

STATEMENT OF THE PROBLEM

In India the main issue that concerns most public discussions on government finances has been almost exclusively on Central Government finances. Correcting the fiscal imbalances that the country faces today in the face of a burgeoning public debt, rising defence expenditures, rising administrative expenditures, etc., is the single most important task of fiscal management in India. Several corrective measures towards this end have been initiated and adopted by the Centre since 1991 in terms of tax reforms and changes in the structure and pattern of financial transfers to the States.

The finances of State Governments too have been deteriorating over the last several years. The main causes of the problems have been the failure to contain wasteful expenditures and reluctance to raise additional resources on the part of States. Responsible fiscal management has also become extremely difficult with frequent elections, unstable governments, and competitive populism practised by different political parties aspiring for power. There is a growing need for increased financial assistance from the Centre to the States. However, with the resource crunch which the Centre is facing, there has been a reduction in the tempo of Central assistance to the States. As a result and with limited funds and declining Central assistance, the State Governments have

been depending more and more on high cost borrowings which have further worsened their financial position. The issue of State Government finances thus becomes increasingly important and deserves adequate attention.

The Government finances, i.e. its revenue and expenditure policies are reflected in its budgetary exercises every financial year. In this study an attempt has been made to analyze the Budgetary Trends of the Meghalaya Government Finances for the period from 1972-73 to 1997-98.

REVIEW OF LITERATURE ON BUDGETARY ASPECTS

As already stated above the problem of the State finances and budgetary exercises of States in India have received less attention than that of Central finances. However, an attempt is made here to review some of the important works done in India in the context of the present study.

Gupta's (1967)¹ in his work on Government budgeting has made an attempt to present the theoretical aspects of government budgeting paying particular attention to the evolution and development of government budgeting in India. The author has asserted the importance of the budget as an indicator to achieve the goals of planned economic

1. Gupta, B.N., *Government Budgeting with Special Reference to India*, Asia Publishing House, Bombay, 1967.

development. He has carried out a brief analysis of the trends of the government of India Budgets for the period 1950-51 to 1964-65. Based on a series of statistical tables he has drawn inferences regarding the magnitude, pattern and the changes that have taken place in the character of the Indian budgets as a result of the adoption of economic planning. He has noted that the magnitude has been larger in terms of the capital budget which suggested the importance of the public sector in India. The author has briefly examined the tax structure of the Government of India and stressed the importance of renewed tax efforts on the part of the Government. In analyzing the debt position of the Government of India he has noted the significant increase in the size of both internal as well as external debt. The author has also discussed the problem of parliamentary control over budgeting and the need for budgetary reforms in India.

has Venkataraman (1968)² has done a descriptive work on States' finances in India after independence. Recognizing the pivotal role of States in a federal set-up, the author attempts an analysis which puts into perspective national, state and local finance on the one hand and problems of plan financing, taxation, borrowing and public expenditure on the

2. Venkataraman, K. *States' Finances in India: A Perspective Study for the Plan Period*, Allen and Unwin Ltd., London, 1968.

other. The author has based his study on a series of statistical tables bringing out clearly their main features and implications. In analyzing the overall trends of States' finances, the author has observed the phenomenal increase in the size of operation of states in the revenue and capital accounts largely due to the implementation of plans. The author has also observed that there has been a faster rate of growth of non-developmental expenditure as a result of mounting interest charges on the loans from Central Government. These observations have highlighted the fact that the capital account has its implications on the revenue account thereby indicating the need for a solution based on co-ordinated approach in planning relating to these accounts of the states. Venkataraman has observed the importance of Central assistance to the finances of State Governments and that its proportion is likely to be increasing. However, he has noted the states' capability of additional taxation and broadening their tax-base. Even so taking into account the problems of states' finances, Venkataraman has called for a consistent and ruthless examination of all existing items of expenditure as such those as are found to be unnecessary and which will have to give way to worthier schemes awaiting implementation.³

3. *Ibid.*, p.219.

In his previous work (1965),⁴ Venkataraman has also highlighted an important aspect of local finance. He has attempted a study on the role of local governments and local finance in the national set-up. The author has highlighted the fact that with the ever-growing delegation and diversification of functions, the responsibilities must be matched with adequate resources at all levels of local, state and central finances.

Cutt (1969)⁵ has attempted to examine the significance of taxation to meet the needs of planned economic development in India. He has examined in detail, sales tax and agricultural income tax pinpointing their importance in the tax structure of the Government of India. Further his study has looked into the objectives of taxation stressing on the role that taxation plays in growth, distribution and stabilization of the economy.

Patnaik (1972)⁶ has made an attempt to analyze the pattern of growth in the finances of Orissa for the period 1951-52 to 1965-66. He has dwelt on the tax and non-tax

4. Venkataraman, K., *Local Finance in Perspective*, Asia Publishing House, Bombay, 1965.

5. Cutt, James, *Taxation and Economic Development in India*, Vikash Publication, New Delhi, 1969.

6. Patnaik, S.C., *Orissa Finances in Perspective: 1951-52 to 1965-66*, The People's Publishing House Pvt. Ltd., New Delhi, 1972.

revenue structure of the State discussing their importance and failures to add to the revenue receipts of the State. The author has specially noted the importance and popularity of non-tax revenues as an important source of additional finances to the Government of Orissa. His study has highlighted the financial problems of a low-income State like Orissa where such problems arise mainly due to the implementation of the various five-year plans. The author has also examined the financial devolutions from the Centre to the States. In this case he has noted that the pattern of financial devolutions from the Centre creates imbalances between the revenue capacities and the needs of the States. Patnaik has pointed out that the finances of State Governments in India have remained relatively neglected during the period of his study.

Jain (1972)⁷ carried out an analysis on the trends and complexities of States Taxation during the period 1951-71, i.e., the first two decades of planning. He has dealt with the objective of taxation in a federal set-up and offered a general review of the financial structure of States. Based on a series of statistical tables, Jain presented an analytical and critical evaluation of the tax structure of all states including their resource mobilization capacity. The author

7. Dr. Rajendra Jain, *State Taxation in India*, Progress Publishers, Bhopal, 1972.

has carried out a brief assessment of the relative importance of shared taxes and other financial resources and the general problems of Union-State financial relations, budgetary procedures and controlling government expenditure. He has emphasized on the distinctive role of states in financing development plans and the importance of the regional approach to planning which requires a greater measure of inter-state co-operation. The author has noted that the approach of the states to mobilize financial resources should conform to the federal set-up and at the same time maintaining their fiscal autonomy and self-sufficiency in matters of finance.

Reddy (1972)⁸ has presented a secular and time pattern analysis on the growth of Public Expenditure in India during the period from 1872 to 1968. He has compared the growth of government expenditure over time and the growth of aggregate community output in terms of Net National Product at factor cost. His study has shown public expenditures in India have grown at a faster rate than community output. The author has noted that Public Expenditures cannot go on increasing endlessly more than community output in real terms because the public sector cannot grow beyond a certain limit. The author has also observed the large increases in the

8. Reddy, K.N., *The Growth of Public Expenditure in India 1872 to 1968*, Sterling Publishers (P) Ltd., New Delhi, 1972.

proportion of public expenditure on defence and general administration specially after Independence. Further, he has observed that there is a high positive correlation between expenditures on social and developmental services as a proportion of national income. In analyzing the debt services as a proportion of national income, the author has noted that it was negligible before independence. However, the ratio has begun to increase rapidly after Independence and he calls for attempts to reduce the net debt services of the country which may become burdensome in the years to come.

Stress Mohammad Zahir (1972)⁹ made an attempt to examine the public expenditure aspect of fiscal science emphasizing the role of public expenditure in redistributing income. He presented an empirical-cum-analytical objective study of the influence of the changing pattern of public expenditure on distribution of income in India during the period from 1951-52 to 1965-66. His empirical analysis was based on statistical tables from which the author has drawn inferences regarding the impact of public expenditure on the distribution of income among various income groups and different regions of the country. His study has proved that even though certain gains have been achieved as a result of

9. Zahir, Mohammad, *Public Expenditure and Income Distribution in India*, Associated Publishing House, New Delhi-5, 1972.

public expenditure on Social Services like health, education and welfare but the extent to which these gains have led to the reduction of income and wealth inequalities have been insignificant. The author's analysis has clearly shown that the effects of public expenditure in India have in fact led to a greater concentration of economic power in a few hands and greater regional inequalities.

Sinha (1977)¹⁰ has made an attempt to evaluate the impact of fresh taxation levied on the national economy during a period of three decades (1950-51 to 1974-75). Stressing the importance of fiscal policy as an instrument to achieve economic goals, the author has asserted that it should not only promote savings and direct investment but it should also discourage wasteful public expenditure and conspicuous consumption. The analytical findings of his study were that the fiscal policy and tax structure built up during the last three decades in the country have proved to be unproductive. There has not been any coherent fiscal policy which has solved the basic problems of poverty and unemployment. The Union and State budgets have all along been used as an accounting exercise rather than an instrument for promoting production and development. Moreover, the author has noted that the additional taxes levied every year without

10. Sinha, Bakshi, D., *Fiscal Policy and Economic Growth*, Birla Institute of Scientific Research, New Delhi, 1977.

increasing the purchasing power of the people has affected their savings potential and the quality of life. In order to tackle the basic problems of poverty and growing unemployment, the author has stressed that the fiscal policy of the government needs to be rationalized and made growth-oriented.

