

# Chapter - 6

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### **CONCLUSIONS AND SUGGESTIONS**

6.1 Conclusions

6.2 Suggestions

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## 6.1 Conclusions

The major conclusions of the analysis of Revenue Expenditure of the Government of Maharashtra during the period 1991-92 to 2000-01 are as follows :

- 1) The finances of state governments have been under continuous stress due to slowdown in revenue receipts and increase in the non-developmental revenue expenditure. why?
- 2) It is revealed from the analysis that the aggregate receipts as well as aggregate expenditure of all states under study have increased tremendously.
- 3) All states have been experiencing deficits on revenue account and the size of the deficit is rising. It's showing 9.47 fold increase over the period of 10 years.
- 4) In the previous period (before 1991) the capital disbursements exceeded the capital receipts. But during the last decade, the capital receipts have been almost continuously exceeding the capital disbursements of all states.

Is your focus on Maharashtra or all the states of the Indian union?



in whose case?



?

5) *About whom are you talking?* The rising overall own deficits of the all states under study reflects the states increasing dependency on the central financial transfers. It is concluded that the states dependency on the centre for their financial operations has definitely increased during the period between 1991-92 and 2000-01.

6) The compound growth rate of revenue expenditure of all states during the period under study was 14.76 percent, which was higher than that of the rate of revenue receipts i. e. 12.32 percent. *?*

7) The aggregate receipts of State Government of Maharashtra has <sup>ve</sup> increased 3.22 fold in 2000-01 over 1991-92. *Is growth rate in terms of % age or fold?* Growth rate of aggregate expenditure of State Government of Maharashtra was 3.64 fold. It means growth rate of aggregate expenditure is larger than growth rate of aggregate receipts during the period under study.

8) A tendency towards increasing revenue deficit (exception of year 1994-95) is noticed. The main reason for this changes are the continuous expansion of current expenditure particular due to implementation of the Fifth Pay Commission scales for employees of government and administration service and rising interest payments. *?*

- 9) Only the exceptional 1992-93 year the surplus on capital account substantial increased that is capital receipts exceeded capital expenditure for example during the period under our study. Capital receipts has increased 4 fold and capital disbursement is increased 3.71 fold from 1991-92 to 2000-01.
- 10) The escalation in the borrowing requirements of the State Government of Maharashtra over the years has led to continuous rise in the level of state's debt.
- 11) Our study reveals the rapid growth in the revenue expenditure of the Maharashtra. The compound growth rate of revenue expenditure for Maharashtra during the period under study was 14.08 percent. *why?*
- 12) Percentage of revenue expenditure to aggregate expenditure was 83.37 percent in 1991-92, which declined marginally to 83.08 percent in 2000-01. The percentage of capital expenditure to aggregate expenditure was 16.61 percent in 1991-92, which increased to 16.91 percent in 2000-01. The revenue expenditure as well as capital expenditure of Maharashtra State shows increasing trend. However revenue expenditure is forming the major part of Total Expenditure and nearly 80 to 83 percent of Total Expenditure consists of revenue expenditure and growth

in revenue expenditure contributes to increase in total expenditure growth.

- 13) It is clear from our analysis that on the revenue account non-development expenditure are increasing at a higher rate than that of the developmental expenditure. The development<sup>al</sup> expenditure as well as non-developmental expenditure of Maharashtra State are increasing. But the percentage of developmental expenditure is declining in proportion while percentage of non-developmental expenditure is increasing in proportion due to growth in committed expenditure.
- 14) The percentage of expenditure on social services is increasing in proportion while percentage on economic services is declining. An important feature of this analysis is that compound growth rate of expenditure on social services is greater than compound growth rate of expenditure on economic services.
- 15) The compound growth rate of expenditure on education, sports, arts and culture and medical, public health and family welfare for Maharashtra during the period under study was 15.98 percent. These items are major component of total developmental expenditure on social services.

