the old Madras State. Non-ryotwari systems such as Zamindari and Inam tenures have been converted to ryotwari since Independence. Original land revenue settlements were made towards the end of the 19th and early in the 20th centuries. Resettlements were made in 1930 and further resettlements were suspended as a matter of policy in 1937. In principle, the land revenue was assessed to be equal to one half of the estimated net income from each class, sort and taram of the land reflecting characteristics of the soil and location. For lands irrigable from government sources, consolidated "wet assessments" were fixed including the element of water charges.

2. The basic land revenue assessment on all land registered as dry was waived in 1967. With effect from 1st July 1971, the land revenue component of the consolidated wet assessment was waived for holdings of less than 5 acres.

Agricultural Income-tax

3. The Agricultural Income Tax (AIT) was first introduced in 1955 and was initially confined to plantation crops viz., coffee, tea, rubber, cardamom and cinchona. In 1958, the tax was extended to all agricultural crops. The AIT tax structure provides for (a) exemptions (b) provisions to compound the tax and (c) conversion of land into standard acres for purpose of claiming exemptions and for compounding. Subject to these, the tax rates are progressive in relation to assessed income.

1/ For more details and rates in force see State Taxes - A Compendium, Volumes I to III issued by the Department of Evaluation and Applied Research, Government of Tamilnadu 1985.

Urban Land Tax

4. The Urban Land Tax (ULT) was first introduced in 1963. Initially it was confined to Madras City. Subsequently it was extended to Salem, Coimbatore, Tiruchirapalli and Madurai (1971), to areas lying within 16 kms. of the outer limits of Madras City (1975) and to peripheral areas of the four district towns and to the urban agglomeration in Tirunelveli (1981). The tax is based on the market value as on 1.7.1971 and is progressive in relation to the extent of land. A general exemption is available upto 2 grounds and specific concessions and exemptions have been given to owner-occupied lands, educational, charitable and cultural institutions and cinema theatres.

Sales Taxes

5. The general sales tax and the sales tax on motor spirits were introduced in 1939. Various changes in respect of exemptions, coverage, point of incidence and rates have been made from time to time. The trend has been towards single point taxation. At the beginning of 1983-84, 176 commodities had been brought under single point levies ranging from one per cent (barley) to 30 per cent (foreign liquor). Most rates range from 4 to 15 per cent ad valorem. The multi-point rate which applies to other commodities is currently 5 per cent. Exemptions are given to small traders and in respect of certain commodities such as foodgrains, vegetables, fruits, meat and fish, flowers etc.

6. An additional sales tax was levied in 1970 on larger traders and currently applies to traders with an annual turnover exceeding Rs.3 lakhs. A surcharge on sales tax was imposed in 1971 in urban areas. It now extends to Madras City and to a number of Corporations and Municipalities in the State. The proceeds from it are assigned to the local bodies.

7. The Central Sales Tax (CST) was introduced in 1957 and applies to all commodities entering inter-State trade. It is levied by the Centre in the State of origin of the trade and is collected and retained by the concerned State government. The rate of CST is currently 5 per cent.

State Excise Duties

8. The revenue from liquor arises from excise duties and gallonage fees levied on foreign liquor, Indian-made foreign liquor (IMFL), arrack and toddy and from rental income on retail shops for the sale of arrack and toddy the rights for which are sold in public auction. The main income is from the rental on arrack shops and from the excise duty on arrack which is currently Rs.6 per litre.

Stamp Duties and Registration Fees

9. Stamp duties have been in force since 1899. The two broad categories of stamp duties are judicial (viz., court fees payable on transactions in courts and public offices) and non-judicial (on instruments executed in legal transactions relating to property). Stamp duties are mostly ad valorem relating to the value of the transaction and the nature of the instrument. Under various local body legislations, surcharges on stamp duty are levied in City, Corporation, Municipal and Panchayat areas and the proceeds transferred to local bodies.

Registration Fees

10. Registration fees (in force from 1908) are ad valorem on the amount of consideration involved in each transaction which is registered.

