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THE REGIONAL FISCAL ECONOMICS OF ASSAM

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Foreword

Recent developments in the fields of fiscal theory and fiscal policy have by and large been on regional lines. This study by Mr P.K. Bhuyan is on regional fiscal economics. It acquires a special significance because of its coverage of a much neglected and insufficiently known state of India—Assam.

I vividly recall that when in 1972 Mr Bhuyan, Principal of Digboi College, then and now, came to see me for research leading to the Ph.D. degree of Dibrugarh University, I asked him whether he would be able to find time for research without upsetting his busy routine as a college principal. He immediately replied that he would, by reducing his hours of sleep and leisure rather than those of his official duties. It is thus evident that this work has been written but not composed as ample leisure in the official life of a principal of a premier educational institution of upper Assam is almost non-existent.

I also recall with equal vividness that Mr Bhuyan was clear from the beginning of his research about his determination to conduct studies on the fiscal operations of the Government of Assam. With progress registered by him in the march of time till 1974 it became abundantly clear to me that he was basically dead-set for a data-based study and not mere desk-work. I taught him how to pound figures on the hand machine. He has sewn the cloth alright, but the thread-joints are still visible at more than many places. I hope he would scissor them in the second edition of his work.

His study, which appears before the readers in this abridged form of a book, was and continues to be an empirical exercise. He has of course up-dated the data-base by adding another thirteen years from 1966-67 to 1978-79. It is not a work on fiscal theory but on fiscal policy as revealed by a study of data at the regional level. Although it cannot serve as a comprehensive text-book on public finance, yet I do feel that Chapters 2 to

5, 9 to 11 and Chapter 13, if brought out as a separate monograph, cheaply priced and suitably edited, could be of immense use as a reference for boys and girls undergoing graduate studies with honours in Economics and even for post-graduate students of Economics in the universities in Assam. But that will be altogether a different cup of tea.

I have no doubt that Mr Bhuyan's book would offer interesting reading and provide ample materials on the financial operations of the State Government of Assam during the period 1951-52 to 1978-79. The book undoubtedly provides a first good approximation to an in-depth understanding of the behavioural dynamics of the 'regional' fiscal economy of Assam. I therefore volunteer to recommend this book to research workers, teachers in the colleges located in Assam, educational and research institutions, and, last but not the least, to the Government of Assam whose principal problem in this particular field has been to fish out a way, or, perhaps, several ways, of squealing the feathers of peacocks with least annoyance, pain, and displeasure.

I must however state that Mr Bhuyan has still left unexhausted the vast scope for effecting embellishments and improving the diction. I have also observed that in this abridged form too some of the coefficients of the estimating equations and therefore the estimated values of the dependent variables (revenues and expenditures by separate heads) suffer from large statistical and computational errors. I sincerely hope and trust that Mr Bhuyan will remedy these defects or inadequacies in the second edition of the book. Only when purple patches, telling phrases, and window-dressings are dropped, the residual constitutes the hard core of any science or subject.

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R. MEHROTRA
Professor of Economics
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Preface

The much unexplored field of regional or state budgeting and regional Public Finance, which is particularly true in case of Assam, is the be-all and end-all theme of this study. The trends and fluctuations in the revenues and expenditures, both on current and capital accounts, of the Government of Assam, as revealed by the 'actuals' in the Budgets for the years 1951-52 to 1978-79, have been studied and analysed and the possible causes contributing to such trends and total fluctuations have been traced and isolated as far as is possible in any work dealing with economic phenomena. Besides, changes in the patterns and composition of revenues and expenditures have also been studied. The changing nature, patterns and magnitude of grants and loans from the Centre and the shared taxes have all been studied and analysed in the light of the first seven Finance Commissions.

Suggestions for improvement of the fiscal position, both with respect to revenues and expenditures, have been offered. The study thus covers the period of the first five Five-Year Plans, including the Three Annual Plans of Assam. Owing to the various limitations as pointed out in the study, it is not completely diagnostic. It would, however, provide a first good approximation to an understanding of the behavioural dynamics of regional fiscal economics of Assam. To that extent, this study has some prognostic value. The future prospects of Assam finance, if the suggestions are accepted and implemented, are also clearly hinted.