Sastry's (1979)¹¹ work deals with budgeting of public expenditure. He has highlighted the importance of the budget as an effective instrument of planned development and suggested various ways in which the planning and the implementation of public expenditure programmes could be improved to achieve developmental goals. His study has meaningfully combined the concept and techniques of public administration, management economics and accountancy and critically assessed the relevance and use of cost-benefit analysis in the Indian setting. After analyzing the various factors responsible for the limited success achieved by Indian Planning since Independence, the author has advocated a decentralized approach to planning that would call for participation at every level with a view to specifying the goals and objectives. He has rightly argued that greater attention should be paid to the complementarity of different instruments of public policy like credit, taxation and public

11. Sastry, K.S., *Performance Budgeting for Planned Development*, Radiant Publishers, New Delhi, 1979.

expenditure. His work has emphasized the need for a more systematic demarcation of the various governmental departments and agencies in each sector of development so that a purposeful evaluation of plan programmes and their effective implementation might be possible.

Muroa's (1979)¹² work has made an attempt to examine the development of budgetary consciousness by administrators, managers and operatives in the Indian environment. Recognizing the significance of the budget as a tool of physical and financial control of government operations, he has dealt in detail with government budgets pointing out their impact on the optimal distribution of income and wealth. Further, he analyzed the importance of the budgets to the managers of industry and business. Further, his work has analyzed the developing concepts in the dynamics of budgeting and the scope of the budget in the future. His study has stressed that budgeting is a service which can motivate administrators and managers to improve the future. Therefore, there is a need to develop integrated budget management concepts.

12. Muroa, Bahadur, *Budgeting*, Meenakshi Prakashan, Meerut, 1979.

V.G. Rao (1979)¹³ examined the responsiveness of the aggregative Union and States' tax structure and of selected individual taxes to changes in national income the period 1960-61 to 1973-74. He has estimated the built-in flexibility and buoyancy for specified tax groups and individual taxes by using simple linear regression equation. Rao's examination of the overall trends of revenue from taxation in India specially in relation to national income, has revealed that the revenue built-in flexibility has not improved the automatic growth in tax receipts during the period under study. However, a comparison of the States' total tax revenue minus their share in Central taxes with Union taxes, has revealed that States' taxes are more responsive to changes in national income in both elasticity and buoyancy. The author is of the view that the States' autonomous indirect taxes in general contain better automatic growth potentialities.

Rao's (1981)¹⁴ work attempted to provide a scientific methodology towards making objective estimates of the States' fiscal gap which forms the basis of determining inter-governmental transfers by Finance Commissions. The author has

13. Rao, V.G., *The Responsiveness of the Indian Tax System, 1960-61 to 1973-74*, Allied Publishers Private Limited, Bombay, 1979.

14. Rao, M. Govinda, *Political Economy of tax and Expenditure Determination: A Case Study of Four Indian States*, Allied Publishers Private Limited, New Delhi, 1981.

presented projections of tax revenues and expenditures of four states, viz. Kerala, Karnataka, Orissa and West Bengal during the period of the Sixth and the Seventh Finance Commissions. The projections are made on the basis of time series determinants considering both political and economic determinants. The economic determinants that have been considered are per capita income at constant prices, the proportion of primary sectoral income to State Domestic Product and the consumer price index. Besides making projections, the determinant analysis provides an explanation of the changes over time in tax revenues and expenditures of States. The effects of the various economic and political factors on the fiscal decisions of the States have been quantified. The author has noted the immense effect on the fiscal position of States due to changes of parties in power, the influence of their ideological leanings and the impact of their stability considerations.

Prakash (1983)¹⁵ made an attempt to present an in-depth examination in the various aspects of the finances of the State of Punjab. His study covers the period from 1967-68 to 1975-76. In analyzing the overall budgetary position of the State, the author has observed that the State of Punjab has witnessed continuous deficits on the capital account which

15. Parkash, Om., *The Finances of Punjab State*, Guru Nanak Dev University Press, Amritsar, 1983.

has partly been financed through the surplus on the revenue account. The importance of Central grant and shared taxes has been noted in the finances of the State. However, the author has observed that Punjab had been making vigorous efforts for the mobilization of additional revenues both from tax and non-tax sources. Regarding central transfers through shared taxes and grants-in-aid, the author has noted with concern the weightage given to the criteria of backwardness by the various Finance Commissions from the First to the Sixth Finance Commissions which has penalized efficiency and prudence of progressive states like Punjab. He has also examined the total indebtedness of the State of Punjab which has depicted a growing trend in the early years. However, various measures undertaken have reduced the burden of the State's indebtedness. The author has suggested that the State Government of Punjab should strive for the mobilization of additional revenues both from tax and non-tax sources by specially tapping the additional income generated in the agricultural sector through suitable tax policies.

Thimmaiah (1984)¹⁶ has made an attempt to provide a theoretical background to the principles of tax design and tax reform. His study covers the direct taxes of the Central Government and also some important indirect taxes levied by

16. Thimmaiah, G., *Perspectives on Tax Design and Tax Reform*, Ashish Publishing House, New Delhi, 1984.

the Central and State Governments. He has emphasized on the defects in the existing tax structure in India and the need and scope for tax reforms. According to the author, the Indian tax structure which was designed by the British mainly for raising revenues, resulted in inequalities in income and wealth and hence could not lend adequate support to meet the challenges of planned economic development. The need for tax reforms has been felt since the early fifties by the appointment of the Taxation Enquiry Commission in 1953. However, the author has pointed out that there exists numerous defects in the tax structure of India which have led to serious tax evasion. All these need to be corrected so that the tax structure becomes adequate to support planned development.

Bhuyan (1985)¹⁷ has attempted to analyze and study in detail the different budgets of the Government of Assam for the period of 28 years from 1951-52 to 1978-79. He has carried out a time series analysis of the budgets of Assam and analyzed the various causes contributing to the trends and fluctuations in the different items of revenues and expenditures. He has also carried out an analysis of the behaviour of total State revenues and expenditures in relation to changes in State Income. He has noted that

17. Bhuyan, P.K., *Regional Fiscal Economics of Assam*, Chugh Publication, Allahabad, 1984.



excepting for some years, the State's revenues and expenditures were highly responsive to State Income. In analyzing the tax and non-tax revenue structure of the Government of Assam, Bhuyan has noted the scope for raising additional finances from non-tax revenues. The author has also examined the contribution and effects of public expenditures, public debt and capital formation on Assam's economy. Further, he has examined the contribution of shared taxes and Central grants to Assam during the periods of the first Seven Finance Commissions. The author has pointed out the relative imbalances between the fiscal allocations and the needs of the State which have not at all been favourable for the growth of a backward and under-developed region.

regre Tripathy's (1985)¹⁸ work is essentially a theoretical study of the role of fiscal dynamics in the economic development of under-developed countries. In analyzing the dimensions of Public Finance in the economic development of under-developed countries, the author has evolved a number of criteria. These criteria as the author has noted, are to some extent of a conflicting nature and under-developed countries pursuing the objective of planned economic development have to evolve a compromise between them. He has considered in

18. Tripathy, R.N., *Public Finance in Under-developed Countries*, Sterling Publishers Private Limited, New Delhi, 1985.

detail the role of taxation in promoting development with illustrations drawn from the experience of several countries. He has also discussed the importance of the different non-tax sources of revenue of public enterprises such as administrative receipts and surpluses in their task of resource mobilization. The economics of public borrowings, its importance and problems for under-developed countries have also been examined.

