

5. Recommendations

As should be clear from the projections, tentative though they are, the financial difficulties in 1997–98 are likely to be somewhat relieved from the following year as a result of the withdrawal of prohibition. However, the baseline scenario projects very low levels of capital expenditure that would be detrimental to the growth prospects of the State economy. If the spending gaps are added to the projected expenditures, the capital expenditures fall to extremely low levels. Hence, for the sake of the much needed social development and to arrest and reverse the trend of falling capital expenditures, it is necessary to take some concrete steps. Suggestions towards this end are provided below.

- In the area of government expenditures, the major task is that of reprioritisation. Additional revenue expenditures should be concentrated in the area of primary education (with emphasis on that for girls) to achieve a target of 100 percent enrolment by 2001–02 as incorporated in our projections, on pre- and post-natal care of women and infants, on expanding primary health care facilities, and on road maintenance. But among the functional categories, expenditures on irrigation need to be brought down substantially (see *Irrigation*, chapter 3). Further, within irrigation, operation and maintenance should get higher share of the expenditures. The last mentioned suggestion can actually be generalised to all economic services, as the economic classification of government expenditures reveals a low share of such expenditures in the total.

The freeze on employment needs to be strictly enforced, as is being done in Andhra Pradesh. Unlike Andhra Pradesh, however, this does not necessarily imply a complete ban on new employment, but only restricts Haryana to replacement of outgoing government employees due to retirement or other reasons. Hence, it should not be very difficult to implement. The power sector reforms incorporate government subsidies on a time-bound scale only; these need to be adhered to. For this to happen, the other elements of the reform programme must be implemented on schedule without dilution. A rational policy with respect to public enterprises as discussed above should also eliminate the need for much of the subsidies to such enterprises.

The paradox of growth with rising poverty needs to be resolved, and the government should play an important role in it through its expenditure policy. While a greater emphasis on human development ought to help in reducing poverty in the long run, poverty alleviation programmes need to be strengthened to tackle it in the short run. In order to analyse the situation correctly, a focused study of the failure of economic growth to substantially benefit the poor, and of growth with increasingly skewed distribution of income should be made. Appropriate policies can thus be formulated.

- Despite keeping additional expenditure liabilities to the minimum through reworking expenditure priorities, some additional expenditure would be required to implement the suggestions given above and to raise capital expenditures to a

higher level commensurate with the growth aspirations of the State. Hence, additional resources would need to be mobilised. The analysis of Haryana State finances shows that there is some scope for raising the tax-SDP ratio. This can be achieved by improving the buoyancy of tax revenues and through additional revenue mobilisation, carried out in such a way that it causes minimum distortions to the economy. Some of these are as follows :

- ◆ The usual tool for raising tax revenue at the State level in India is the sales tax. In the context of Haryana, this can be done as part of the long-term reform of the tax system that incorporates the value added tax principle. This would combine the objectives of resource mobilisation and tax reform by (i) withdrawing all investment incentives with immediate effect except for already committed investments; and (ii) by reducing the multiplicity of tax rates to only four (excluding special rates on bullion and specie, and petroleum products), while ensuring that all the present rates that do not coincide with one of the new rates are revised to coincide with the next higher rate. The four new rates can be decided on the basis of the present spread of rate categories and concentration of commodities around a particular rate.
- ◆ In the case of stamp duties and registration fees, there is a case for reducing the tax rate, in combination with better tax administration to curb evasion. Under-reporting transaction values is believed to be widespread, and necessary measures (in the context of the relevant *Act* as well as purely administrative enforcement) need to be introduced. Adoption of the “fair market value” as the tax base can be considered as an option.
- ◆ The motor vehicle tax rate on goods vehicles in Haryana is relatively low and could be raised by Rs. 500 per vehicle per annum. The passenger tax on contract carriages could be simplified into an additional tax; an annual charge of Rs. 50,000 could be considered. We expect both these measures to bring in some additional revenue (though the amount is not likely to be significant) and improve the buoyancy of the tax.
- ◆ Since Haryana is a predominantly agricultural State, taxation of agricultural income is necessary for mobilising additional resources. This may be the opportunity to rediscover land revenue as a good tax, and combine it with an agricultural income tax, as a long-term policy measure. For the short run, there is a case for levying an additional 1 percent market fee on the sale of rice, with the market boards acting as collection agents for the State government. Haryana is a water-scarce State that spends large amounts of public funds on supplying water for irrigation as well as other uses. Rice, being a water-intensive crop that also increases soil salinity, cannot be grown on a large scale without irrigation in many parts of the State. Highly subsidised irrigation has

created distortion in the cropping pattern and has made rice cultivation profitable even in parts of the State where water is scarce. The additional market fee on rice should partially correct this distortion.

