

Fiscal Management in Haryana: A Review

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Abstract

The state of Haryana, an old success story of the green revolution in the country, continues to be a relatively high per capita income state. The fiscal position of Haryana has also been sound. But after the onset of the policy of liberalisation by the Government of India (Gol) in 1991-92, the economic performance of the state has slowed down in comparison to the national growth rate. The fiscal indicators also started showing signs of deterioration. In the present paper, an attempt has been made to understand the factors leading to the worsening situation of the state finances. Investigations reveal that the revenue receipts of the state could not keep pace with expenditure requirements and therefore, led to the decline of its fiscal health. The problem was aggravated by the imposition of prohibition policy in mid '90s. The Fifth Pay Commission affected the expenditure side of the budget substantially and the state was in trouble by the late 90s. However, the government took corrective measure and the situation was brought under control. Detailed analyses suggest that social sector performance has been deteriorating and the government has not been able to do anything worthwhile to reverse it. Neither enhancement in public expenditure nor change in policy regime to attract non-government players is visible. In fact, Haryana would have done far better had it acted proactively and modified its policies to take advantage of the changed ground realities after 1991-92. Haryana also missed some opportunities to mobilise funds from unconventional sources at competitive rates. The most obvious deficiency in the economic management of the state is that it has not been able to develop growth centre(s) organically connected to its hinterland. This has resulted in a highly unbalanced regional development of the state. Consequently, only these areas of Haryana which are adjoining Delhi, are the growing regions, having very poor linkage with most part of the state. These

deficiencies need corrective steps by the Government of Haryana (GoH).

Fiscal Management in Haryana: A Review[#]

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State Finances: Macro Issues

The state of Haryana, an old success story of the green revolution in the country, continues to be relatively high per capita income state. The state ranks fourth, behind Goa, Punjab, and Maharashtra in terms of per capita income. The trend rate of growth in Net State Domestic Product (NSDP) of Haryana was above the all India growth rate upto the year 1990-91 (Table 1). However, since then it has fallen below the national average. This is a disturbing trend. In fact, during the period of 1993-94 to 1998-99, the rank of Haryana in terms of rate of growth in income was eleventh in the country. If the current trend in NSDP growth continues, Karnataka and Gujarat will overtake Haryana in the near future. If we look at the sectoral growth rate of GSDP in Haryana during the period 1994-95 to 2002-03, the primary sector grew at a rate of 1.6 percent, secondary sector at the rate of 6.6 percent, and tertiary sector at 9.5 percent per annum (table 2). It implies that the primary sector has been dragging down the growth performance of the economy of Haryana during the last decade. It seems that the effect of green revolution emphasising wheat-rice led agricultural growth has

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almost petered out. Haryana presents a peculiar picture of development. Agriculture led growth has ensured low poverty ratio in the state. Economic infrastructure is also reasonably well-developed and it ranks fourth in the country. However, social development indicators leave much to be desired (Table 3). Literacy rate amongst male and female in Haryana is 76.3 and 57.3 percent respectively as per the 2001 census report which is much below that of other comparably developed states in the country. Gender ratio, a measure of the status and health of women in Haryana (female per 1000 male) at 861 (India 933) is the lowest in the country. Further, the gender ratio has been declining in the state. As per the economic survey of Haryana 2003-04, in the age group of 0-6 years only 820 females are there for every 1000 male. Life expectancy at birth in Haryana at 64 years is much lower in comparison to Kerala (73 years) and Punjab (68 years).

Table 1: Trend in NSDP Growth

Year	Haryana	India	Rank of Haryana (in growth)
Up to 1969-70	5.5	3	4
70-71 to 79-80	4.5	3.6	4
80-81 to 90-10	6.2	5.6	2
93-94 to 98-99	5.8	6.8	11

Source: Central Statistical Organisation

Table 2: Haryana: Sectoral Growth Rate

Year	Primary	Secondary	Tertiary	Total
94-95	7	9.1	5.4	7.1
95-96	-4.7	8.3	7.2	2.5
96-97	10.9	6.8	16.7	11.6
97-98	-7.8	6.4	8.2	1.4
98-99	3.4	7	6.5	5.6
99-00	4.5	5.6	12.2	7.7
00-01(P)	2.8	5.7	11.6	6.9
01-02(P)	0.5	4.7	8.9	5
02-03(Q)	-0.8	5.8	9.2	5.2
Average	1.6	6.6	9.5	5.9

P: Provisional , Q: Quick Estimate

After the onset of the policy of liberalisation in the country, the onus of providing direction to the states economies has come on the state governments. This has led to intense competition among states to attract investment in various sectors. The fiscal concession based strategy has already proved that it is a zero sum game as other states can always match the offer of the rival states. In other words, investment ultimately will be driven by the availability of superior infrastructure and facilitative policy package and responsive administration.

Obviously, the state government needs to enhance the amount and pattern of spending on the physical and social sectors in a big way and introduce new policy framework. The prescription has a direct bearing on the availability of the funds with the state government. The analyses of the budgetary data of the Government of Haryana (GoH) bring out the fact that during the 1990s, the fiscal position deteriorated and fiscal indicators such as fiscal deficit and revenue deficit ballooned. The adverse impact of the policy of prohibition during 1996-97 and 1997-98 on revenue receipts and award of *Fifth Pay Commission* on expenditure was substantial in nature. The deterioration in the state finances coincided with the fall in the performance of the state economy. It may be noted that while there has been a consistent improvement in the financial condition of GoH over the last 4-5 years, there is no perceptible improvement in the performance of the economy of the state. It may be the case as generally happens, that the government resorting to indiscriminate cost cutting measures in order to control the budget deficit, might have affected the productive sector adversely. Growth of unproductive expenditure also might have crowded out the productive expenditure. The matter needs investigation in order to unravel the truth. For revenue generation the government initiated the process of simplification of sales tax leading to the introduction of VAT in 2003, withdrawal of prohibition, abolition of tax concession to attract investment, rationalisation of staff, swap of high cost debt, recourse to market borrowing and reforms in power sector. The result of the policy package can be seen in the surplus in primary deficit since 2002-03. However, structural transformation of the state economy demands more proactive policy responses on behalf of the state government to meet the emerging challenges to the economy of Haryana. The state needs to improve its social indicators urgently. The agriculture sector is in immediate need of modernisation. All this suggests that it is time to make an informed assessment of the progress of fiscal reform in the state with a view to identify appropriateness of measures taken so far and the need

to reorient specific policies and strategies to achieve desired objectives. This paper attempts to understand the mechanism through which the state finances were turned in the desired direction as well as the attendant issues cropping up in the process.

Table 3: Haryana: Social Indicators (2001)

Indicator	Haryana	India	Rank of Haryana
Literacy Rate (%)	68.6	65.6	19
Male	79.3	75.9	16
Female	56.3	54.2	22
Life Expectancy (years)	64	61	5
Sex Ratio (F per '000 M)	861	933	28
Infant Mortality Rate (per '000)	69	71	25

Source: Tenth Plan Document

The paper is divided into 5 sections. Section I introduces the topic. In section II, a brief assessment of the fiscal situation in Haryana before 1998-99 is carried out. It also looks into the factors leading to the reform movement in the state. In section III, we look into some of the important steps taken by the government as part of the reform process and review the progress. In section IV some of the issues of concern requiring urgent attention have been discussed. In section V an attempt is made to suggest appropriate strategies in order to achieve desired objectives.

[Note: The main source of data used in the paper is data published by the Office of Economic Advisor, GoH, unless otherwise mentioned.]

II. Fiscal Situation Prior to 1998-99 Reforms

Government Expenditure

Before assessing the progress of the fiscal reform process, it is useful to understand the circumstances that called for the reform options. As in several other states, during the 1990s the fiscal situation in Haryana was basically characterised by the sluggishness in revenue generation and growth in unproductive government expenditure leading to high fiscal and revenue imbalances.