Motor Vehicles Tax

11. The Motor Vehicles Tax was first introduced in 1931. It is a specific tax based on a classification of vehicles type-wise (cars, motor cycles, scooters, goods vehicles and stage carriages viz., buses) and according to characteristics such as laden weight, horse power, seating capacity and area of operations.

Entertainment Taxes

12. The entertainment tax was first introduced in 1926. The tax structure includes the basic tax, surcharge and additional surcharge and a show tax with a surcharge and additional surcharge. 90 per cent of the entertainment tax and 100 per cent of the surcharges on the entertainment tax and the show tax are transferred to local bodies. The entertainment tax is ad valorem on the price of the tickets while the show tax is a specific levy on each show. Since 1977, cinema exhibitors have been allowed to compound the entertainment tax in specified categories of Municipalities and Panchayat towns and Panchayat villages on the basis of the seating capacity in theatres.

Other taxes

13. These include (i) betting taxes (ii) taxes and duties on electricity and (iii) tax on hotels and lodging houses.

Appendix-V: Public Sector Corporations in Tamilnadu in 1983-84

I. INDUSTRIAL SECTOR

Promotional: (1) Tamilnadu Industrial Investment Corporation (TIIC) (2) Tamilnadu Industrial Development Corporation (TIDCO) (3) State Industries Promotion Corporation of Tamilnadu (SIPCOT) (4) Tamilnadu Small Industries Development Corporation (SIDCO)

Manufacturing: (5) Tamilnadu Small Industries Corporation (TANSI) (6) Tamilnadu Leather Development Corporation (7) Tamilnadu Minerals (8) Tamilnadu Magnesites (9) Tamilnadu Salt Corporation (10) Tamilnadu Ceramics (TACEL) (11) Tamilnadu Sugar Corporation (12) Southern Structurals (13) Tamilnadu Cement Corporation (TANCEM) (14) Tamilnadu Mopeds (15) Southern Brick Works (16) Tamilnadu Handloom Development Corporation (18) Tamilnadu Handicrafts Development Corporation (19) Tamilnadu Textile Corporation(20) Tamilnadu Zari (21) Electronics Corporation of Tamilnadu (ELCOT)

II. TRANSPORT SECTOR

Bus Services: (1) Pallavan Transport (2) Pandyan Roadways (3) Cholan Roadways (4) Cheran Transport (5) Anna Transport (6) Kattabomman Transport (7) Pattukottai Azhagiri Transport (8) Thiruvalluvar Transport (9) Jeeva Transport (10) Nesamony Transport (11) Maruthupandiyar Transport (12) Thanthai Periyar Transport.

Engineering Corporations: (13) Cheran (14) Madurai Pandiyan (15) Cholan (16) Pallavan (17) Anna

Others: (18) Tamilnadu Goods Transport Corporation (19) Transport Development Finance Corporation (20) Poompuhar Shipping Corporation (21) Tamilnadu State Construction Corporation.

III CIVIL SUPPLIES

(1) Tamilnadu Civil Supplies Corporation

IV AGRICULTURE AND ALLIED SERVICES

(1) Tamilnadu Poultry Development Corporation (TAPCO) (2) Tamilnadu Agro-Industries Corporation (3) Tamilnadu Meat Corporation (4) Tamilnadu State Farms Corporation (wound up in August 1982) (5) Tamilnadu Sugarcane Farm Corporation (6) Tamilnadu Fisheries Development Corporation (7) Tamilnadu Forest Plantation Corporation (8) Tamilnadu Tea Plantation Corporation (9) Tamilnadu State Tube Wells Corporation.

V OTHERS

Welfare: (1) Tamilnadu Adi-Dravidar Housing Corporation (2) Tamilnadu Corporation for Development of Women (3) Tamilnadu Police Housing Corporation (4) Dharmapuri District Development Corporation.

Others: (5) Tamilnadu Public Works Engineering Corporation (6) Tamilnadu Tourism Development Corporation (7) Tamilnadu Theatre Corporation (8) Overseas Man Power Corporation (9) Tamilnadu Warehousing Corporation (10) Tamilnadu State Marketing Corporation.