An important and useful work on Public Expenditure is that of Dutta (1985)¹⁹ which is an attempt at presenting an empirical study of the pattern and composition of public expenditure programmes of West Bengal covering the period from 1951-52 to 1975-76. The author has worked out the regression coefficients of variables like per capita income, degree of urbanization, financial transfers from the Centre, debt servicing, etc. to study their impact on public expenditures of the State. She has also examined the impact of public expenditures on economic development. This analysis has established the validity of increases in the cost of administration while tax and debt efforts have been lower and ineffective to the growing requirements and Central transfers have acquired a growing importance. Further, the study has pointed out that developmental expenditures have kept pace

19. Dutta, Sibani, *Public Expenditure and Economic Development*, Ashish Publishing House, New Delhi, 1985.

with total public expenditures while non-developmental expenditures of the State has increased rapidly. Further, the public expenditure programmes of West Bengal has not effectively led to economic development in the State as has been witnessed in other States in the country. The author has also noted that the all-round progress of the State could be realized only through a greater effort on mobilization of the State's own resources, larger financial transfers from the centre and appropriate, efficient and equitable public expenditure budgets.

the Sharda's (1986)²⁰ work highlighted the interrelationship between government finances and regional development against the backdrop of unique socio-economic challenges being faced in backward regions. His work deals with the State finances of Himachal Pradesh covering the period from 1967-68 to 1982-83. Taking into account the peculiar problem in this hill state, the author has noted the importance of the budgetary operations of the State. In analyzing the growth and structure of the State's tax revenue the author has observed the limitations of direct taxes. However, indirect taxes specially sales tax and state excise duty appears to be more important in their revenue yielding capacity in the tax structure of Himachal Pradesh. He has

20. Sharda, N.K., *State Finances and Regional Development in India*, Deep & Deep Publishers, Shimla, 1986.

also felt that since there is limited scope for resource mobilization through taxation, the government has relied heavily on non-tax revenue sources for meeting its financial requirements though these sources have mostly proved to be inadequate. His analysis on financial transfers from the Central Government has pointed out to the dependency of the State on the Centre for its finances. Further, he has noted that there has been a rapid growth of public expenditures both on development and non-developmental activities. Since the State is characterized by a limited resource position, the Himachal Pradesh Government has to finance a large part of its expenditures through borrowings which add to the indebtedness of the State Government. His study has thus revealed the weakness that exists in the finances of a backward State.

Bansal's (1988)²¹ work which covers a period of sixteen years (1967-68 to 1982-83) has attempted to examine the scope of additional resource mobilization in the different States of India both from tax as well as non-tax sources. In particular, the state lotteries as a source of non-tax revenues and their economic implications have been examined. Recognizing the fact that different states in India are at different levels of development the author has noted that

21. Bansal, R.K., *Raising Additional Resources in the States*, Atlantic Publishers and Distributors, New Delhi, 1988.

relatively under-developed states has raised a lower proportion of revenues from their own sources in comparison to relatively developed states. Further, the author has analyzed the tax efforts of the States by estimating the buoyancy coefficients of both tax and non-tax revenues by using a suitable log linear regression equation. In comparing the buoyancy coefficients of the States' total revenues, the author has observed that the buoyancy coefficients were more for non-tax revenues than for the tax revenues. This applies to almost all individual states in India with the exception of the States of Gujarat, Karnataka, Punjab, Tamil Nadu, Uttar Pradesh and Tripura. In these States, his study has revealed that a positive change in Net State Domestic Product led to a greater increase in the tax revenues than in non-tax revenues. Further, the author has observed that the tax-income ratios has been generally low in States with high per capita income. He has pointed out that these states were not putting in adequate efforts to raise revenues commensurate with their taxable capacity. In particular, the author has noted that state lotteries as a source of revenue, appears to be inequitable and unsatisfactory.

Sury's (1990)²² work has attempted to explain about mechanics of Central Government Budgeting in India.

22. Sury, M.M., *Government Budgeting in India*, Commonwealth Publishers, New Delhi, 1990.

Recognizing the increasing importance of the budget, the author has reviewed the economic role of the Government and the significance of budgeting in modern societies. He has also dealt with the constitutional provisions and the ramifications of the Central budgets in India. The author has analyzed the various inflows and outflows of the Central Government budget stressing on the Union Budget for 1990-91. The technical aspects of the budget in terms of economic and functional classifications have been examined with the use of diagrams and charts. He has discussed the parliamentary procedures and controls applicable to the budget and the recent modifications in the meaning and measurement of budgetary deficits.

In his second work, Rao (1992)²³ has attempted to examine the emerging trends in the state of public finances at the States level and to identify the major problem areas and to indicate the policy changes needed to tackle them. The author has noted that the distressing feature of States' finances is the emergence of substantial and growing volume of revenue deficits in recent years. This problem of growing fiscal imbalance as the author has noted, has emerged in spite of the revenues increasing at a higher rates. The

23. Rao, M. Govinda, *State Level Budgetary Reforms: Some Proposals*, Indian Economic Association Trust for Research and Development, Lodhi Estate, New Delhi, 1992.

higher growth of revenue expenditures than that of revenue receipts has led to an increased borrowings by the States creating an explosive cycle of expenditure growth on interest payment which is unsustainable. Further, the author has noted that the emphasis of having large plans even when commensurate resources were not available, has led the States to take recourse to heavy borrowings. Since the borrowed funds were not directed to revenue yielding assets, they had led to an increase in the States' indebtedness and consequently funds available for capital investment have been greatly reduced. The author has also pointed out that even though tax revenues in the States have registered a fairly rapid growth, yet the prospects of improving them without adversely affecting the pace of economic development appears to be limited. In the case of non-tax revenues, he has noted that their improvements can be effected only when the workings of the state-level enterprises has been substantially improved. The author has suggested various policy measures to the States to compress expenditures, to reduce budgetary support to public enterprises and to rationalize the tax system which would in the long run, restore the incentives and improve the productivity of the government sector.

Dr. Verma
Study of
Public Enterprises

Verma (1995)²⁴ has attempted to analyze the budgetary policy of the Uttar Pradesh Government. He has examined the budgetary powers of the State Government in their effects on the economic development of the State. He has analyzed the taxation policy, public expenditure, and public debt policies of the State Government from the point of view of meeting the needs of economic development. His study has brought out the importance of a well structured fiscal policy to meet the needs of development of the State. In the case of public expenditures policy, the author has stressed on the importance of meeting developmental needs which seems to be lacking in the State. Further, in analyzing public debt the author has noted the importance of Central loans in the finances of the State and that the State's indebtedness has been on the increase.

DEFINITIONS AND SIGNIFICANCE OF THE STUDY

The simple etymological definition of Budget is understood as a small bag (from the French word *bougette* meaning a small bag), but this could be widened in scope when we talk of a small bag containing financial proposals. Taylor has defined the budget as "The master financial plan of the

24. Verma, T.N., *Budgetary Policy of Indian States (A Case Study of Uttar Pradesh Government)*, Books Treasure Publishers, Jodhpur, 1995.

government. It brings together estimates of anticipated revenues and proposed expenditures implying the schedules of activities to be undertaken and the means of financing these activities.²⁵ Gladstone aptly remarked that, "Budgets are not merely affairs of arithmetic, but in thousand ways go to the root of prosperity of individuals, the relations of classes and strength of kingdoms."²⁶ As such, the budget is not only a financial statement, it is also a plan embodying the economic programme of a Government.

The State of Meghalaya like every other State Governments of the Indian Union, prepares and presents its own budget of income and expenditure every year. Taking into account the fact that Meghalaya has been included as a Special Category State since its formation in 1972, implies that the State is not financially viable due to a number of factors. These factors are the remoteness of the State, difficult terrain, low level of infrastructural development, low industrial development, etc. which account for the poor resource base of the State. It thus requires assistance and nurture from the Centre to supplement its fragile finances. As it is, favoured treatment is being given to Special

25. P.E. Taylor as quoted in Misra, B., *Economics of Public Finance*, Macmillan India Limited, New Delhi.

26. Gladstone as quoted in Gupta, B.N., *Government Budgeting, with Special Reference to India*, Asia Publishing House, Bombay, 1967.

Category States in respect of financial devolutions from the Centre.

Notwithstanding the fact that the State has been receiving favoured treatment in terms of financial assistance from the Centre; the State's financial position has been under great strain in recent years. The financial problems of Special Category States aggravated in 1989 when the filling up of the non-plan needs through Central assistance was discontinued due to the resource crunch at the Centre. The disproportionate growth in expenditures not matched by an equivalent growth in receipts led to severe distortions in budgetary equilibrium of the State Government which intermittently lapsed into overdraft in 1994. The unabated growth in expenditures has been due to a variety of factors such as administrative expenses, the maintenance of law and order, etc. Also the increasing level of non-plan expenditures which are financed out of borrowings has resulted in an increase in the debt servicing liability of the Government making it obligatory for the State Government to resort to further borrowings. All these factors including the inelastic resource position of the State, points to the gravity of the situation of the State's finances and any attempt to reduce deficits, calls for curtailment of expenditures while ensuring that the developmental process is not hampered.

72 Keeping in view the State's under-developed economy, higher investments are needed for every developmental activity. This makes it imperative for efficient mobilization of additional resources and judicious application of scarce resources both ensuring financial discipline and avoiding wasteful expenditures. The endeavour of the State Government of Meghalaya has always been to ensure that its finances are directed towards productive schemes and programmes which yield not only maximum social benefit and economic growth but also generate additional resources.²⁷ Therefore, the study of the State's finances as reflected in its budgets is of greater relevance since the budget should not only give expression to the wishes and desires of the people but should also be able to gear up a movement in the desired economic fields and activities.