The revenue expenditure as proportion of GSDP in Haryana during 1990s does not follow any pattern as such. As shown in table 4, revenue expenditure on an average was slightly less than 15 percent of GSDP of Haryana up to the year 1990-91. But it declined during 1990s and hovered between 12.5 to 13.0 percent of GSDP. Only two years, 1994-95 and 1998-99, are exceptions when revenue expenditure reached around 14.5 of GSDP. The reason for the increase in 1994-95 was above average expenditure on irrigation and energy. In fact, the expenditure on maintenance of irrigation and energy was hiked during the year as a prelude to approach the World Bank for financial assistance for these sectors. This is evident from Table 5 that classifies revenue expenditure into salary and non-salary components. The non-salary expenditure can be a good proxy of expenditure on maintenance. The Table brings out the fact that non-salary expenditure peaked at 88 percent of the revenue expenditure on irrigation for the year 1994-95 and its share slid down to 70 percent thereafter. Similar is the case of energy. The increase in expenditure in the year 1998-99 was the outcome of the implementation of *Fifth Pay Commission* Report.

Table 4: Haryana: Revenue Expenditure
(percent of GSDP)

Year	86-91	91-92	94-95	97-98	00-01	02-03	03-04
1.Gen service	4.35	4.00	3.81	3.99	5.13	5.44	5.22
1.1Debt service	1.82	1.99	1.86	2.12	2.71	3.00	2.99
2.Social Service	5.25	4.38	4.42	4.08	4.55	4.65	4.43
2.1Education	2.57	2.19	1.95	2.16	2.44	2.43	2.38
2.2 Medical	1.16	0.96	1.28	0.97	0.93	1.07	0.97
3 Econ. Service	5.11	4.87	6.15	4.60	2.80	4.24	3.91
3.1 Irrigation	1.20	1.13	1.99	0.75	0.59	0.94	0.83
3.2 Energy	0.35	0.25	1.74	1.76	0.26	1.35	1.30
3.3 Transport	1.67	1.43	1.26	1.14	1.05	0.96	0.88
Total Rev Exp.	14.7	13.3	14.4	12.8	12.5	14.3	13.6

Interestingly, the pattern of expenditure during 1991-92 to 2000-01 is almost constant except in case of increase in the share of general service which can be accounted for by the increase in debt service. The expenditure on debt service went up by more than 1 percent of GSDP during the decade. It is noteworthy that the expenditure on education and health remained constant despite the urgent need to effect an increase as discussed below.

**Table 5 : Haryana: Salary and Non-Salary Revenue Expenditure
(% Distribution)**

Year	Education		Health Care		Irrigation	
	Salary	Non-Salary	Salary	Non-Salary	Salary	Non-Salary
90-91	79.87	20.13	54.95	45.05	9.73	90.27
91-92	78.51	21.49	55.91	44.09	11.28	88.72
92-93	76.50	23.50	60.16	39.84	14.33	85.67
93-94	80.54	19.46	59.22	40.78	15.27	84.73
94-95	81.47	18.53	44.67	55.33	11.98	88.02
95-96	94.78	5.22	64.05	35.95	30.14	69.86
96-97	83.12	16.88	66.23	33.77	23.98	76.02
97-98	84.29	15.71	63.82	36.18	20.22	79.78
98-99	89.51	10.49	74.73	25.27	34.25	65.75
99-00	83.69	16.31	65.92	34.08	29.14	70.86
00-01	78.80	21.20	69.16	30.84	22.91	77.09
01-02	82.31	17.69	64.37	35.63	27.32	72.68
02-03	76.27	23.73	55.31	44.69	27.17	72.83
03-04	72.05	27.95	55.96	44.04	31.97	68.03

Quality of Expenditure

As already mentioned, revenue expenditure as a ratio of GSDP remained almost unchanged during the entire '90s. However, the quality deteriorated substantially during the period. The break-up of expenditure on education, health and irrigation bring out the point clearly (Table 5). These sectors have been picked up keeping in view the fact that social indicators enjoin upon the government to play a proactive role in education and health while irrigation has a direct impact upon the agriculture sector on which 60 percent of the population is dependent.

Education

The revenue expenditure on education was stable at around 2.5 percent of GSDP during the '90s in Haryana. The capital expenditure on education declined from 0.1 percent of GSDP to 0.03 percent during the period. It can be inferred that the government did not feel the need to enhance the spending despite the urgent need to do the same.

Table 6: Haryana: Proportion of Expenditure on Education to GSDP

Year	Higher	Secondary	Primary
1966-67	8.03	60.66	31.40
1980-81	15.65	43.07	41.28
1990-91	16.54	40.03	43.43
1995-96	16.46	56.38	27.16
2000-01	15.82	56.33	27.85
2001-02	14.45	55.76	29.79

Table 6 shows that the expenditure on secondary education went up at the cost of primary education during the period 1980-81 to 2000-01. During the period the expenditure on primary education as a proportion of total revenue expenditure on education declined from 43 to 27 percent. The decline in expenditure on primary education is a serious matter in view of the fact that the ratio of children attending school within the age group of 6-11 years has come down from 93 percent to 76 percent from 95-96 to 2001-02 (Table 7).

Table 7: Haryana : Percentage of School-going Children

Year	Age Group (in years)								
	6-11			11-14			14-17		
	Boys	Girls	Total	Boys	Girls	Total	Boys	Girls	Total
66-67	80.7	34.7	58.9	56.2	16.2	37.3	25.9	6.3	16.7
80-81	99.1	54.7	77.7	65.2	26.3	46.9	26.6	9.4	18.6
90-91	97.3	76.1	86.7	78.6	50.5	65.2	36.6	18.8	28.1
95-96	95.2	88.6	92.6	70.4	55.4	63.3	32.9	19.8	27.4
00-01	78.1	80	78.9	66.9	61	64.2	-	-	-
01-02	76	77	76.4	65.1	58.7	62.1	-	-	-

The ratio of students in the age group of 11-14 and 14-17 years also registered a marginal fall reflecting worsening status of education in the state. Though the relevant information is not available yet it can be presumed with reasonable degree of confidence that it must be the weaker sections of society whose share has fallen in school attendance. This can lead to grave economic and social justice issues in the near future. Thus it is clear that the performance of education sector has worsened over the recent period in Haryana. The fact that government expenditure has remained constant during this period reflects poorly on the budgetary allocation process in the state. Interestingly, the distribution of revenue expenditure between salary and non-salary is almost constant, further strengthening the point that the GoH simply undertake incremental approach towards budgetary allocation in disregard to the ground realities.

Health

The revenue expenditure on health came down from 1.16 to less than 1 percent of GSDP during the 1990s as indicated in Table 4. The ratio of salary to non-salary expenditure (indicating expenditure on medicine and maintenance of equipment) remained unchanged during the period. A look at the health care related indicators (Table 8) point out the worsening condition of the sector. The number of hospitals per million of population in 1966-67 (when the state came into being) was 6; it increased to 8 by the year 1980-81. Similarly, the number of hospital beds went up from 530 to 690 during the period. Thereafter the decline set in. The number of hospitals and beds came down to 4 and 510 respectively in the year 2001-02. Even the number of Family Welfare Centres (FWC) per million of population is unchanged since the inception of the state in 1966-67. The declining gender ratio calls for the increase in FWCs to take care of the health of women in the state. Further the infant mortality rate at 67 and life expectancy at birth at 64 years in Haryana in comparison to 10 and 73 years in Kerala signify the urgent requirement of enhancement in expenditure on health. The government seems to be oblivious of the facts in this area.