Another tax that is not levied in the State at present but can be introduced is the profession tax. Even while restricting it to the non-agricultural sector, as is normally done in the States that do levy this tax, the potential revenue could be significant. There are more than 21 lakh main workers in the non-agricultural sector in the State. The constitutional limit on the tax rate is at Rs. 2500 per annum at present. The usual rate structure that is now applicable in States like Karnataka or Andhra Pradesh — with the exemption limit at Rs. 1500 per month — would imply an average tax of around Rs. 500. This should yield a revenue of around Rs. 100 crore. It has been pointed out to us that some of the government employees, all of them potential taxpayers, are actually located in the union territory of Chandigarh, whom it may not be possible to tax. The State can try to get around this problem by locating all disbursement officers within the State boundaries and thus shifting the taxable event within the State, or with some special provisions in the *Act* to tax the State government employees irrespective of their place of work (the legal angle needs to be ascertained). At worst, the tax will exclude these employees (6.5 percent of the government employees are in Chandigarh and other places outside the State as per data on government employees for 1995), which is not a serious limiting factor. To make the introduction of the tax more palatable, it may be useful to earmark its revenue for some popular cause like, poverty alleviation schemes.

- ◆ To keep pace with changing times, alternatives to movie theatres can be brought under the tax net through expansion of the tax base of entertainment tax itself (the case of video theatres) or through sales tax (on videotape rentals and on cable operators). All these are in operation in some State or another, and not new.
- Even if it were possible to implement all the above tax measures in full, the additional revenue generated would go only a small way towards meeting the additional resource requirements to step up social sector spending and to reach the desired level of capital expenditures. Other measures are needed to raise adequate resources. We have, in our projections, already indicated the importance of cost recovery in irrigation. This is also needed to send the correct signals in a water-scarce economy: cheap water causes its uneconomical use. Another area that has some potential for cost recovery is roads and bridges. Attempts should be made to recover the cost of new roads and improvements in the existing roads through tolls wherever feasible, with or without private sector participation. Similarly, better cost recovery in higher education and curative health care, coupled with quality improvement in these areas is called for. Even

in primary education, it may be possible to open self-financing schools with independent management to ensure quality in the urban areas and shift subsidised education largely to rural areas. In the area of road transport, possible ways of raising resources/cutting costs is to (i) shift all bus stations in urban areas to the outskirts of the towns/cities and sell off the usually prime land on which bus stations are at present located; and (ii) hand over maintenance of bus stations to private parties (possibly large industrial houses) in exchange of exclusive advertising rights within the bus station. The thrust should be on recovering costs to the extent feasible instead of assuming subsidised supply of publicly provided services.

- Our analysis of public enterprises is admittedly inadequate to make specific recommendations owing to time and informational constraints. But even this brief analysis shows the necessity of privatising (or closing down) commercial companies as well as the commercial activities of the enterprises with mixed characteristics, because they are not being run on commercial principles as they should be. A committee consisting of officials and industrialists from the State should be set up to identify the enterprises that need to be wound up or privatised partially or fully, or restructured on a case by case basis. A beginning has been made in this direction with power reforms; tempo of the reforms, however, should not be allowed to slacken.

A final observation relates to the local governments. There is a certain amount of resistance to any additional resource mobilisation measure adopted by the State government; this is usually stronger in the case of local bodies. However, improvements in local services are more visible; if additional resource mobilisation is undertaken at the local level establishing a clear linkage with improved local services, it may actually be easier at the local level. This would also have the added advantage of higher decentralisation, and greater autonomy at the local level, reducing the State government's responsibilities at the same time. There should be areas that could be tapped by local governments for resource mobilisation. These need to be identified; the State government can then pass the necessary enabling legislation, if required. Cutting into the State's already inadequate resources to provide funds to the local governments would not be a stable solution to the problem of financial dependence of local governments on the State government, and to the consequent lack of autonomy and real decentralisation.

The health of Haryana State finances will depend in a crucial way on the health of the State economy. It is extremely important to adhere to the plan of reform in toto. Any slippage in the reform process or any shortfall in performance in critical sectors like irrigation and power will lead to a setback in the recovery of public finances in Haryana.