METHODOLOGY AND SOURCE OF DATA COLLECTION

The data for this research covering the 26-year period from 1972-73 to 1997-98 are drawn mainly from published and unpublished sources both primary and secondary. The relevant data of Actual figures have been collected from the various Annual Financial Statements and the Memoranda of the Budget Estimates of the Government of Meghalaya from the year 1971-

27. Government of Meghalaya, *Budget Speech, 1995-96*, 27th March, 1995, Finance Department, Shillong.

72 to 1999-2000 published by the Finance Department, Government of Meghalaya, Shillong. The various budget speeches of the Finance Ministers of the State and the Legislative Assembly Proceedings available in the Meghalaya Assembly Secretariat Library have also been utilized. The official reports both published and unpublished by the Directorate of Economics, Statistics and Evaluation, have also been our primary source of data. Much data have also been drawn from various secondary sources such as books, journals, old newspapers, articles, papers and findings of relevant seminars. Besides, standard works on the subject relevant to the problem of State finances were consulted.

The limitation of the data so collected have been taken into account and corrected wherever possible. It must be pointed out that various differences existed in the Actual figures of revenues and expenditures under certain heads in the various official documents and wherever possible the discrepancies have been corrected. Even though for most of the years the actual figures of revenues and expenditures are available yet it must be pointed out that for two years, i.e. 1973-74 and 1976-77, the actual figures were not available and the figures of Revised Estimates were taken.

The statistical techniques of time series analysis have been utilized to analyze the relevant statistical data so collected. The different items or broad heads of revenues and

expenditures have been regressed on time, the variations explained by the time factor have been accounted for. This has been computed by fitting simple linear regression equation and by the method of least squares. Further, the income elasticity of the various heads of revenues have also been analyzed. The methodology adopted for the study is both descriptive and analytical - where the data so collected have been tabulated and analyzed by the help of suitable statistical techniques and the result obtained have been subjected to relevant economic logic. As many as 45 statistical tables and three graphical representations have been brought out in the entire work.

OBJECTIVES OF THE STUDY

- v) The objectives of the study are as follows:
- i) to examine and present an aggregative view of the budgets of the Government of Meghalaya for the period 1972-73 to 1997-98. It involves looking into the trends of revenues and expenditures under the Revenue and Capital Accounts based on Actual figures and traces the pattern of budgeting that has been followed so far in the State.
 - ii) to investigate into the trends and structure of tax revenues of the State. It involves looking into the relative importance of the different taxes in terms of

resource mobilization. It also examines the income elasticity of the State's tax revenue sources.

- iii) to investigate into the trends and structure of non-tax revenue sources of the State including Central grants-in-aid. It involves looking into the relative importance of the different sources of the State's own non-tax revenues in terms of resource mobilization. It would also examine the income-elasticity of the States' non-tax revenue sources;
- iv) to examine the growth and pattern of public expenditure programmes of the State and to see how far the public expenditure programmes of the State have been geared up to achieve the goals of economic growth and social justice;
- v) to study the problems and effects of public debt on the under-developed economy of the State.

HYPOTHESES OF THE STUDY

The Hypotheses of the study are as follows and our analytical findings have been logically linked with these hypotheses in the various chapters of the main thesis:

1. The fact that Meghalaya have been included as a Special Category State since its formation in 1972, implies that it is not financially viable.
2. That the State's financial position has been under great strain in recent years.

3. That the disproportionate growth in expenditures are not matched by an equivalent growth in receipts.
4. That the State Government is increasingly dependent on the loan-method of financing expenditure programmes.

ORGANIZATION OF THE THESIS

Chapter-I, which is chiefly introductory, presents the Statement of the Problem, Significance of the Study, Objectives and Methodology of the Study. It also includes a general review of the important works done in India on the different budgetary aspects touching upon specific works on the State Finances of at least eight states in the country including the Hill State of Himachal Pradesh which is similarly placed like Meghalaya.

Chapter-II presents an overview of the different budgets of the Government of Meghalaya during the period from 1972-73 to 1997-98. It focuses on the pattern of budgeting that has been followed so far by the State Government in conformity with our first objective.

Chapter-III analyses the trends and structure of tax revenues of the State for the period 1972-73 to 1997-98 bringing out their relative importance in additional resource mobilization of the State to satisfy our second objective.

Chapter-IV examines the trends and structure of non-tax revenues of the State focussing on their relative importance in additional resource mobilization.

Chapter-V discusses the trends and patterns of public expenditures of the State. It brings into focus the pattern of developmental and non-developmental expenditures programmes of the State and its effects on the State's economy in line with our third objective.

Chapter-VI discusses the trends and patterns of public debt in the State. It focuses on the problems and effects of public debt on the economy of the State to conform with our fourth objective.

Chapter-VII is the concluding chapter which sums up the major findings and records the conclusion that emerge from the study.

In the preceding chapters, attempts have been made to look into the Budgetary Trends of the Meghalaya Government Finances for the period from 1972-73 to 1997-98. Before the analytical discussion of the data we have emphasized on the significance of the budget as a major fiscal instrument of social and economic development and not merely an annual report or a financial statement for the information of the legislature. Thereafter, we have analyzed the different budgets of the Government of Meghalaya for the 26-year period. We have also looked into the trends and structure of the State's tax and non-tax revenues as well as the trends and pattern of public expenditure programmes and public debt of the Government of Meghalaya. It is now time to summarize our findings and record our conclusion that emerged therefrom.

SUMMARY OF FINDINGS

I

Our overview of the different budgets of the Meghalaya Government for the period from 1972-73 to 1997-98 has revealed that in the case of the Revenue Budgets, the increases in revenue receipts have been considerably larger than the increases in revenue expenditures. The exponential growth rates in both revenue receipts and revenue expenditures recorded at 8.6 per cent and 8.7 per cent per annum respectively during the 26 years under study. This

indicates that stability has been maintained in the Revenue Budget since both receipts and expenditures have grown simultaneously together.

It has been found that the Revenue Budget did exhibit deficits on two occasions, i.e. in 1972-73 and in 1973-74. The deficits during these two years were mainly due to the increased expenditures incurred on account of the transfer of the administrative machinery, medical and educational institutions, etc. of Shillong Municipal and Cantonment Areas from Assam to Meghalaya on the attainment of Meghalaya as a full State on 21 January 1972. Thereafter the Revenue Budgets of the State exhibited surpluses of varying amounts during the entire period of 24 years.

Further it has been observed that both revenue receipts and revenue expenditures are not a monotonically increasing function of the time factor. The low percentage variations in the case of revenue receipts reflected the inelastic resource base of the State in terms of its tax and non-tax revenues. The low percentage variations over time in the case of revenue expenditures reflected that the level of expenditures of the government in terms of its economic, social and general services, etc. is still very low which itself indicated the low level of economic activity in the State.

On the other hand, the Capital Budgets of the Government of Meghalaya are characterized by wide annual

fluctuations over the 26-year period under study. The Capital Receipts recorded an exponential growth rate of 1.2 per cent per annum and the Capital Expenditures at 9.8 per cent per annum. Thus the growth rate in Capital Expenditures far exceeded that of capital receipts by 8.6 per cent per annum during the course of 26 years.

It has been observed that although the Capital Budgets have been throughout smaller than the size of the Revenue Budgets, the former have witnessed continuous deficits for all these 26 years under study. Moreover, it has been found that the Revenue Budget Surplus each year could not cover the overall deficits in the capital Budgets for most of the years.

Another feature that has been noted is that the Capital Budgets exhibited marked increases in both receipts and expenditures during two financial years, i.e. 1993-94 and 1994-95. The high increases in Capital Receipts have revealed that the State Government has resorted to a higher degree of borrowings to supplement its meagre resources. These two years were the periods in which the Government had faced acute financial crisis and unavoidably lapsed into overdraft. This validates our second hypothesis that the State's financial position has been under great strain in recent years. This has been due to the non-provision of funds to fully cover all non-plan deficits of states which came into

operation during the period of the Ninth-Finance Commission. This has created financial difficulties for the State since it has to incur increasing levels of non-developmental expenditures.

The high levels of non-developmental expenditures which are necessarily financed out of borrowings also resulted in an increase in the debt servicing liabilities of the government making it imperative for the State to resort to further borrowings. These factors resulted in a financial crisis and the State lapsed into overdraft. However, by 1995-96, there has been a decline in the Capital Receipts of the State though not matched by a corresponding decline in expenditures. This reveals that there had been a fall in the borrowing activities of the Government.

However, the linear relationship between Capital Receipts and Capital Expenditures as a function of the time factor has shown the low percentage variations over time in the case of both. The low percentage variations over time in the case of Capital Receipts indicated the inadequacy of the Government's efforts to mobilize adequate resources to finance its Capital Expenditures. Further, the low percentage variations over time in the case of Capital Expenditures indicated that the level of expenditures over the 26 years under study to create the required infrastructure for accelerating the pace of economic development, has relatively

remained at a low level which pointed out to the under-developed nature of the economy of Meghalaya.