The regional imbalance reflected in the economic growth of the under-developed regions of India, of which Assam is veritably and prominently one of the four, has also been hinted, throwing light on the ways in which, this region of Assam, has been rather deprived of her legitimate dues in very many ways,

which is harmful even in the national interest, set aside the question of the interest of this region.

The author is grateful to his research guide, Dr. R. Mehrotra, Professor and Head of the Department of Economics, Dibrugarh University for his guidance while the author was a non-resident Ph.D. scholar, and now for so kindly writing the 'Foreword'.

The author will be failing in his duty if he does not thank the Director and other Officers of the Department of Economics and Statistics, Government of Assam for providing him with the available data. He is also grateful to the Librarians and staff of the Dibrugarh University Library and the Digboi College Library for extending him the library facilities.

Finally, to his wife and old mother (now expired) go his heart-felt thanks for undertaking greater burdens spilled over as a result of his engagement in this research, despite his breathless preoccupations with the work of Digboi College as its Principal and Secretary.

Last but not the least, his thanks go to Sri Robin Sarma, Research Officer, Government of Assam, who helped the author in some way at the initial stage of undertaking the work and to his friend Sri Bhim Bora for his help towards the end of the study.

Digboi College,
Digboi, the 2nd May, 1983.

PRAFULLA KUMAR BHUYAN

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PART I
INTRODUCTORY

Introduction

The relation of the Budget to Public Finance is as fundamental as addition and subtraction are to Mathematics, so the Budget is to Public Finance something more than what grammar is to language. It is the central theme of Public Finance and the main generator of the financial and economic activities of a State. As Taylor has aptly remarked, a budget is 'the master financial plan of the government'.¹ The budget contains (1) a list of incomes and expenditures made by a government in the past financial year, (2) a list of incomes and expenditures of the government in the current financial year, of which about ten months have elapsed and about two months are yet to pass, and (3) a list of the estimates of the proposed incomes to be earned and expenditures to be made by the government in the forthcoming financial year. The American practice is, however, a little different in that the American budget puts the estimates of income and expenditure of the forthcoming financial year only. In India, the budget contains references to the budget figures of three consecutive financial or fiscal years (beginning in April and ending in March), viz. the immediately preceding, the current and the following years.²

The Finance Minister presents the budget two to five weeks before the beginning of the financial year and thus sufficient time and scope is provided to the Legislative Assembly to discuss and pass the budget, well in advance of the beginning

1. Philip E. Taylor, Economics of Public Finance, 1968, p. 15.
2. The three sets of figures are not strictly comparable for reasons mentioned in text above.

of the financial year. Thus we find in the budget the 'accounting figures' of the past year, the 'revised estimates' for the current year, and the 'budget estimates' for the following year. The accounting figures of the past year mean the 'actuals' of that year. The revised estimates are based on actual receipts and expenditures of ten months of the current year and the estimated incomes and expenditures for the next two months, and the budget estimates are the estimates for the coming financial years.

It would be appropriate here to briefly describe the organisation of the material substantive contents of the budget. The budget of Assam, like many other State budgets of India, is divided into three parts, as follows :—

Part I : Consolidated Fund,

Part II : Contingency Fund,

Part III : Public Account.

Under Article 266(1) of the Constitution of India, all revenues received, all loans raised by the issue of treasury bills, loans of ways and means advances and all moneys received in repayments of loans by the government of a state constitute one fund, known as 'The Consolidated Fund of the State'. Article 266(3) provides, in addition, that "no moneys out of the Consolidated Fund of a State shall be appropriated except in accordance with law and for the purposes and in the manner provided in this Constitution." Article 267 of the Constitution provides that the Parliament and the State Legislature may by law establish a Contingency Fund for the Centre and the State respectively. This fund is of the nature of imprest and into this will be paid from time to time such sums as may be determined by law and passed by the Parliament or the State Legislature as the case may be. It is meant for meeting unforeseen expenditures, pending approval by the Legislature concerned. The Contingency Fund of the Centre comprises of Rs. 15 crores and the amount of each State is fixed by Statute, but it may be suitably varied through Ordinance, pending ratification by the Legislature at its next session.³

3. The permanent corpus of the Contingency Fund of Assam as established by the Assam Contingency Fund Act, 1950 was Rs. 35 lakhs.