Table 8: Haryana: Some Health Indicators
(per million population)

Year	Hospital	Beds	FWC
1966-67	6	530	-

1980-81	8	690	10
1990-91	4	650	10
2000-01	4	510	10
2001-02	4	510	10

Irrigation

Haryana is predominantly an agriculture-based economy. More than 60 percent of the population of the state is dependent on agriculture. Agriculture of the state in turn depends substantially on irrigation, as the state is climatically a rain deficit area. The various governments of Haryana have accorded topmost priority to irrigation throughout the planning period. Capital expenditure on irrigation has been almost 30 percent of the total capital expenditure of the state. Presently the coverage of irrigation is 84 percent of the net area sown. The study by Sen and Rao (2000) brings out the fact that the revenue expenditure for maintenance of irrigation is more than double (for the year 1994-95) the normative expenditure as defined by the *Tenth Finance Commission*. There appears to be no improvement thereafter. Table 5 highlights the point that non-salary expenditure as ratio of revenue expenditure on irrigation deteriorated to 70 percent in 1995-96 from the 85 percent in previous years. The non-salary expenditure broadly includes expenditure on operation and maintenance. The falling ratio reflects the deterioration in the operation and maintenance of irrigation facilities in the state.

Table 9: Haryana: Irrigation

Year	Area Irrigated (^{'000} hectares)	Total Capital Outlay (Rs. crore)		Working Expense (WE) (Rs. crore)	Gross Receipts (GR) (Rs. crore)	Recovery Ratio (GR/WE)
		During the year	Cumula- tive			
90-91	1980	76.2	1180.6	44.4	17.3	0.39
95-96	1996	125.1	1700.3	84.9	21	0.25
00-01	2147	231	3082.9	80.9	54.3	0.67
01-02	2053	281	3363.9	122.5	68.5	0.56

Source: CAG Reports, various issues

Table 9 shows that cumulative expenditure on irrigation was Rs. 3,365 crores by the year 2001-02. However the return to the government from irrigation is highly insufficient. It is less than 50 percent of the

running expenses on irrigation. The World Bank assisted *Water Resources Consolidation Project* (WRCP) stipulates a recovery of 100 percent of operation and maintenance expenditure. Even the irrigation projects started under the WRCP project have not been able to recover the running costs as per the report of CAG, 2003. The less than optimal water usage charges are prompting the farmers to overuse water leading to the fall in water table in some areas, while in others, water, logging has occurred.

Power Sector

The Haryana State Electricity Board (HSEB) was constituted by bifurcating the Punjab State Electricity Board in May 1967. Haryana is actually deficient in commercial energy resource endowment. As per an estimate (by the Technical Director HVPNL, Panchkula) the installed capacity exceeded the peak load requirement in the state upto the year 1991-92. Since then, additional demand of electricity in Haryana outstripped additional capacity creation resulting in massive deficit in the availability of power in the state. The shortfall in installed capacity was abnormally high during the period between 1993-94 and 1997-98 when it reached between 30 to 40 percent of the peak load demand. The HSEB had to purchase costly power from external agencies causing deterioration in the already precarious financial position of the HSEB.

Table 10 : Financial Performance of HSEB

Year	Rate of return on capital employed with subsidy (percent)	Rate of return on capital employed without subsidy (percent)	Commercial losses with subsidy (Rs. crore)	Commercial losses without subsidy (Rs. crore)	Subsidy (Rs. crore)
1990-91	-12.31	-15.76	-128.71	-164.76	36.05
1991-92	-16.44	-19.24	-235.35	-275.73	40.03
1992-93	-20.16	-22.80	-335.50	-370.73	35.23
1993-94	-24.50	-28.80	-410.90	-482.68	71.78
1994-95	+0.93	-25.40	+16.46	-449.34	465.80
1995-96	+4.80	-34.90	+78.30	-570.10	648.40
1996-97	+3.00	-37.60	+47.75	-601.55	649.30
1997-98	+1.26	-45.50	+19.75	-712.70	732.45
1998-99	-8.80	-33.60	-143.30	-547.3	404.00

1999-00	-3.20	---	-59.54	-471.54	412.00
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Source: Statement of Accounts of HVPNL Panchkula

Table 10 brings out the fact that the commercial losses of the HSEB increased from Rs. 164.76 crore to Rs. 712.45 crore in 1997-98. The rate of return on capital employed also nosedived to less than (-) 40 percent (without subsidy) in the year 1997-98. Even a payment of subsidy of Rs. 732 crore during the year could not generate the requisite funds with the HSEB for further capacity enhancement. The main factor behind losses to the HSEB has been highly subsidised supply of electricity to the farmers of the state. The agriculture sector in Haryana consumes 40 to 50 percent of the total electricity supplied by the HSEB. The average rate per unit of electricity charged from farmers is approximately Rs. 0.50 in comparison to approximately Rs. 4.00 per unit charged from other consumers. Moreover, the T & D losses at around 30 percent are further depressing the performance of the state power sector.

Subsidies

Subsidies are often unproductive expenditures that can be justified only if targeted towards the poorer sections of the society. In Haryana, subsidies have gone up sharply during the 90s. They were less than half a percent of GSDP in the 80s, but jumped to more than 2 percent since 1994-95 (Table 11). There has been some drop after 1998-99. Almost 90 percent of the subsidy goes to the power sector while irrigation gets the remaining portion. The uncontrolled and untargeted subsidy bill indicates poor fiscal management by the GoH. This subsidy is only explicit subsidy. The low user charges for most of the social and economic services can be called implicit subsidy. If this figure is included, the subsidy bill is actually substantially affecting not only the state finances, but also causing serious implications for social justice issues as most of the implicit subsidy is consumed by the better-off section of the society.

Table 11: Haryana: Subsidy and Interest Payment
(percent of GSDP)

Year	86-91	91-92	94-95	97-98	00-01	02-03	03-04
1.Subsidy	0.52	0.43	3.58	2.43	0.68	2.05	1.97

2.Interest	1.15	1.50	1.58	1.89	2.57	2.95	2.96
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Table 12: Haryana: Committed Expenditure

(percent of revenue receipts)

Year	Salary	Pension	Interest Payment	Total
1996-97	26.40	4.00	27.80	58.20
1997-98	31.00	4.40	28.20	63.60
1998-99	49.30	9.70	27.70	86.70
1999-00	46.60	10.00	33.57	90.17
2000-01	41.10	8.70	32.04	81.84
2001-02	39.90	8.60	29.95	78.45
2002-03	37.10	8.60	30.86	76.56
2003-04(RE)	34.70	8.30	32.03	75.03
2004-05(BE)	33.00	8.10	33.09	74.19

Committed Expenditure

Another indicator of quality of government expenditure is the committed charges as a proportion of revenue receipts. Committed expenditure is the accumulated outcome of past actions and policies of the government. It is not possible to reduce these in the short run. Table 12 shows that this ratio peaked at 90 in the year 1999-00. In other words out of every Rs.100 received by the GoH, Rs. 90 were spent in meeting the expenditure on past commitments in the form of salary, pension and interest payment. It implied that the government could spend only Rs. 10 at its discretion. The impact of *Fifth Pay Commission* implementation on salaries and pensions is clearly visible in the table. The salary payment jumped from 31 percent in 1997-98 to 49 percent in 1998-99. Similarly pension increased from 4 percent to around 10 percent during the same period. Incidentally interest payment also shot up in the next year and further deteriorated the already precarious condition of state finances. Salary and pension expenditures have, however, been contained after 1999-2000.

Capital Expenditure

Capital expenditure was 3.5 percent of GSDP up to the year 1990-91. During the '90s it came down to 2-2.5 percent of GSDP. Table 13 highlights a significant change in the composition of capital expenditure of the state. The share of loans and advances provided by the GoH to various bodies including State Public Sector Undertakings (SPSUs) declined to less than 0.5 percent of GSDP from the high figure of more than 2 percent prior to 1990-91. This is a welcome sign as investments in the SPSUs were not yielding sufficient return to the government and were proving to be a burden on government finances. Table 14 reveals that the return received by the government is less than 0.1 percent on the accumulated investment in SPUS. The direct capital expenditure by the GoH is more or less constant at 1.5 percent of GSDP. However, there is some shift in the expenditure pattern as the share of the energy sector has gained importance at the expense of the irrigation sector reflecting the shift in focus of investment priorities.