The overall budgetary position of the Government of Meghalaya has shown that in the course of 26 years, the State witnessed 15 surplus and 11 deficit budgets. Even though the Revenue Budget witnessed deficits on two occasions, the Capital Budget exhibited deficits in all the 26 years under study. This pointed to the deterioration in the Capital Budget and that a considerable amount of Capital Expenditures incurred has not yielded any adequate return. It also validates our third hypothesis that there has been a disproportionate growth in expenditures not matched by an equivalent growth in receipts.

II

The trends and structure of the Tax Revenue Receipts of Meghalaya have revealed an important fact that the State is largely dependent on shared taxes for its revenue resources to meet its ever growing expenditures. The variations in Meghalaya's share of shared taxes have been mainly due to the implementation of the various Finance Commissions Awards effective from the Fifth and the Sixth Finance Commissions onwards. The State's Own Tax Revenue accounted for a lower proportion of total tax revenue receipts of the State. It has demonstrated a somewhat erratic and slow behaviour

registering a trend towards a decline as noted in the last financial year of the 26-year period of our study.

However, the exponential growth rate in both shared taxes and the State's Own Taxes have been observed to correspond to each other at one per cent respectively. This has indicated the relatively stagnant resource position of the State in terms of its tax revenues. It also reveals the importance of the State's non-tax revenue in the revenue receipts and the crucial role that the Central transfers play in the finances of the State. This pointed to the fragile nature of a Special Category State characterized by a high degree of dependency on Central finances as a basis for its revenue resources. This validates our hypothesis that Meghalaya being included as a Special Category State since its formation in 1972 is not financially viable.

A major component of the shared taxes of the State has been accounted by Union Excise Duties rather than Income Tax depending upon the awards of the various Finance Commissions. Moreover, Union Excise Duties recorded an exponential growth rate of 1.3 per cent per annum and that of Income Tax at one per cent per annum during the 26 years under study. Thus the growth rate in Union Excise Duties is almost equal to that of Income Tax. However, the major proportion of the Central taxes in the finances of the State indicated the weightage being given to the criteria of backwardness by the various

Finance Commissions which transferred resources to backward states to enable them to accelerate the pace of economic development.

The trends and structure of the State's Own Tax Revenues have shown that Sales Tax continues to be the largest contributor to the State's Tax Revenues. It grew at an exponential growth rate of 9.6 per cent per annum during the 26-year period under study. However, the linear relationship between Sales Tax as a function of the time factor reveals the low percentage variations over time in the case of receipts from Sales Tax. The low percentage variations over time in case of Sales Tax has pointed out to the relative inflexibility of the Sales Tax structure in the State. It indicated the tax loopholes and anomalies which may be present in the Sales Tax structure of the State and which provides a scope for tax evasion hampering the Government's effort to raise more revenues from this source. However, the importance of this tax item in the fiscal structure of the State has been clearly noted.

The second important component of the State's Own Tax Revenues is accounted by the State Excise Duties. It grew at an exponential growth rate of 1.3 per cent per annum which however indicated the relative inflexibility of this tax over the 26-year period under study. Further, the low percentage variations over time in the case of this tax reflected that

the Government of Meghalaya has not been able to efficiently mobilize revenues from this source to the optimum level.

The other State's Taxes accounted for quite lower proportion of the State's own tax revenue. The most insignificant contribution has been accounted by electricity duty. However, these other taxes recorded a higher exponential growth rate than State Excise Duties. The growth rate observed on Taxes on Vehicles was at 7.6 per cent per annum; taxes on passenger and goods at 8.8 per cent; Taxes on Stamps and Registration at 7.8 per cent; Taxes on Professions at 6.5 per cent; Land revenue at 9.3 per cent; electricity duty at 3.7 per cent and other taxes on Commodities and Services at 7.8 per cent per annum during the 26-year period under study. This indicated the relative flexibility of these sources of revenues of the State. However, the low percentage variations over time in the case of these various taxes of the State further highlighted the failure of the government's efforts to mobilize and tap these revenue sources to the optimum.

The analysis of the tax revenue of the State in relation to State Income has revealed that the State's efforts at mobilizing finances from its own tax sources have not been proportionate to the increases in State income. The State income grew at the exponential growth rate of 16 per cent per annum far exceeding the growth rate in the State's

own tax revenues and also the total tax revenue of the State during the 26-year period under study. Moreover, the proportion of the State's own tax revenues is much lower than the percentage share of the total tax revenues of the State in the State income. This brings into sharp focus the high reliance of the Government of Meghalaya on shared taxes from the Centre for its revenue base.

The income elasticity of the State's Own Tax Revenue has depicted less than unit elasticity which reveals the inelastic nature of the tax structure in Meghalaya and that it lacks the built-in flexibility indicating that the tax structure of the State has relatively remained at a static level during the course of 26 years under study. Among the individual taxes it has been observed that both State Excise Duty and Sales Tax exhibited more than unit elasticity while all the other individual taxes have exhibited less than unit elasticity. The high responsiveness to income noted in State Excise Duty and Sales tax reveals their productivity in augmenting the weak resource base of the State. However, the low income elasticity witnessed in the case of the State's own tax revenue and all the other individual taxes of the State indicates that the Government's efforts to raise additional finances from its own tax sources have not been able to mobilize the increasing share of incremental income

through existing rates of taxation. This pointed out to a characteristic feature of an underdeveloped economy.

III

The trends and structure of Non-Tax Revenues of the Government of Meghalaya have revealed the growing importance of this source of revenue to the revenue receipts of the State. It recorded an exponential growth rate of 9.1 per cent per annum during the 26-year period under study. Thus it is noted that the growth rate of total non-tax revenues far exceeded that of total tax revenues of the State. Although its percentage share to total revenue receipts of the State is marked by wide variations, its significance in supplementing the weak resource base of the State has been clearly highlighted.

The major component of the total non-tax revenue of the State is accounted by grants-in-aid which grew at an exponential growth rate of 7.5 per cent per annum during the period under study. The high percentage contribution of grants-in-aid towards the non-tax revenues of the State has been more than 90 per cent almost every year. This has pointed to the favoured treatment received by Special Category States like Meghalaya in respect of Central transfers. Further, it was owing due to this massive financial transfers from the Centre in the form of grants-in-

aid as well as shared taxes that Meghalaya could enjoy its successive surpluses on its Revenue Budgets.

Service The State's Own Non-Tax Revenue receipts form a very small proportion of total non-tax revenue of Meghalaya in comparison to the share of grants-in-aid from the Centre. This pointed to the fact that the efforts of the Government of Meghalaya to raise revenue collection from its various non-tax sources in terms of Economic Services, Fiscal Services, Social Services and General Services have been inadequate. This highlighted the economic under-development of the State and its high degree of dependency on the financial transfers from the Union Government for its revenue resources validating our first hypothesis that without financial assistance from the Centre, Meghalaya is not financially viable on its own. However, it may be noted that the rate of growth in the State's own non-tax revenue at 16 per cent per annum far exceeded the rate of growth of grants-in-aid. This indicates the relative flexibility in the non-tax revenue sources of Meghalaya. Even though Meghalaya's claim to greater Central assistance is justified the State should strive to raise more resources internally to supplement its meagre resource base.

The trends and structure of the State's Own Non-Tax Revenue from various sources like (i) Fiscal Services; (ii) Economic Services; (iii) Social Services and (iv) General

Services, have revealed that a major component of Non-tax Revenue Receipts of Meghalaya emanated from Economic Services. Under Economic Services a significant amount of receipts has been accounted from the Non-ferrous Mining and Metallurgical Industries followed by Forestry and Wildlife. The other remaining sources accounted for a lower proportion of receipts under Economic Services.

The second important component of non-tax revenues of Meghalaya has been accounted by General Services. Under General Services, a major proportion of receipts has been earned from Miscellaneous General Services. Substantial amounts have been collected from Other Administrative Services, Police and Public Works particularly in the last five years of the study period. The other services viz., Public Service Commission, Jails, Stationery and Printing and Contribution and Recoveries towards Pension and other retirement benefits accounted for a negligible portion of receipts during the period under study.

The other two components, viz., Fiscal Services and Social Services contributed insignificantly to the State's total Non-Tax Revenues during the 26-year period under study. In the case of Fiscal Services a major proportion of receipts have been earned from interest receipts while receipts from dividends and profits earned from the public sector undertakings have been negligible for the entire period of 26

years under study. In the case of Social Services it has been observed that with the single exception of Medical and Public Health, none of the other sub-heads could earn to the level of Rupees one crore even during the last five years of our study period. However, the earnings from this sub-head too declined in the last year of our study period.