The Public Account consists of that fund which lies at the disposal of the executive authority. To pay from this fund, no demand is required to be presented to the Legislature. The requirements from Public Account are met by the executive authority from time to time. A variety of items make Public Account, such as, State Provident Funds, Depreciation and other Reserve Funds of Government Departments, Postal Savings Bank, various deposits under the income-tax, etc. All these payments are mostly of the nature of banking transactions. The money lying in the Public Account does not really belong to the Government.⁴

Part I of the budget comprises three main divisions, namely, (1) Revenue, (2) Capital, and (3) Debt. The first division includes the proceeds of taxation and other receipts of the Government. They are termed as 'revenues' and after charging the expenditures thereto, either a revenue surplus or a revenue deficit may emerge as a residual. The second division deals with capital receipts and capital expenditures. The expenditures are usually met from borrowed funds. Capital expenditures have three specific aims in view: (a) to increase assets of a tangible or material nature, (b) to reduce recurring liabilities, such as, those for future pensions by payment of capitalised value, and (c) to be applied as a set-off against capital expenditure. The third division, called Public Debt, consists chiefly of loans raised by the Government. These loans may be of a purely temporary nature, such as floating debts consisting of Treasury Bills, Ways and Means Advances, permanent debts, loans and advances made by the Government, together with recoveries of the latter. It also takes into account inter-State debt settlements.

The expenditures from the Consolidated Fund consists of two parts viz. : (a) expenditures to be charged upon the Consolidated Fund, which is non-votable in the Legislative Assembly and (b) other expenditures which are votable. In the State of Assam, like most other States of India, there is a separate revenue department⁵ which is responsible for the

4. cf. B.N. Gupta, Government Budgeting, 1967, p. 103.

5. The 'departments' in Assam State Government correspond to 'ministries' at the Central level.

collection of revenues. For sanctioning grants of expenses from the Public Exchequer, there is the Finance Department which exercises complete supervision and control. The Finance Department of Assam is also aided by the Accountant-General or the Comptroller and Auditor-General for Assam. They exercise very tight and rigid control. The actual expense is made by the departmental heads of the various departments of the State Government. They can do it only when the Appropriation Bill is passed, and which, whereupon, the Finance Ministry sends to each of the Departments and to the Comptroller and Auditor-General. The Comptroller and Auditor-General keeps a watch that the expenses do not exceed or digress from the budgeted expenditures. The control and supervision of expenditures by the Government departments and the enforcement of economy in administration is 'the main job and the chief reason for the creation of a Finance Department in a Government⁶.'

In the post-independence period in India, there has been a considerable increase in public expenditure and fiscal activities of the Government, both at the Centre and in the States. While this is partly due to the well-known Wagner's law of increasing State activities, it was principally occasioned by the era of planning and the increasing role and participation of the Government in accelerating the process and rate of planned growth of the economy. Similarly, the post-independence period of planned development has witnessed considerable increase in the revenues of the Government and public authorities. In this context, a comprehensive study of the budgets assumes great relevance and significance.

This study is, therefore, concerned with a critical examination of the budgets of the Government of Assam covering the period of the first five Five-Year Plans including the three Annual Plans, i.e. 1951-52 to 1978-79. Specifically, the study attempts at a detailed examination and analysis of the budgets of the Government of Assam for the twenty-eight years covering the period of the first five Five-Year Plans including the three Annual Plans. One cannot belittle the study as a mere post mortem exercise because "financial history, like all other

6. P.K. Wattal, *Parliamentary Financial Control in India*, p. 23.

history, is a continuous process.”⁷ A systematic study of the finances of any government should therefore provide us the insight as to whether the economy of the particular state has witnessed a balanced and proportionate or unbalanced and lopsided growth.