Table 13: Haryana: Capital Expenditure (percent of GSDP)

Year	86-91	91-92	94-95	97-98	98-99	02-03	03-04
1 General Service	0.05	0.05	0.02	0.06	0.06	0.10	0.11
2 Social Service	0.19	0.18	0.35	0.34	0.34	0.32	0.39
2.1 Education	0.12	0.08	0.06	0.03	0.05	0.01	0.02
2.2 Medical, Family Welfare & Water supply	0.05	0.05	0.22	0.29	0.28	0.27	0.33
3 Economic Service	1.21	0.67	0.42	0.88	1.95	0.94	0.97
3.1 Irrigation & Flood Control	0.92	0.62	0.34	0.68	0.69	0.16	0.17
3.2 Energy	0.05	0.01	0.00	0.00	0.75	0.19	0.21
3.3 Road, Bridge & Transport	0.28	0.26	0.16	0.12	0.12	0.43	0.41
Total Capital Expenditure	1.46	0.90	0.79	1.27	2.35	1.36	1.46
Loans & Advances (Disbursed)	2.03	1.40	1.28	1.13	0.52	0.48	0.30
Capital Expenditure	3.49	2.30	2.07	2.41	2.87	1.84	1.77

Thus, almost all the indicators related to expenditure side bring out the fact that quality of expenditure has perceptibly worsened during the 90s. Committed expenditures were at their peak, health, and education performance was deteriorating for want of sufficient funds, capital expenditure stagnating while the subsidy bill and interest payment growing unabated caused the ringing of alarm bells. The implementation of the *Fifth Pay Commission* report added fuel to the fire and by the year 1998-99 and the expenditure management of GoH almost became unsustainable.

Table 14: Haryana: Government Investment and Return

Year	Cumulative Investment*	Dividend Received	(Rs. crore)
			Return (Per cent)
93-94	1445.94	0.95	0.07
94-95	1463.75	7.02	0.48
95-96	1523.84	3.15	0.21
96-97	1865.9	4.53	0.24
97-98	1898.07	2.38	0.13
98-99	2224.32	2.21	0.10
99-00	2568.2	7.78	0.30
00-01	2843.73	1.81	0.06
01-02	2905.97	0.4	0.01
02-03	3067.25	1.73	0.06

Note: * Investment includes contribution in share capital of statutory corporations, govt. companies and co-op banks & societies

Source: CAG Report GoH (Civil) 2003

Structure of Financing

Sustainable public expenditure management calls for an appropriate revenue mobilisation scheme. Barring a few exceptions such as loan waiver of farmers in late '80s and prohibition policy in mid '90s, the political leadership in Haryana has followed the conventional wisdom, where expenditure beyond one's means is not taken as prudent. In comparison to other states, the revenue mobilisation efforts of Haryana have been reasonably good.

The examination of revenue receipts of Haryana (Table 15) brings out the fact that revenue receipts as a ratio of GSDP declined from 13 percent in early 90s to less than 11 percent in the year 1996-97 and 1997-98. A closer look to find out the sources of the fall reveals that the states' own tax revenue (SOTR) and states' own non-tax revenue (SONTR) declined by 0.87 and 0.43 percentage points of GSDP between the year 1991-92 and 1998-99. The fall in resources from the GoI on account of share in central tax (SCT) and grants-in-aid (GiA) was 0.25 and 0.26 percentage points of GSDP respectively. Obviously Haryana being a relatively rich state of the country cannot expect to depend on the central resources and therefore a decline in the states' own resources to the extent of 1.3 percent of GSDP during the period was more serious. Table 14 tells us that the sales tax is the most important source of revenue and its contribution was around 4 percent of GSDP between 1991-92 and 1998-99. State excise duty (SED) is the second most important source of revenue and its contribution was approximately 2 percent of GSDP except during 1996-97 and 1997-98 when the policy of prohibition was in operation. Interestingly the ratio of other taxes remained almost unchanged. Similarly the composition of SONTR is unchanged and contribution of most of the services is declining marginally. The point to note is that the decline is not perceptible as no big figures are involved. In fact, user charges on most of the services are specific and do not keep pace with the rising prices. Therefore, we see a marginal fall in the revenue receipts in most sectors, whose aggregate impact becomes substantial on the state finances. The fall in the share in central government resources is simple to explain. The progressivity involved in the central resource allocation ensures that as Haryana progresses and /or other states lag behind, its share falls.

Fiscal Balance

Revenue account of the GoH was in surplus up to the year 1990-91 since 1966-67 (Table16). Revenue account deficit occurred for the first time in the year 1991-92. The GoH had again revenue surplus in the year 1993-94 after two years of marginal deficit. Afterwards, the revenue deficit not only became a regular feature, its magnitude also started increasing. Revenue deficit reached the highest level of 2 percent of GSDP in the year 1996-97 and 1997-98, when the revenue took a hit because of the prohibition policy. (The losses in receipts from state excise duty were around 2 percent of GSDP).

Table 15: Haryana: Revenue Receipts

Year	(percent of GSDP)								
	86-91	91-92	95-96	96-97	97-98	98-99	01-02	02-03	03-04
(A)SOTR	6.41	8.02	7.28	6.01	6.13	7.15	8.26	8.51	8.42
1.Taxes on property	0.61	0.61	0.83	0.77	0.79	0.66	0.84	0.91	0.87
1.1 Stamp and registration	0.60	0.60	0.82	0.77	0.78	0.67	0.81	0.82	0.79
1.2 Land revenue	0.01	0.01	0.00	0.01	0.01	0.01	0.03	0.09	0.08
2.Tax: commodity & services	5.81	7.41	6.46	5.24	5.34	6.46	7.41	7.60	7.54
2.1 Sales Tax	2.96	3.83	3.54	3.87	4.02	3.66	4.89	5.01	5.06
2.2 State excise duty	1.63	1.94	1.86	0.18	0.13	1.77	1.45	1.40	1.36
2.3 Tax on vehicle	0.17	0.42	0.18	0.17	0.17	0.16	0.17	0.17	0.16
2.4 Tax on goods & passengers	0.71	0.74	0.68	0.73	0.86	0.72	0.83	0.91	0.87
2.5 Tax on electricity	0.23	0.24	0.16	0.10	0.10	0.10	0.05	0.08	0.07
2.6 Entertainment tax	0.06	0.05	0.03	0.01	0.03	0.03	0.01	0.01	0.01
(B) SCT	1.04	1.35	1.21	1.21	1.40	1.10	0.75	0.88	0.85
1.Income tax	0.28	0.39	0.47	0.47	0.68	0.41	0.16	0.17	0.16
2 Union excise duty	0.78	0.96	0.74	0.74	0.72	0.69	0.24	0.30	0.29
I Total tax revenue	7.47	9.38	8.49	7.22	7.52	8.25	9.00	9.40	9.27
(C) SONTR	2.86	2.59	2.44	2.40	2.47	2.16	2.10	2.19	1.98
1.Interest receipt	0.78	0.86	0.86	0.67	0.61	0.42	0.55	0.65	0.66
2.General services	0.58	0.15	0.21	0.33	0.35	0.30	0.20	0.24	0.05
3.Social services	0.14	0.20	0.18	0.21	0.36	0.29	0.24	0.25	0.23
4.Economic services	1.35	1.38	1.19	1.20	1.14	1.14	1.11	1.05	1.04
4.1 Irrigation	0.11	0.10	0.07	0.08	0.07	0.14	0.11	0.12	0.11
4.2 Road & transport	1.00	1.06	0.92	0.86	0.83	0.76	0.68	0.67	0.60
D. GIA	1.11	1.09	1.00	0.96	0.93	0.83	0.85	1.09	1.08