Further, the low percentage variations over time in the case of non-tax revenues earned from Economic Services, Fiscal Services, Social Services and General Services indicate that the pattern of revenues earned from these four sources are not an increasing function of time during the 26-year period under study. The low percentage variations over time indicate that there has not been any appreciable changes in the pattern and composition of the State's Own Non-Tax Revenue resources. This has highlighted that the Government has not been able to levy and implement proper rates and charges for its Economic, Social and General Services provided by it. It further reflects the low levels of efficiency or failures in the workings of the State's public sector undertakings to yield adequate returns or that they are largely incurring losses. Thus a conscious effort for mobilizing additional finances by the Government of Meghalaya from its various own non-tax sources has been sadly lacking during the 26-year period under study.

The trends and structure of the two components of grants-in-aid viz., Plan Grants and Non-Plan Grants, reveal that a major proportion of grants that flow to Meghalaya is accounted by Plan Grants. The higher share of central financial assistance in the form of plan grants is due to the criteria of distribution adopted by the Planning Commission in the case of plan support which takes into account the financial needs of Special Category States. Under Plan Grants, a major proportion has been accounted by Grants for State Plan Schemes followed by Grants for Centrally Sponsored Schemes. The higher share of Grants for State Plan Schemes reveals that the implementation of the various Five-Year Plans necessitated increased expenditures which are necessarily met from this grant-in-aid. The other components viz., Grants for Central Plan Schemes and Grants for NEC Regional Schemes have been awarded to the State from 1974-75 onwards. Though their share is marked by wide annual variations, their contribution to the revenue base of the State cannot be minimized.

In the case of Non-Plan Grants, a significant proportion is accounted by Grant Under Art.275(1) of the Indian Constitution followed by Grant for Other Non-Plan Purposes. The shares of both these two categories of Non-Plan Grants has been marked by wide variations over the years. The variations in the case of these grants-in-aid can be

accounted by the changes in the pattern of financial devolutions under the awards of the various Finance Commissions.

The relationship between Non-Tax Revenue and State Income has revealed that the State's drive for mobilizing additional finances from its own non-tax revenue sources has not been commensurate with the increases in state income. The State Income has increased successively at an exponential growth rate of 16 per cent per annum during the 26-year period under study. The growth rate in State Income thus equals that of the State's Own Non-Tax revenue which indicates the significance and greater scope of non-tax revenues to add to the revenue receipts of the State. However, the proportion of the State's Own Non-Tax revenue to State Income is characterized by wide annual fluctuations over the years bending towards a decline in the last few years of our study period. Thus the State's efforts in mobilizing additional finances from its own non-tax revenue sources have not been in due proportion to the increases in the State Income.

The analysis of the income elasticity of the State's own non-tax revenue and individual components have shown the inelastic nature of these sources of revenues. The low income elasticity of the individual components of non-tax revenue sources depicts their low productivity in augmenting the weak

resource base of the State. It highlights the failure and inefficacy of the State's Public Sector undertakings to enhance their revenue base. Further, the level of services provided by the State in terms of its Economic, Social and General Services remains relatively very low characterizing the feature of an underdeveloped economy.

The comparative analysis of the State's Own Non-Tax Revenue and Own tax Revenue reveals that the share of Non-Tax Revenues exceeds that of tax revenues both in absolute terms as well as in percentage contribution only on five occasions. With this exception, the State's Own Non-Tax Revenues has been somewhat erratic registering a trend towards a decline. Correspondingly, tax revenue steadily increases over the years although it also registers a falling trend in the last year of our study period. This indicates the dependency of the Government of Meghalaya on Central grants-in-aid as well as on shared taxes as the basis of its revenue receipts. This has been corroborated by our comparative analysis of the State's Own Non-Tax revenue, Own Tax Revenues and Shared Taxes as proportions of total revenue receipts. It has been noted that excepting for a higher percentage share of the State's Own Non-Tax Revenue in total revenue receipts on three occasions (1975-76, 1978-79 and 1980-81), the proportions of both shared taxes and the State's Own Tax Revenues have been larger but shared taxes always occupy a

very high proportion in the total revenue receipts. Hence, even though the State's Own Non-Tax Revenue may have registered a higher growth rate than either shared taxes and the State's Own Tax Revenues, it still constitutes a smaller proportion of total revenue receipts. This corroborated our finding about the high degree of dependency of the State on Central Non-Tax Revenues as well as shared taxes for its resource base. This further validates our first hypothesis that Meghalaya included as a Special Category State since its formation in 1972 is not financially viable on its own.

IV

The trends and patterns of Public Expenditures have revealed that total public expenditures of the Government of Meghalaya have considerably increased during the 26-year period from 1972-73 to 1997-98. It recorded an exponential growth rate of 9.3 per cent per annum. Further, the plan-wise averages of total public expenditures has increased by more than ten times from the Fourth to the Eighth Five-Year Plan. Clearly, economic planning and fulfillment of the different objectives of the State's policy to provide a minimum of certain services for the social, economic and physical security of its people; to promote the most effective utilization of its human and other resources; and to accelerate the pace of economic development have contributed

to the expansion of public expenditure programmes in the State.

The main component of total public expenditure is Revenue Expenditure. It grew at the exponential growth rate of 8.6 per cent per annum during the study period. Although its percentage share to total public expenditure is characterized by wide variations, it always accounted for more than 50 per cent share of the total public expenditures during the study period.

The other component of expenditure viz., Capital Expenditure grew at the exponential growth rate of 9.8 per cent per annum during the study period. However, it formed a lower proportion of total public expenditure of the State. Its percentage share in total public expenditure of the State has been erratic with wide annual variations over the years bending towards a decline. But the growth rate in capital expenditures has exceeded that of revenue expenditures during the 26-year period under study. Obviously, the State's policy of public expenditure programmes have tried to divert its expenditures towards the creation of productive assets to further the pace of economic development.

The Developmental Expenditures on the Revenue Account formed a major component of total revenue expenditure. It registered an annual growth rate of 2.1 per cent during the 26 years under study. Developmental expenditures on Social

services exceeded that of expenditures on Economic Services notably from 1989-90 onwards. A major proportion of expenditures incurred on Social Services has been on Education, Sports, Art and Culture. Obviously, the revenue expenditure programmes of the Government of Meghalaya have been aiming at raising the quality of its human capital which add to the potentials of development of the State. It aims at ensuring a certain minimum degree of general literacy among the people which is essential to create the proper climate for development.

The Developmental Expenditures on Economic Services accounted for a lower proportion of total developmental expenditures on the Revenue Account although it accounted for a higher proportion in the early years upto 1988-89. Further, the growth rate of expenditures on Economic Services was lower than that of Social Services during the 26 years under study. A major proportion of expenditures incurred under the various categories of Economic Services has been on Agriculture and Allied Activities. Considering the fact that the economy of Meghalaya is largely an agrarian economy, the higher proportion of expenditures on this category indicates the priorities of the State's policy of public expenditure programmes to promote its rural economy. However, the other important sectors viz. industry and minerals, transport, energy, etc. have comparatively remained neglected during the

period under study. This has naturally led to the industrial under-development of the State.

Further, the low percentage variations over time on expenditures on both economic and social services reflected that the State's policy of public expenditure programmes have not been able to give equal importance over time on its developmental expenditures. The important policy implication of this is that the successive governments in power have lacked the efficiency to effectively scrutinize and monitor the quantum of developmental expenditures incurred on all items of Economic and Social Services. This pointed to the low level of services under these categories which highlighted the low pace of economic development that is taking place in the State.

The Non-Developmental Expenditures on the Revenue Account which means expenditures incurred on General Services have steadily increased over the 26-year period under study. It has been observed that the exponential growth rate of non-developmental expenditures at 6.2 per cent per annum far exceeded that of developmental expenditures. A major proportion of expenditures incurred under General Services have been on administrative services followed by expenditures on interest payment and debt servicing which pointed to the fiscal deterioration in the finances of the State Government during the study period. Further, the low

percentage variations over time in the case of expenditures on General Services indicates the existence of disguised extravagance and leakages of funds from the State's exchequer. Therefore, the government of Meghalaya should ensure proper monitoring and exercise utmost restraint on the growth of its non-developmental expenditures so that the quantum of financial assistance that flows from the Centre could be directed towards more productive expenditures.

The Developmental Expenditures on the Capital Account of Meghalaya steadily increased during the period 1972-73 to 1997-98. It grew at the exponential growth rate of 2.6 per cent per annum during the 26 years under study. Its percentage share in the total capital expenditure though characterized by wide variations, depicted an upward trend during the last year of our study period. A major component of developmental expenditures on the Capital Account has been incurred on Economic Services. A major proportion of expenditures on Economic Services has been incurred on the Transport and Communication. The other important categories have comparatively remained neglected during the study period. This indicates the lopsided nature and failure of the State's policy of public expenditure programmes to equally divert its attention to all the important categories of economic services.

that The Developmental Expenditures on Social Services fluctuated over the years and accounted for a lower proportion of developmental expenditures on the Capital Account. However, it has been noted that the growth rate of expenditures on Social Services exceeded the expenditures on Economic Services. A major proportion of expenditures on Social Services has been incurred on Water Supply and Sanitation and on Medical and Public Health. The other categories have comparatively remained almost neglected during the study period.