How far the budgets of a developing State follow ‘a growth with equity strategy’ is a worth pursuing analysis because then only the new budgets may be planned according to that model. It is necessary to analyse the budgets to see how far the government is following the steps of supply-side economics or how far the path of income-distribution or whether the budgets follow a middle path. To test the success or otherwise of budgets, it is essential to analyse and examine the rate of growth, the rise or fall in the poverty-line, the rise or fall in the standard of efficiency and the standard of living. The change in pattern of income distribution in consequence of operation of several budgets, may also make the budget-makers conscious about the necessity of a change in the pattern and composition of the budget. In developed countries, the public and the budget-makers are conscious about the type of budget necessary to suit the economy and the people. There is a wrong idea among some supply-side economists that growth activities are opposed to income distribution. But that is not a fact. There are ample examples to contradict such a wrong assumption. In the words of Kenneth P. Jameson, “. . . the models that should be looked to are those of countries which grew rapidly but without the negative impact on distribution—the Taiwan-Costa Rica-Singapore Syndrome.”⁸ Undiluted Keynesianism derived mainly from the ‘balanced-budget multiplier theory’ may be said to be a symbol representing income distribution theory, which may be one of the guiding principles of a budget. But the supply-side economists have their own arguments against them, which is very exhaustively summarised in Tom Bethell’s⁹ remark, “The essential argument of supply-

7. R.N. Bhargava, *The Theory and Working of Union Finance in India*, 1967, p. XI of the Preface.
8. Kenneth P. Jameson, “Supply-Side Economics: Growth Versus Income Distribution”, *American Review*, Vol. 25, No. 2, 1981, pp. 35-41.
9. Tom Bethell, “The Death of Keynes : Supply-Side Economics”, *American Review*, Vol. 25, No. 2, pp. 26-34.

side theory is that of adding to supply, unlike adding to demand, is not a zero-sum task." To make a budget suitable to a developing economy and its people, knowledge of these aspects of budget-making is indispensably necessary or else the budget will be a mathematical summation.

Further, there is a necessity to study whether the economy of Assam will be responsive to an application of Laffer's Curve¹⁰ or to the growth and growth-oriented measures only. The new budget-maker should also know whether to express in terms of tax-cut, which according to modern economists a 'misleading formulation'¹¹ to be 'jeered out of public prints' or tax changes to be expressed in rates. A tax rate reduction increases the revenue in America, because then many come up filing tax return and they do not go to the tax specialists for tax shelter. But, will such a tax rate reduction have a similar effect in Assam? One has to check the pages of financial history of Assam to find an answer. On the other hand, whether the budgets of Assam should be balanced or not; or what is the magnitude of deficit that Assam's economy can absorb in different years, one can know the answers by studying Assam's financial history. Hence the need for post mortem analysis of our budgets.

Another facet of the problem of budget making is that it should not be an accountant's job. If there is shortfall in the income of the Government, an accountant will sincerely attempt to meet the shortfall by levying new taxes or by enhancing the rates of the existing or prevalent taxes. But such a method of budget-making is not budget-making worth the name. A budget should give expression to the wishes and desires of the people. It should be able to gear a movement in the desired economic fields and departments. So it is high time to analyse the shortcomings of our past budgets to shape and direct them in the lines wanted by the people and the State.

This study is, therefore, concerned with a critical examination of the budgets of the Government of Assam covering the period of the first five Five-Year Plans, i.e., 1951-52 to 1978-79. Specifically, the study attempts at a detailed examination and

10. Arthur Laffer.

11. Tom Bethell, *ibid.*, p. 31.

analysis of the budgets of the Government of Assam for one cannot belittle the study, to repeat it, as a mere post mortem exercise because "financial history, like all other history, is a continuous process."¹² A systematic study of the finances of any Government should therefore provide us the insight as to whether the economy of the particular state has witnessed a balanced and proportionate or unbalanced and lopsided growth.