- 16) The expenditure on water supply and sanitation, housing and urban development was Rs. 420.64 crores in 1991-92 which increased to Rs. 1642.70 crores in 2000-01, representing 3.90 times increase over the period of 10 years.
- 17) The compound growth rate of expenditure on welfare of SC, ST, OBCs, labour and labour welfare, social security and welfare for Maharashtra during the period, under study was 15.41 percent. ①
- 18) The expenditure on nutrition, relief on account of natural calamities and others is varying every year. / what does it mean?
- 19) The most important feature revealed from our study is <sup>that</sup> throughout the period under study (except 2000-01) the agriculture and allied activities, irrigation and flood control has remained the head on which the highest proportion of expenditure on economic services has been spent.
- 20) From 1991-92 to 2000-01 expenditure on rural development and special area programme expenditure shows up and down trend. It is not much increasing. It shows just 0.83 fold increase.
- 21) Except 1996-97 and 2000-01 <sup>to 8</sup> <sub>year</sub> during the period under study the industry, minerals and energy expenditure shows decreasing trend.

- 22) From 1991-92 to 1997-98, expenditure on transport and communication shows increasing trends but in the next three years it has decreased in large amount.
- 23) Expenditure on general economic services, science, technology and environment in 1991-92 was Rs. 28.73 crores which increased to Rs. 137.40 crores in 2000-01 representing 4.78 fold increase over the period under study.
- 24) The percentage share of expenditure on organs of <sup>the</sup> state to the total non-development revenue expenditure of the State Government of Maharashtra was 3.22 percent in 1991-92, which decreased to 2.09 percent in 2000-01. The percentage on these items over period is fluctuating. The expenditure on fiscal services shows increasing trend except 1993-94 during the period under study.
- 25) The expenditure on interest payment and servicing of debt is large part of expenditure of non-development expenditure (revenue) of the State Government of Maharashtra.
- 26) The expenditure on administrative services of the State Government of Maharashtra shows increasing trend. But in percentage it has decreased during the period under study.
- 27) The expenditure especially on pension has increased significantly and assumed important place in non-



development (revenue) expenditure. The expenditure on these items has raised 6.44 times in 2000-01 over 1991-92. The compound growth rate of these items was 21.65 percent during the period under study.

## 6.2 Suggestions

- 1) It is observed from our analysis that the fiscal health of the State Government of Maharashtra has been under severe stress in recent years. In this respect bold initiatives for tax reforms are needed to be undertaken by the State Government of Maharashtra.
  - a) The State Government of Maharashtra should take steps to avoid stamp duties and registration fees evasion.
  - b) It should take the necessary steps to augment the revenue from entertainment source.
  - c) Government should levy tax on agriculture sector in progressive manner.
  - d) The State Government should take steps to improve their growth rate of sales tax and to check the evasion of sales taxes and recover the sales taxes arrears.

- e) Land revenue needs to be increased and more revenue generated. ✓
- 2) Government of Maharashtra requires very strong political will to minimize prudent/irregularities in the fiscal operations. The prudent fiscal mismanagement will only help bringing Maharashtra's economy on the right path of the economic development.
- 3) International experiences suggest that granting financial autonomy to irrigation department would be a better step towards grater financial discipline and efficiency. An immediate step needed for this purpose is to collect charges properly and use them for proper operation and maintenance. Private sector participation may also be allowed to make them more cost effective and responsive. The appropriate long term goal of the public sector should be to support the private sector through ground water monitoring planning surface water development, providing policy and legislative guidance and channeling government funds for major projects.
- 4) As regards interest payments, the decline in interest rates in recent years has helped in containing the debt service burden of states. Further the debt swap scheme would help the states to reduce their interest payments and

subsequently free up more resources for developmental purposes.

- 5) In spite of the large overhang of public debt, the State of Maharashtra continues to rely heavily on raising resources from the market through its PSUs and that too for undertaking activities which are not self-financing. On the basis of the analysis the following suggestions are necessary.
- i) Widening the tax base ✓
  - ii) Checking the tax evasion and improving tax collection drive ✓
  - iii) Curbing smuggling activities ✓
  - iv) Land registration fee should be hiked ✓
  - v) Users charges for water, electricity should be increased ✓
  - vi) Wasteful expenditure should be avoided ✓
  - vii) Voluntary Disclosure Scheme should be launched in every year in order to bring out the black money
  - viii) The taxes on specified service presently levied in respect of entertainment, electricity, carriage of passengers and goods by road transport and luxury taxes on hotels and restaurants should be merged with general Value Added Tax (VAT). ✓