Further, the low percentage variations over time in the case of expenditures on both Economic and Social Services indicate that less importance have been attached over time in the case of expenditures on both categories. This clearly highlighted the economic under-development of the State in terms of adequate physical infrastructure. Successive governments in power have failed to effectively utilize its capital resources to enhance the process of capital formation within the economy besides promoting the basic institutions of human capital which add to the potentials of development.

The Non-Developmental Expenditures on the Capital Account is characterized by wide annual fluctuations over the years. It recorded an exponential growth rate of one per cent per annum during the 26-year period under study. Thus the growth rate in non-developmental expenditures is lower than

that of developmental expenditures on the Capital Account. A major proportion of expenditures has been incurred on public debt services followed by expenditures on General Services and Loans and Advances by the Government. However, it is noted that the growth rate of expenditures on loans and advances exceeded the growth rate of expenditures incurred on Public Debt and General Services during the 26-year period under study. Moreover, the importance given over time on expenditures incurred on general services is overshadowed by the higher proportion of expenditures incurred for meeting the liabilities of the State Government. This reveals that expenditures on Debt Services formed a major component of Capital Expenditures which signifies the weaknesses of the finances of Meghalaya. This validates our last hypothesis that the State Government is increasingly dependent on the loan method for financing its expenditure programmes.

The comparative analysis of Total Developmental and Total Non-developmental expenditures on both accounts as the important components of the Total Public Expenditure, reveals that the exponential growth rate of total developmental expenditures at 8.2 per cent per annum exceeded that of total non-developmental expenditures which is 4.7 per cent per annum. Total developmental expenditures form a major component of total public expenditures though they witness declines in two years. The total non-developmental

expenditures also increase over the years but it exhibited declines on seven occasions during the course of 26 years.

Further, the developmental expenditures on the Revenue Account form a higher proportion of total public expenditures than developmental expenditures on the Capital Account. Moreover, wide annual fluctuations are observed in developmental expenditures on both accounts as percentage proportions to total public expenditures during the 26-year period under study. However, it has been observed that the rate of growth in developmental expenditures on Capital Account had outpaced that of expenditures on the Revenue Account. This reflects on the keenness of the State's policy of public expenditure programmes to channelize them for productive purposes to enhance the process of capital formation within the economy.

The Total Non-Developmental Expenditures on the Revenue Account form a major proportion of Total Public Expenditures as compared to Non-Developmental Expenditures on the Capital Account. Moreover, the growth rates of Non-Developmental Expenditures on the Revenue Account far exceeded that of the Capital Account. Further, the rate of growth in total non-developmental expenditure on the Revenue Account has far outpaced the rates of growth of developmental expenditures on both Revenue and Capital Accounts as well. This reveals the deteriorating condition of the State's finances where

expenditures have been mainly diverted towards wasteful expenditures.

The relationship between Government Expenditure and State Income has shown that increases in governmental expenditure have been accompanied by higher increases in income during the 26-year period under study. This reveals the growing participation of the government in enhancing the levels of economic activity in the State.

Further, there is a high and direct correlation between per capita government expenditure and per capita income of the State during the 26-year period. This further signifies the growing importance of the public expenditure programmes of the State to uplift the level of income and standards of living of the community. However, the pattern of per capita government expenditure declined in the later years though not matched by corresponding decline in per capita income. This highlighted an important policy implication that the public sector cannot go on increasing beyond a particular point.

The comparative analysis of per capita government expenditure of Meghalaya with selected states of the Indian Union reveals that the per capita government expenditure in the North-Eastern states including Meghalaya was very high excepting that of Assam whose per capita government expenditure was lower than that of Punjab and Orissa in some years during the five years period (1993-94 to 1997-98) for

which comparison has been made. The per capita government expenditure in Meghalaya was also high though much below that of Arunachal Pradesh and Mizoram. Of the three non-special category states (Punjab, Orissa and West Bengal), the State of Punjab witnessed a very high per capita government expenditure similar to that of the North-Eastern States. Taking into account the fact that a large quantum of financial assistance flows from the Centre to the Special Category States, the high level of per capita government expenditure is not surprising. Further, this points to the important role that public expenditure programmes play in uplifting the underdeveloped economy of the State.

V

The trends and patterns of Public Debt as witnessed in the Capital Receipts of the State reveals that it is a major source of Capital Receipts in Meghalaya. The Public Debt is a major component of the capital receipts of the State recording a growth rate of more than 5 per cent per annum during the 26 years under study. Although its percentage share in the total capital receipts varied over the years, the importance of Public Debt has been clearly identified since it constitutes more than 70 per cent of the total capital receipts of the State during the period 1972-73 to 1997-98.

Further, the dependency of the State on Public Debt became more obvious during the nineties. During these years coinciding with the period of the Ninth Finance Commission the State had to resort to massive borrowings when this Commission withdrew the facility of covering the deficits on the non-plan expenses of States. The high degree of borrowings witnessed from the years 1989-90 onwards resulted in a financial crisis in the State in the year 1993. However, the Central Government, recognizing the financial crisis of the State, sanctioned advance plan assistance to enable the State to meet its urgent commitments. Moreover, the provision to fully cover non-plan deficits of States was again adopted by the Tenth Finance Commission (1995-96 to 1999-2000) which somewhat eased the financial difficulties of the State. All this corroborated the fragile nature of the finances of Meghalaya which has to resort to a higher degree of borrowings if its revenues are not supplemented by finances from the Centre. This validates our hypothesis that Meghalaya is not financially viable on its own.

The other component of capital receipts viz. the repayment of loans and advances to the State Government accounted for a lower proportion in comparison to Public Debt. Its proportions to capital receipts varied over the 26-year period under study. However, the repayment of loans and advances to the State Government recorded a growth rate of

7.7 per cent per annum which exceeded that of Public Debt. This has shown the relative flexibility in this source of receipts of the State.

The analysis of the different sources of borrowings of the Government of Meghalaya reveals that loans raised from Internal Debt occupy an important place in the borrowings of the State Government. A major proportion of loans raised from the different sources of Internal Debt constitutes the Ways and Means Advances from the Reserve Bank of India and the proportion was massive in two years (i.e. 1993-94 and 1994-95). This has shown that this source of borrowings had been largely resorted to by the State to tackle the financial crisis that existed in these two years. Similarly, Loans from the Market constituted another important source of borrowings of the State during the 26-year period under study.

Further, the pattern of borrowing through Internal Debt has been mainly to finance non-plan expenditures of the State. This brings out an important economic implication of the growing indebtedness of the State Government since the burden of a Public Debt depends to a large extent upon the nature and purpose for which the debt is utilized. When debt is created for productive purposes, it would not become a burden since its payment can be recovered from the assets created by the debt. But when a debt is incurred for unproductive purposes it becomes a burden since it does not

create any corresponding assets to meet its interest payment. The recourse to debt creation by the Government of Meghalaya thus shows the growing indebtedness of the state. This has validated our fourth and last hypothesis relating to the State government's financial strain and its increasing dependence on loan method of financing its expenditure programmes. However, the Government of Meghalaya should try to manage its debt creating capacity in such a way to ensure that they yield adequate returns to meet their payments.

The loans from the Centre are another important source of borrowings of the Government of Meghalaya. Although, the proportion of loans from the Centre to Total Public Debt of the State varied annually over the years, its growth rate far exceeded the growth rate of Internal Debt by 7.7 per cent per annum. This had shown the growing importance of this source of borrowings to the State.

The two constituents of loans from the Centre viz., Plan Loans and Non-Plan Loans are important sources of finances to the State Government. In the case of Plan Loans, the loans for State Plan Schemes accounted for a major proportion followed by loans for Centrally Sponsored Scheme. Thus loans for development purposes occupy an important place in the finances of the State. In the case of Non-Plan Loans, the share of the State in the collection of Small Savings from the Centre formed a major component followed by Ways and

Means Advances from the Government of India. Although Ways and Means Advances from the Government of India accounted only for a few occasions, its contribution in 1993-94 was very significant.

Further, the pattern of Plan and Non-Plan Loans from the Centre has revealed that both occupy an important place in the finances of the State. This further corroborated the fact that the State Government is incurring debts not only for productive purposes but much more for unproductive purposes. Obviously, this is not only an indication of the growing indebtedness of the State during the 26-year period under study but also it validates our first hypothesis that the State is not financially viable.

The Capital Expenditures incurred on the volume of Public Debt recorded an annual growth rate of 6.2 per cent during the 26-year period under study. It constitutes a major proportion of total capital expenditures. A major proportion of expenditures that has been incurred is on the Internal Debt of the State Government which grew at an exponential growth rate of 2.3 per cent per annum during the 26 years under study. Even though its share in the total capital receipts fluctuated over the years, massive amounts of expenditures have been incurred on internal debts during the two years 1993-94 and 1994-95. This reveals that the higher

proportion of borrowings resorted to by the State Government necessarily implies a higher debt servicing liability.