Table 15: Haryana: Revenue Receipts

	(percent of GSDP)								
Year	86-91	91-92	95-96	96-97	97-98	98-99	01-02	02-03	03-04
1 State plan scheme	0.28	0.25	0.31	0.36	0.37	0.34	0.32	0.27	0.22
2 Centrally sponsored scheme	0.53	0.65	0.46	0.51	0.47	0.43	0.25	0.59	0.66
3 Non plan grant	0.24	0.19	0.23	0.08	0.08	0.11	0.26	0.22	0.20
II Total NTR	3.97	3.68	3.44	3.35	3.40	2.99	2.95	3.28	3.06
Total revenue receipts	11.42	13.06	11.94	10.59	10.93	11.24	11.96	12.65	12.34

The year 1998-99 gave a decisive blow to the fiscal balance of Haryana when the expenditure ballooned in the wake of implementation of the *Fifth Pay Commission* report. The revenue deficit touched a rather high level of 3.5 percent of GSDP in the year. This proved to be a turning point for the state finances. The expenditure was already at its bare minimum and there was not much scope to reduce it further. As already discussed, an increasingly large portion of revenue expenditure was used to meet the committed expenditure. The fiscal deficit almost followed the pattern of the revenue deficit and peaked at 5.13 percent of GSDP in the year 1998-99. Given the constraints on the ability of the state government to borrow, the burden of adjustment fell on the capital and maintenance expenditure. It had adverse implications in terms of infrastructural constraints, declining productivity of investment and deceleration in the long run growth of the economy, as well as on the social indicators. Since the states are not entirely free to borrow, the fiscal deficit as a concept is not very useful in the analysis of the state finances. The main focus therefore should be on the revenue account.

Table 16: Haryana: Summary of Fiscal Indicators

(percent of GSDP)

1	2	3	4	5	6	7	8	9	10
Year	Revenue Expenditure	Revenue Receipt	Capital Expenditure	Loans & advances (disbursement)	Loans (recovery)	Revenue deficit (2-3)	Fiscal deficit [(2+4+5) -(3+6)]	Interest payment	Primary deficit (8-9)
86-91	14.72	14.98	1.45	2.03	0.26	-0.26	2.95	1.82	1.14
91-92	13.26	13.06	0.90	1.40	0.19	0.20	2.31	1.99	0.33
92-93	12.80	12.79	1.25	1.34	0.17	0.01	2.43	1.88	0.55
93-94	11.71	12.07	1.37	1.31	0.14	-0.36	2.17	1.91	0.26
94-95	14.41	12.92	0.79	1.28	1.52	1.49	2.04	1.86	0.18
95-96	13.11	11.94	0.96	1.28	0.10	1.16	3.31	1.87	1.44
96-97	12.60	10.59	1.25	1.11	1.29	2.02	3.08	2.01	1.08
97-98	12.79	10.93	1.27	1.13	1.35	1.86	2.92	2.12	0.79
98-99	14.77	11.24	2.35	0.52	1.27	3.53	5.13	2.28	2.85
99-00	13.66	11.24	1.83	0.59	0.48	2.42	4.36	2.78	1.58
00-01	12.48	11.38	2.62	0.51	0.13	1.10	4.11	2.71	1.40
01-02	13.71	11.96	2.44	0.50	0.09	1.75	4.60	2.70	1.90
02-03	14.30	12.65	1.36	0.48	0.15	1.65	3.35	3.00	0.35
03-04	13.56	12.34	1.46	0.30	0.13	1.23	2.86	2.99	-0.13

III. Fiscal Consolidation: 1998-99 Onwards

The period prior to 1998-99 was marked by the continuous deteriorating condition of the state finances of Haryana. As already mentioned, Haryana is an economically better off state and generally people have expectations of a relatively high quality of services from the government. Politically Haryana is a stable state having *winner takes it all attitude*. In other words the opposition does not create much obstacle in the implementation of policies of the ruling party. Therefore the government which cannot deliver or fails to satisfy its people has to bear the sole responsibility for such a failure. Moreover, the government of the day requires discretionary resources to grant favours and political patronage. Therefore, the quest for additional resources forced the state government to explore all possible alternatives. Resource mobilisation through enhancement of tax rates and increase in user charges in the services provided by the government is not easy to implement. Moreover, GoH has generally shied away from seeking outside expertise or advice to explore innovative solutions. This prompted the fine-tuning of the existing tax regime leading to the rationalisation of the sales tax regime that culminated in the introduction of VAT, computerisation of tax administration and reduction in expenditure, wherever possible. The policy of central government inducing state governments to sign MoUs with regard to certain policy measures in order to avail of central funds led the state government to embark upon the reform path. (A brief account of such MoUs/schemes is given in Box-I). Further, the prevailing environment in favour of certain hard measures emboldened the government to go in for consolidation of the fiscal position of the state. The state was fortunate to have a new government with comfortable majority and a sympathetic central government at the beginning of the year 2000.

Box I

MoUs committing GoH to certain fiscal measures

- MoU with central government on Medium Term Fiscal Reforms Programme (GoH commitment to achieve fiscal targets)
- MoU with central government on urban reforms (to help avail financial assistance under “ Integrated Development of Small and Medium Towns” and “Urban Solid Waste Management Programme”)
- MoU with central government on power sector reforms (to help avail project based assistance from Accelerated Power Development Fund)

Schemes

- Sector Investment Programme (financed by European Commission for health sector reforms)
- Debt Swap Scheme (to swap high cost central debt)
- Technical Education Quality Improvement Project (funded by World Bank to promote excellence in technical education)

Expenditure Management

The most critical job in fiscal management is to control public expenditure without jeopardising the public welfare. The GoH was faced with burgeoning revenue and fiscal deficit and efforts were needed to control the revenue expenditure. The GoH started pruning the expenditure. The revenue expenditure was brought down by 2-percentage points of GSDP in the next two years. Though the expenditure started increasing thereafter, it was within manageable limits. Moreover, the repression of expenditure was adversely affecting certain sectors. An analysis of table 2 brings out the fact that expenditure on general services is increasing unabated as it contains debt service and interest payment and mostly salary expenditure which cannot be contained in the short run. Expenditure on social service is constant as government found it extremely difficult to reduce it mainly because education and health sectors have high salary component. Further, there

is an urgent need to enhance the expenditure into these sectors to check the deteriorating performance of the economy. This leaves the economic services to bear the burden of fiscal correction. As is evident from table 4, it is the economic services that have been squeezed to bring revenue expenditure under control. In the year 2000-01, expenditure on economic services was contained at 2.8 percent of GSDP. However, from next year onwards it has rebounded. In fact the budget speeches of the state Finance Minister has been emphasising the role of private investment into roads, bridges, flyovers, public transport and power. The state government has even introduced user charges for piped water supply in villages where Rs.300 connection charges and Rs.20 per tap per month will be charged. As per the toll policy, toll would be levied at 32 points in two phases on state highways and MDRs/ODRs on trucks and buses only. In fact the loan from HUDCO is proposed to be repaid through toll tax collection. Similarly, 17 road over-bridges are being proposed to be constructed on build operate and transfer (BOT) basis involving a sum of Rs.132 cr. The point is that the reduction in government expenditure is intended to be made good through private partnerships.

Box II

Social Welfare Schemes

- **Tau Devi Lal Day Care Centres** (for the old in villages)
- **Tau Devi Lal Vridh Vishram Grah** (Shelter home for the old)
- **Kanyadan-** grant of Rs. 5,100 given by the GoH at the time of marriage of a girl belonging to a family below poverty line
- **Kishori Shakti Yojana-** to provide supplementary nutrition and development skills to adolescent girls
- **Devi Rupak Scheme-** an incentive of Rs. 500 per month for a period of 20 years to a couple who opt for terminal method of family planning after one girl child
- **Devi Rakshak-** the family of a bread earner of an age between 18 and 80 years, who dies of an accident would be provided a compensation of Rs. one lakh.
- **Regular monthly pension to persons above 60 years of age, widows, and handicapped.**

The Tenth Plan of Haryana for the period 2002-07 has declared the development of social infrastructure as its main focus of strategy. However as per the figures mentioned in table 4, there is no perceptible increase in expenditure on social services. Of course the government has started some innovative schemes for the welfare of women, widows, the old and other vulnerable sections of the society. (Box II gives a brief account of such schemes) but their impact is somewhat limited.