- 6) In the tax reform process, improving tax compliance and rationalising tax structure are crucial, even though the implementation of VAT at the national level still remains a challenge. The constitutional amendment proposed in the Union Budget for 2003-04 to grant the central government the power to levy on services and give sufficient powers to both the central and the state government to collect the proceeds would facilitate revenue augmentation. ✓
- 7) For a well functioning market a capable state is the first requisite. A capable state provides investor friendly environment, <sup>ie</sup> ~~that~~ is, good quality and abundant infrastructure, business friendly administration and moderate level of taxation. Significant reforms are needed in this direction in the State of Maharashtra. ✓
- a) Policy, pricing, institutional and regulatory reforms ✓  
to translate private sector interest to invest in infrastructure and improvement in the states capacity to manage commercial enforceable contracts.
- b) An environment conducive to efficient public ✓  
investment in areas where public sector will remain important.

- c) Public expenditure restructuring to eliminate wasteful spending and make room for priorities programme in infrastructure, health and education, and
  - d) Tax reform to provide stable sources revenue at low efficiency cost.
- 8) There are two other areas requiring urgent attention on the part of the State Governments. These relate to the State Government laying down a statutory ceiling on its borrowing and the state government guarantees to be given, at any one time, for the borrowing or fulfilment of any other obligations by other entities. These are long overdue reforms and will require firm political will to translate them into reality.
- 9) State Government of Maharashtra should attempt to better manage their existing finances. Mostly these attempts have been made in the direction of containing non-plan expenditure. These measures include banning recruitment and the purchase of vehicles, restricting expenditure on travel, managing more closely the release of funds for sanctioned schemes and transferring funds to Public Ledger Accounts.
- 10) Expenditure reduction more so on revenue account at the state level is a very crucial need. We feel that Maharashtra

Is there no State  
pay commission?

State can have its own separate Pay Commission, which would recommend Pay Scales for State Government Employees based on the fiscal capacity of the state. Parity in scales with central government employees may be made optional, not obligatory. This will go a long way in reducing the salary payment liability of the states. Increase in salary at par with central government scales with long run also increases the pension liability of the state. Fiscal capacity not parity with central government scales should be the criteria for salary revision in a period of fiscal strain.

- 11) According to us, the expenses on both of economic and social services are essential and important for economic development. This is particularly true in the present era in which the 'Human Development Index' is being used for measuring economic development. From this point of view the State Government of Maharashtra has to take steps to increase the share of expenditure on social services in the total developmental revenue expenditure. ✓
- 12) Many State Governments in India have been undertaking a number of popularist scheme and programmes for the considerations of preserving vote banks. Some of these programmes are unfocussed and not have any specific deserving target group. The expenditure on such ✓

programmes has contributed to increase revenue deficits of the State Governments. Therefore, the State Government of Maharashtra should take firm decisions for reducing such expenditure on the one hand and on the other hand they should try to implement such programmes only for the deserving target groups. This will help to reduce the unnecessary burden of social responsibility on the state public sector undertakings.

- ? 13) International experiences suggests that for market discipline to encourage better fiscal performance, the states must maintain or establish creditworthiness to obtain funding or terms which are better suited to their investment priorities. Adequate information on the borrowers creditworthiness should be also available to the lenders. The borrowings of government must respond to market signals. ✓
- 14) It is the non-plan development expenditure in the revenue account which has been the single most problem area in expenditure management in recent years. Therefore control of this item of expenditure assumes a critical significance for improving the plan allocation in the budget.

This would require bringing down the three major items – interest payments, administrative services and pensions and miscellaneous general services of course, the ✓

growth in interest payments could be brought under control only over a medium to long term period with sufficient improvement in the budgetary position of the State Government of Maharashtra. The State Government has to evolve a medium term fiscal consolidation programme at improving the major fiscal indicators. Continuity in the measures has to be mandatory. Unfortunately the budget provisions made in the 2004-05 budget send wrong fiscal signals. Political compulsions many a times derail the process of fiscal reforms.