The expenditures incurred on loans and advances from the Centre grew at an exponential growth rate of 1.2 per cent per annum which is lower than the growth rate of expenditures incurred on Internal Debt of the State Government. In this case too a massive amount of expenditure has been incurred during the year 1993-94. The magnitude of expenditures incurred on the different components of Total Public Debt of the Government of Meghalaya reveals the fiscal instability in the finances of the State. It highlighted the increased debt servicing liability of the State Government marked by a growing indebtedness to the Central Government.

The expenditures on the Revenue Account incurred on Interest Payment and Servicing of Debt grew at an exponential growth rate of 8.5 per cent per annum during the 26 years under study. Further, expenditures on interest payment and servicing of debt exhibited declines only on three occasions depicting a rising trend for most of the years. Moreover, the percentage share of expenditures incurred on interest payment and servicing of debt fluctuated with wide annual variations over the years and depicted an upward trend as noted in the last four years of our study period. Obviously, the debt servicing liability of the Government as witnessed in the

pattern of its interest payment is a fast growing item of Revenue Expenditures.

19 The analysis of the relationship between Interest Payment and State Income at current prices reveals that the rate of growth in State income far outpaced that of Interest Payment and Servicing of Debt. Further the declining trend noted in the proportion of interest payment and servicing of debt to State income reveals that the debt servicing liability of the Government does not appear to be very burdensome. This reflected that the rates offered for loans raised by the Government are very much lower than the rates offered in other lines of investment. However, it may be noted that although the government may borrow at cheap rates of interest, it cannot resort to unmanageable limits of debt creation. This is because debt services do impose a strain on the community specially when it is directed towards unproductive purposes which do not create any assets to yield returns on the capital invested.

The analysis of the relationship between Public Debt and the State's population reveals that although the amounts of loans per capita is characterized by wide variations, it has depicted a rising trend during the 26-year period under study. Further, the comparative analysis of the loans per capita of all the States in North-Eastern Region as well as the State of Punjab, Orissa and West Bengal, has shown that

Meghalaya accounted for the highest loans per capita of all these States during the period of five years (1993-94 to 1997-98) for which comparison has been made. This further validate our hypothesis on the large extent of loan-financing on which the State is increasingly dependent.

CONCLUSION

On the basis of the findings summarized above the following conclusion emerges:

The budgetary operations of the Government of Meghalaya have failed to maintain stability in its revenue and expenditure policies. The overall budgetary exercises of the Government of Meghalaya exhibited alternate surplus budgets and deficit budgets particularly during the last five years under study (1993-94 to 1997-98).

The irrational budgetary exercises of the Government of Meghalaya has been corroborated by the fact that during the 26-year period, there were as many as 15 surplus budgets juxtaposed by as many as 11 deficit budgets. The fact of having 15 surplus budgets in the first 26 years of its existence, indicates that the State has been incapable of utilizing its budget resources. This reveals that the successive State Governments in power have lacked the fiscal marksmanship or management to effectively utilize and

channelize its funds on the various sectors of the economy to enhance the process of economic development.

Hence the budgetary exercises of the Government of Meghalaya have not been able to maintain financial equilibrium in the State during the 26-year period under study. This is because a deficit budget indicates a structural imbalances in receipts and expenditures which leads to steady debt accumulation and impinges upon the resource position of the State and the future sustainability of its budgetary policies. Similarly, a surplus budget indicates the failure of the Government to bring about an effective utilization of its available funds. Since the Government plays a crucial role in enhancing both the economic and social infrastructure of the State, its budgetary exercises as noted during the 26-year period under study has shown that it has not produced a balanced and proportionate growth in the otherwise under-developed economy of the State.

Therefore, the State Government should strive to manage its budgets to enhance efficiency in resource use and productivity of capital assets as well as to impart a greater degree of accountability in order to make its expenditure programmes cost effective. The efficiency in budgeting is a question not of mere magnitudes of resources and outlays but of defining the objectives and priorities and that, at any

given level of resources, efficiency can be improved through a more explicit definition of goals and objectives; through greater clarity and consistency in ordering the priorities; through a thorough-going analysis of the cost and benefits of programmes; and indeed through proper management of the programmes.¹

The fragile nature and weak resource base of the state with a high degree of dependency on the finances of the Central Government have been clearly highlighted. This calls for bold and decisive policy measures on the part of the State Government to ensure that the financial assistance provided are productively utilized and that there is accountability in the use of funds. This would ensure that the financial privileges received from the Centre actually reach the people and uplift the underdeveloped economy of the State so as to come at par with the rest of the country.

Further, the high level of expenditures which marked the Capital Budget of Meghalaya indicates an important policy implication that the Government cannot remain complacent. It should make sufficient efforts to restrict expenditures within manageable limits on the non-plan side without affecting its plan commitments.

1. Sastry, K.S., *Op. cit.*, 1979.

The efforts of the Government of Meghalaya to mobilize additional finances from its own tax sources have appeared to be very weak. No doubt Sales Tax and State Excise Duty have been found to be the important constituents of tax revenues of the State. However, the wide annual fluctuations and erratic behaviour of these taxes besides the low responsiveness of the other individual taxes to State income, reveals the inherent weaknesses that characterized the tax structure of Meghalaya during the 26 years under study. Therefore, the Government of Meghalaya should make a concerted effort for bringing about a simplification of its tax structure, an efficient correction of the loopholes and anomalies that may exist besides standardization of the administration with greater enforcement to check tax evasion. These measures would be a great step forward in making the tax structure growth-oriented and growth-responsive thereby improve the quantum of finances that can be raised from the State's own taxes.

The important aspect of the State's Own Non-Tax revenues is that its growth rate has been equal to the growth rate of State Income. This has clearly highlighted the significance and flexibility of this source of revenue to the State's finances. However, the contribution of the State's own non-tax revenue to the total revenue receipts of the State has been observed to be very low and declining over the

years and this fact should receive immediate attention. The improvements in receipts from non-tax revenues in the State cannot be brought about unless appropriate rates are levied for the social and economic services provided by the State accompanied with efficient accountability. At the same time the workings of the State's public sector undertakings, both departmental and non-departmental, should be effectively improved. The adoption of specific solutions to resolve these issues which have an important bearing on the non-tax revenues of the State would come about only when the necessary political decisions are adopted and implemented.

The increases in public expenditures no doubt reflect the growing participation of the State Government in uplifting the underdeveloped economy of the State in terms of its social amenities and economic infrastructure. However, they could result in improvement in the overall economic structure of the State only when these expenditures are channelized to productive purposes. Taking into account the on-going fiscal strain that has affected the Indian economy, there is an urgent need for the government to ensure efficiency in the utilization of funds. The vigorous and diligent scrutiny of all existing items of government expenditure in terms of both developmental and non-developmental expenditures is needed in order to identify the pockets of extravagance that exist. Further the increases

noted in administrative expenses and other non-developmental expenditures have affected the amount of investments on the essential sectors. This calls for necessary measures on the part of the State Government to restrain its non-developmental expenditures so that more funds can be released to the essential sectors which are vital to accelerating the pace of economic development. The often repeated statements of the State were to ensure that the Government investment of plan funds would be directed towards productive schemes and programmes that would not only yield maximum social benefits and economic growth but would also generate additional resources. Unless bold and decisive policy measures are adopted to ensure economy as well as efficiency in the utilization of funds, the above statement will continue to remain a mere political statement.

The growing budgetary deficits due to shortfalls in revenues and the inability to control expenditures, have led to an increase in the debt liabilities of the State. Further, the increases in public debts have assumed greater significance considering the weak resource base of the state and its high dependency on the Centre's finance to meet its borrowings requirements. Therefore, there is an urgent need for the State to restrict the creation of public debt within manageable limits. Further, it is felt that a significant portion of debts incurred should be channelized into those

of areas which yield productive returns for the investment made. Hence, it can be stated that the Government should consider the cost effectiveness of its investments on the various sectors of the economy thereby ensuring a viable and sustained positive contribution to the weak resource base of the State.

The State of Meghalaya like other States in the Indian Union are required to shoulder larger developmental responsibilities to enhance both the economic and social infrastructure of the community. However, the important fiscal issues which characterizes Special Category States like Meghalaya are the excessive reliance on Central transfers and the low capacity of raising their own revenues. The concern over the poor economic situation and weak resource base of Special Category States have been recognized by all concerned. These states do need greater Central attention in terms of financial assistance. It is felt that the fiscal imbalances that characterize the budgetary operations of Meghalaya cannot be condoned by its Special Category Status. The State Government should strive for various policy initiatives in its budgetary exercises to address to long term issues in revenue mobilization, expenditure management and infrastructure development. The responsibility for development of infrastructure of vital importance requiring large investment should however be that

of the Central Government. But the State should try to improve efficiency in government activities, to ensure that fiscal management is consistent with broader economic and social objectives and to promote the overall transparency of public activities.

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