The success of government expenditure management can be seen in the containment of committed charges on the state government. The payment on account of salary, pension, and interest gobbled upto 90 percent of the total revenue receipt in the year 1999-00 (table 12). In fact this was largely the impact of the implementation of *Fifth Pay Commission* report. In the same year, interest payment also peaked. However, since then the share of salary as well as pension has been declining. The proportion of interest payment after taking a dip in the next few years, seems to be moving up again. Overall, the ratio of committed expenditure has been coming down. The management of the fallout of *Fifth Pay Commission* by the GoH is particularly noteworthy. The government took an extreme step and the total number of government employees was almost frozen. In fact as evident from table 17, the number of government employees declined slightly from 3.20 lakh in 1999-2000 to 3.16 lakh in the year 2001-02. This is a creditable achievement. The impact of *Fifth Pay Commission* on the salary bill of GoH has also been worked out in the table. The average salary per employee in Haryana jumped from Rs. 58,000 in 1997-98 to Rs. 85,000 1998-99. If the salary hike had not taken place the average salary would have increased as shown in column 5 and total salary bill would have been as depicted in column 6. The estimate of the impact of the pay commission is given in column 7 in the table. It was approximately Rs. 808 crore in 1998-99. This is almost 2 percent of the GSDP of the state.

The adverse impact came down in the following years as the government controlled recruitment of staff. However, this needs further analysis/study as the government has curtailed these numbers without forming a comprehensive policy in this regard. It is feared that indiscriminate cuts in jobs might have adversely affected certain sectors like education, and health.

Table 17: Haryana: Government Employees and Salary

1	2	3	4(col.3/2)	5	6	7(col.2-6)
Year	Total employ-ees (number)	Salary bill (Rs. crore)	Average salary Actual (Rs.)	Average salary estimated* (Rs.)	Wage bill estimated* (Rs. cr.)	Impact of Fifth Pay Commission Estimated (Rs. cr.)
90-91	278040	681.78	24520.32	21468.8		
91-92	283544	769.81	27495.78	26268.6		
92-93	293722	873.53	29740.03	31068.4		
93-94	299561	979.83	32708.86	35868.2		
94-95	300963	1171.41	38922.06	40668.1		
95-96	309795	1369.32	44200.84	45467.8		
96-97	315120	1596.63	50667.36	50267.6		
97-98	313790	1827.34	58234.49	55067.4		
98-99	316472	2703.33	85420.83	59867.2	1894.63	808.70
99-00	320515	2626.93	81959.66	64667.1	2072.67	554.26
00-01	319027	2687.09	84227.67	69466.8	2216.18	470.91
01-02	316135	2920.41	923785.72	74266.6	2347.83	572.58

* Calculated taking the trend growth in salary before Fifth Pay Commission in 1998-99

Salary = 4799.8T+1666.9

T= Time

Growth in interest payment has been going on unabated. The government has been taking various policy steps to bring the interest payment under control. The steps being taken are discussed in detail in a subsequent section.

Power Sector Reforms

The objectives of power sector reforms in the state are to restore the creditworthiness of the power industry and to create an environment for attracting private investment, promoting competition and efficiency and facilitating sustainable development of the sector in the state. The *Haryana Electricity Reforms Act, 1997* became effective from August 14, 1998. The *Act* provides for the constitution of a *Regulatory Commission*, restructuring of the electricity sector, rationalisation of the generation, transmission and distribution of electricity, and creation of avenues for participation of the private sector in an efficient, economical, and

competitive manner. Consequent upon the passing of the *Act*, all the assets of the HSEB were transferred to the Haryana Power Generation Company Ltd. and *Haryana Vidyut Prasaran Nigam Ltd. (HVPNL)*. HVPNL has two subsidiaries namely *Uttar Haryana Bijli Vitaran Nigam* and *Dakshin Haryana Bijli Vitaran Nigam* for distribution of electricity in the state. A separate commission has also been set up by the state government namely Haryana Electricity Regulatory Commission (HERC). The commission is supposed to aid and advise the state government on the future development of the power sector and to recommend appropriate steps to balance the interest of electricity consumers and other stakeholders in the state.

The real issues in power sector reforms are to charge economic rates from the agriculture sector, metering of all electricity supplied and reduction in T&D losses. Despite various steps, the government could not address these issues in an effective manner and the power sector continues to be in doldrums.

Capital Expenditure

Capital expenditure by the GoH has been moving in the right direction. The share of loans and advances to various SPSUs and other bodies came down to a low level of 0.5 percent of GSDP. In fact as already discussed, the return on investments in SPSUs is inadequate and there is no economic justification for running most of SPSUs in the public sector. Even the corporation for scheduled caste and backward classes can be dismantled and the objective served better if the government routed its assistance through SIDBI/commercial banks explicitly using the right mix of incentives and subsidy rather than running large bodies like these corporation and incurring huge losses. At present, most of the allocated resources are spent on the establishment expenditure of the corporations leaving little money for the needy. The capital expenditure on roads has increased and irrigation has come down. It is a welcome sign as better roads are a necessary pre-requisite for economic development and proper utilization of irrigation potential. The state government can increase the irrigation benefit more by way of increasing maintenance expenditure on irrigation rather than creating more assets.

Revenue Management

The secular decline in the revenue receipts of the GoH was the main culprit behind the deteriorating state finances. Therefore, sustained efforts were required by the government to raise the revenue to GSDP ratio. As already pointed out, it was politically difficult to hike the user charges as well as the rate of taxation. This prompted the GoH to start simplification and rationalisation of state tax system. The GoH adopted commonly agreed uniform rates of sales tax, expanded the scope of self-assessment, input tax deduction from output and some other trader friendly measures. The process of rationalisation of sales tax culminated with the introduction of VAT w.e.f April 1, 2003. Interestingly the growth in revenue in VAT has exceeded 20 percent in the first year of implementation. This has put at rest fears in some circles that VAT may cause loss of revenue initially. The government has also dispensed with the scheme offering concessions/exemptions in taxes to attract investment with the state.

Box III

VAT: Salient Features

VAT implemented w.e.f. April 2003

- ◆ All existing dealers issued 11 digit taxpayers' identification number;
- ◆ Full input tax credit offered on the opening stock of goods to the dealers;
- ◆ Three main VAT rates: 4 percent, 10 percent and 12 percent besides 1 percent on bullion and jewelry and 20 percent on liquor, petrol, and aviation fuel;
- ◆ 83 items exempt from tax;
- ◆ Input tax credit allowed without corresponding sale;
- ◆ Input tax on export zero;
- ◆ Input tax on sale to other states at CST rate;
- ◆ Self assessment system for tax payers;
- ◆ Freedom to design sales invoice subject to incorporation of certain key information

However, barring sales tax reforms, other taxes such as entertainment tax, tax on vehicle and registration fee have remained more or less untouched by the reform process. In fact, a previous study also advocated reforms in those taxes. But somehow, the government is not convinced.

Interestingly, the tax buoyancy calculations show that the buoyancy coefficient of SOTR is 1.38. It implies that GoH can improve its receipts and reduce deficits if the real GSDP grow at a faster rate. Table 18 also shows that except taxes on electricity, entertainment, sugar, and vehicles, the values of the buoyancy coefficient of all other taxes is above one. It is a positive indication. Particularly the buoyancy of sales tax and state excise duty is very encouraging, as these taxes together constitute the bulk of total tax receipts of the state. It can be said that the policy of rationalisation of taxes for better compliance has been successful. The low buoyancy of sugar tax and electricity are understandable. The agriculture sector is politically sensitive and the electricity sector is in bad shape. However, there is a definite case for corrective measures to improve the performance of revenue yield from the entertainment and vehicle taxes

Table 18: Tax Buoyancy for the period 1993-94 to 2002-03

S. N	Tax	Buoyancy
1	States' own tax revenue	1.3
2	Taxes on property and capital	1.59
3	Stamps and registration	1.47
4	Land revenue	5.82
5	Taxes on commodity and services	1.34
6	Sales tax	1.78
7	State excise duty	1.17
8	Taxes on vehicle	0.63
9	Taxes on goods and passengers	1.23
10	Taxes and duty on electricity	-3.55
11	Entertainment tax	-0.76
12	Sugar purchase tax	-1.33

Debt Management

The GoH has been introducing some modern concepts into the debt management of the state. The state's debt as shown in Table 19 has reached at around 29 percent of GSDP. In addition, the guarantees comprise another 12 percent of GSDP. The debt service ratio is also increasing. However the government has constituted Consolidated Sinking Fund to meet debt obligations on the pattern suggested by the RBI. The contribution to the fund would be made through state budget. Similarly the state government has constituted a Guarantee Redemption Fund to meet the payment obligation of state guarantees. These funds have been made operational from 2003-04. The government has also started charging 2 percent of the loan amount as guarantee fee that will go to the Guarantee Redemption Fund.

Table 19 : Haryana: Debt Stock

Year	Debt		Guarantee	
	Rs. crore	%of GSDP	Rs. crore	%of GSDP
1997-98	7975	20.63	3150	8.15
1998-99	9913	22.71	3976	9.11
1999-00	12044	24.62	4315	8.82
2000-01	13852	25.16	8209	14.9
2001-02	16866	28.01	8601	14.3
2002-03	18187	27.62	7684	11.7
2003-04	21649	28.87	-	-
2004-05	23679	28.88	-	-

It has also undertaken swap arrangement to retire high cost central loans. The GoH has swapped high cost loans of Rs. 1,764 crore from Gol in the year 2003-04. The budget of 2004-05 proposed a further swapping of high cost Gol loan of Rs. 1,320 crore. The swapping arrangement has provided interest relief of Rs. 190 crore. The state government has also opted for a scheme under which, additional market loans are allocated to the state government in order to retire old high cost loans. The GoH collected additional market loans of Rs 189.5 crore under the scheme. During the year 2002-03, the state government raised market loan of Rs. 756 crore with the weighted average rate of interest of 7.13 percent, whereas borrowing from National Small Saving Fund of Rs. 1,572 crore carried average cost of 10.5 percent and Rs. 249 crore from Gol at the rate of 11.5 percent per annum. The point is that the market borrowings are cheaper and GoH has been making successful efforts to raise the ratio of market borrowing to total borrowing. Moreover, the surplus in primary deficit promises to reduce the burden of interest payment in the near future. This implies that the debt service ratio for GoH has peaked and should be coming down shortly.

Balance in Budget

Efforts of GoH in the direction of fiscal correction resulted in surplus in primary deficit in the year 2002-03. Next year, the revised estimate again shows a primary surplus to the extent of 1.12 percent of GSDP. The year 2004-05 presents a lower primary surplus at 0.81 percent of GSDP. However, the year 2004-05 being an election year, the BE are to be taken with some skepticism. The revenue deficit came down from 2.42 percent of GSDP in 1999-00 to a more manageable level of 1 percent thereafter. The figures pertaining to fiscal deficit are more revealing. The fiscal deficit is contained at around 2 percent of GSDP. In fact, it leads one to draw the inference that state government could mobilise additional resources to the extent of 1 percent of GSDP (approx. Rs. 1,000 crore) as capital receipt without adversely affecting the fiscal position. The additional capital receipt could be used to create productive assets in the state leading to increase in productivity in the state economy.

IV: Some Issues of Concern

Non-achievement of Plan Expenditure Targets

The budget is an instrument in the hands of governments to direct the economy in the desired direction. It also acts as an effective tool to control and monitor the performance of various departments. It is common understanding that government determines the desired level of expenditure keeping in view the socio-economic objectives and plans the resource mobilisation scheme accordingly. In India, plan expenditure figures are better indicators in this context. Examination of the figures in Table 20 brings out the fact that the GoH has failed to achieve the plan outlay targets over the years. As shown in the table, during 1997-02 (Ninth Plan) the target was Rs.11,600 crore. It was revised keeping in view the availability of resources, though the government could mobilise only 93 percent of the revised target. In the first two years of the Tenth Plan, the expenditure ratio came down to 88.5 percent. This shows the lack of commitment and political will to mobilise requisite resources in order to meet the urgent socio-economic objectives of the state. This is one of the reasons the state has been lagging behind in social sectors and in terms of economic growth.

Table 20: Haryana: Plan Outlay (Rs. crore)

Year	Target	Sanctioned	Spent	Spent as % sanction
1997-02	11600	8637	8052	93
2002-03	1922	2034	1800	88
2003-04	2100	2091	1850	88

To further investigate the issue, an attempt has been made to find out the extent of shortfall in spending in comparison to the sanctioned budget under the heads Building & Roads, Irrigation, Education, and Medical & Public Health. These sectors have been selected, as they are the key sectors for the development of the state. The figures in table 20 reveal the massive shortfall in most of the cases.

In fact it seems strange that on one hand the state is forced to prune its planned outlays because of the shortage of resources, but on the other, large amounts of money allocated for most essential sectors remain unspent. The so-called savings (unspent money) in revenue account is basically negligence of operation and maintenance work in the case of roads and buildings, and irrigation. In the case of health and education, the government has effected the savings by way of non-purchase of necessary medicine/petty equipment and keeping vacant posts unfilled. It is not the right approach to leave the final decision with regard to these important sectors at the discretion of bureaucrats as the political leadership loses its control once bureaucrats are permitted to disregard the budgetary targets. The savings in capital account occur as the budget provisions are made without doing detailed groundwork. Many a times money was sanctioned in anticipation of mobilising resources from GoI and other external agencies. The GoH could not arrange external funds and hence the apparent savings.

Table 21: Expenditure Outlay and Unspent Amount

Head \Year	(Rs. crore)							
	1999-00		1999-00		2001-02		2002-03	
	Provision	Saving	Provision	Saving	Provision	Saving	Provision	Saving
Building & Roads								
i Revenue exp.	246.4	82.6(33)	184.4	148(80)	-	-	186	110(59)
ii Capital exp.	51.9	45.5(88)	174	164(95)	151	47(31)	145	83(56)
Education								
i Revenue exp.	179.6	79.6(44)	79	33(42)	85	13(16)	-	-
ii Capital exp.	-	-	-	-	-	-	-	-
Medical & PH								
i Revenue exp.	218.6	77.(35)	94	12(13)	94	12	-	-
ii Capital exp.	75	48.5(65)	-	-	-	-	-	-
Irrigation								
i Revenue exp.	81.3	75.2(92)	154	72(50)	74	68(90)	72	65
ii Capital exp.	202.3	125.9(62)	137	97(71)	395	356(90)	30	30(100)

Issue of Central Sales Tax

Haryana introduced VAT in the year 2003. The whole country is expected to shift to VAT in the near future. Once VAT at the national level is introduced, the central sales tax (CST) will have to go. As table 22 shows, despite the continuous decline of the share of CST in total sales tax collection of the state, its share is still at around 25 percent. Once CST is abolished, the resource position of the state will face few difficulties for some time. There seems to be no preparation in this regard by the state so far.

Table 22: Sales Tax And Central Sales tax (Rs. crore)

Year	State Sales Tax	Central Sales Tax	Total Sales Tax	Share of CST in Total (in percentage)
1966-67	5.15	2.03	7.18	28.27
1980-81	55.88	44.51	100.39	44.33
1990-91	321.62	172.81	494.43	34.95
1995-96	694.86	368.93	1063.79	34.68
2000-01	1844.95	733.51	2578.46	28.45
2001-02	2155.29	793.96	2949.25	26.92
2002-03	2478.27	867.27	3345.54	25.93

Inefficient Administration and Poor Political Supervision

There are many anecdotal references regarding inefficient /indifferent administration and poor political supervision and direction. However, some immediately relevant cases are mentioned here to make the point that this is one of the important reasons that Haryana has been lagging behind despite having almost all the right attributes for fast development.

- The GoH initiated Haryana Highway Upgradation Project (HHUP) in July 1993 for upgradation of 657 km and periodic maintenance of 2,995 km of state highways. Out of the estimated cost of Rs. 1,408 crore, the World Bank was to finance 70 percent. The rate of interest after taking into account 30 percent grant component from Gol worked out at 5.5 percent per annum and repayment period was 20 years. The GoH could not submit

the proposal for assistance to the satisfaction of the World Bank despite several attempts and ultimately the request was rejected in the year, 2000. The GoH settled for a loan from HUDCO of Rs. 137 crore at 13.5 percent interest rate for 10 year period.

Incidentally, the commitment made to HUDCO to collect toll on the roads upgraded with its money has not been honoured by the Government of Haryana so far.

- The *Eleventh Finance Commission* set up an incentive fund for state governments under *the states' fiscal reform facility* (SFRF). The share of Haryana worked out to Rs. 98 crore. The condition for availing the facility was to enter into an MoU with the GoI and to adhere to certain fiscal targets. Interestingly, the GoH already fulfils all required targets. The government refused to sign the MoU for the last four years; however, the MoU it has been subsequently signed in May, 2004.
- Hissar, an important town in Haryana, has been declared counter magnet town to act as interceptor to the population migrating to Delhi, by the Planning Commission in the year 1997-98. The objective of the scheme was to develop facilities in Hissar to the extent that it became attractive enough for the population intending to migrate to Delhi. The GoH has not been able to prepare a comprehensive proposal in this context so far to get funds and transfer of some of the offices of central government.

The list is indicative and not exhaustive. The purpose of these examples is to prove the point that the economy of Haryana has been lagging behind because of weak political leadership including the opposition parties and administration which is either inefficient, or indifferent, or both. In fact, there is almost no institutional arrangement to involve outside expertise in policy/ programme formulation. Simple extrapolation of the past continues while the economy has entered into an altogether different mode.

V. Suggestions for Future Strategies

In Haryana the main issue before the government is to improve the growth rate of the economy, increase the productivity of agriculture, diversification of agriculture, and absorption of workforce released from the primary sector into secondary and tertiary sector. Above all, Haryana faces the challenges of enhancing the social infrastructure of the state in a big way. The future strategies of fiscal policy must address these issues in an effective manner. Some suggested strategies to achieve the stated objectives are discussed below.

Social infrastructure

The government needs to reorient its policies towards social infrastructure in a substantial manner. Though the Tenth Plan document has already mentioned social services as its focus area, yet the rhetoric does not seem to be put into practice. In real terms, expenditure on social services has not seen a perceptible shift. Therefore, a new thrust in expenditure is required on education, health, status of women in society, and availability of basic amenities in Haryana. In fact, the government has already liberalised the higher and technical education for private sector participation. The results are encouraging. However, for universal primary education, renewed government efforts are prerequisites. The government can involve NGOs, local bodies, and the private sector including the corporate houses to ensure quality education and efficient utilisation of resources. Increasing expenditure without ensuring accountability in government schools will be a waste of resources. The government can also introduce education voucher to infuse competition among schools. The problem is inadequate supply of education in the state in terms of quality, as well as quantity, even while the government policy is now oriented towards demand enhancement i.e. provision of mid-day meal, scholarships and books etc. The idea is not to discontinue these schemes but to appreciate the point that emphasis in a school should be on the provision of education in the real sense.

The health sector also needs initiatives on similar lines. In fact, without transforming the governance model, the increase in expenditure will not bring the desired results. The government has launched a

number of schemes for women and other vulnerable sections of the society. But their impact is somewhat limited. The *Devi Rupak* (In which financial assistance is provided to a couple, if they adopt terminal method of family planning after one girl or two male children) looks attractive on paper but its impact is limited. Less than 300 families have opted for the scheme. The government must explore other methods to enhance the status of women in society. One such step can be reservation of government jobs for women. In fact better education and health facilities in collaboration with more exposure to outside world can be a sure recipe for this problem. Further, evidences show that urbanisation is positively correlated to better social indicators and improvement in the status of women. Therefore the government should encourage urbanisation in a big way. The government has already entered into a programme of upgradation of urban facilities in the satellite towns of the state. The efforts need further thrust.

Physical Infrastructure

The government also needs to upgrade its physical infrastructure to compete with other fast developing states in southern and western part of the country. At present, most of the industry and service establishments in Haryana are concentrated around Delhi and on Delhi-Ambala-Chandigarh Highway. In fact Faridabad, Gurgaon, and Panipat districts contribute almost 70 percent sales tax of the state. Other parts of Haryana are still relatively underdeveloped in terms of physical infrastructure and non-agricultural activities. The government needs to focus on the availability of quality infrastructure in other parts of the state in order to develop them economically and make available employment opportunities in non-agriculture sectors.

It may be apt to mention here that Hissar, an important town in Haryana on NH-10 at a distance of 165 K.M. from Delhi, has been declared a counter-magnet town to Delhi. It means that the Government of India has promised to help Hissar develop as an independent growth centre, which can act as interceptor to the population migrating to the western part of Delhi. The state government has prepared some schemes for financial assistance from National Capital Region Planning Board (NCRPB) in this connection. But in reality, the objective of the counter magnet scheme is much more ambitious. It includes transfer of HQ of some of the government (state as well as central) establishments into the town, creation of special economic zone, education zone and

many other initiatives. The GoH must seize this opportunity and prepare and market a grand plan for the upgradation of Hissar as counter-magnet to Delhi.

In fact an expressway between Delhi and Hissar and a highway between Chandigarh-Hissar and between Hissar-Jaipur can open tremendous development potential in the entire region. The challenge before the Government is to mobilise resources for the purpose. Some innovative measures like public-private partnership can be of great use. In this case, policy instrument and sound fiscal position of the state are the main determinants of success instead of finance itself.

User Charges

This government also needs to collect user charges for the services rendered by it to the citizen. At present, substantial hidden subsidies are involved in this provision of social and economic services provided by the state government. The subsidy component causes under-supply of essential services and inefficiency in the use of resources. User charges in higher education, curative health service, irrigation and power can help mobilise resources in a big way.

The power sector reforms in the state are moving in the right direction. Still, the problem of uneconomic user charges and T&D losses make the participation of private sector in power generation and distribution an unviable proposition. If the state intends to become an economic hub in the near future, it must speed up its power sector reforms. Specific measures such as direct supply by power producers to quality consumers can lead to greater participation by the private sector; this will also bring in competition in the power sector forcing the state power sector to put its house in order in a timely manner.

V. Conclusion

Haryana has been a fiscally conservative state. Generally speaking, the financial position of the GoH has been sound except during the latter half of the 90s when revenues plummeted and expenditure ballooned. Corrective measures were introduced immediately and fiscal health of the state recovered to some extent.

However, the socio-economic condition of the state needs some specific corrections. The present fiscal policy somehow has not been able to provide the desired direction to the state economy. The study of the fiscal responses of the GoH indicates that it has not taken into account the changing ground realities and emerging requirements in an effective manner. The GoH requires a framework committing the state government to a long-term strategy. The challenges before the GoH are to modernise the economy, create conditions so that the workers from agriculture can shift towards non-agriculture sector, and improvement in social indicators. But the political leadership and administration have failed to rise to the occasion. In the present scenario, the states in the country are competing with one another to attract better investment opportunities from private sector and multinational companies. The state needs to keep these realities in mind and position itself as an attractive investment destination. This is possible only if it brands itself as a modern state and vibrant society. If Haryana realises the importance of branding and packaging and delivering as promised, the state has the potential to become an economic powerhouse of North India. But for this to happen, the GoH must prepare a sound fiscal strategy and exhibit a commitment to adhere to the same.

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