In the context of both perspective financial planning and the Five-Year Plans of Assam, such a study, it is contended, will provide the much essential historical background for projecting the revenue potential of the Government of Assam. The Planning Board of Assam estimated a gap of Rs. 292.85 crores for financing the Fifth plan, which it expected the Centre to cover.¹³ The very meagre contributions so far made by the Government of Assam to her Plans further necessitates exploration of new sources and avenues of revenue. For example, the financial provisions for Fourth Five-Year plan of Assam was made as follows : out of the total outlay of Rs. 212 crores, Rs. 178 crores was to come from the Central Government, negotiated borrowing was to contribute Rs. 26 crores, and about Rs. 8 crores had to be managed internally by the Government of Assam.¹⁴ Hence there is great necessity of reviewing the past with a view to enquiring into the prospects for the future. Considering the Gadgil formula of Central assistance to the State Plans, there is a veritable necessity for exploring possibilities and avenues to increase our revenue and to obtain greater share of assistance from the Centre. The Income Adjusted Total Population Formula (IATPF) has added special importance to such a study, if of course, this study throws some hint with regard to raising or enhancing the revenue potential of the State. In these days of supply-side economics, an economic rethinking on our policies and programmes is a basic necessity.

12. R.N. Bhargava, *The Theory and Working of Union Finance in India*, 1967, p. XI of Preface.

13. Draft Outline, Fifth Five-Year Plan, Assam, Vol. I, p. 102. (Issued by the Government of Assam, Planning and Development Department, June 1973.)

14. *Ibid.*, p. 101.

Layout of the Thesis

Briefly the topical organisation of the thesis is as follows. For purposes of expositional convenience and systematic analysis the thesis has been divided into four parts, namely. (1) Introductory, (2) Tax and Non-Tax Revenues, (3) Public Expenditure, Capital Formation and Public Debt, and (4) Prospects, Summary and Conclusions. The first part comprises of two Chapters. In the subsequent pages of this Chapter, an attempt is made to review some of the important works done on the subject. Besides, this Chapter also incorporates a description of the methodology followed in this study and the sources and limitations of data. This first Chapter is intended to be introductory in nature. The second Chapter is concerned with the examination and presentation of an aggregative view of the budgets of the Assam State Government during the years from 1951-52 to 1978-79, briefly outlining the trends and patterns in revenues and expenditures.

The second part consists of seven Chapters each dealing specifically with a detailed examination of the various sources of tax and non-tax revenues of the Government of Assam, including the non-tax revenues received from the Central Government. This part also provides a comparative picture of tax and non-tax revenue of the Government of Assam during the period covered by our study. Chapters three to seven deals with sales taxation, land revenue and agricultural income-tax, excise, revenues from other miscellaneous sources and duties and fees respectively. In Chapter eight there are the trends and patterns of non-tax sources of revenue including Central assistance and grants. Chapter nine provides a comparative picture of tax and non-tax revenues of the State Government.

The third part of the Thesis comprising three Chapters is devoted to an examination of the trends and patterns of public expenditures, Government capital formation, and public debt.

Part four of the thesis embodies the prospects, summary and major conclusions of our study, including suggestions and recommendations. In Chapter thirteen, we have addressed ourselves to the intricate problems and issues involved in Centre-State financial relations in a federal setting and the

related question of devolution of Central taxes in the context of the aims and goals of planned development. The recommendations of the Finance Commissions have also been critically examined in this context in this Chapter.

Short Review of Literature

Although the first systematic attempt to enquire into the entire system and structure of taxation in India began with the Indian Taxation Enquiry Committee of 1924-25, for our purpose in this section, we intend to provide a short review of official literature and standard works on the subject which have appeared particularly after independence. In the field of our study, an important landmark is provided by the monumental official work of the Taxation Enquiry Commission.¹⁵ The Taxation Enquiry Commission, set up by the Government of India in 1953, submitted its report during the year 1954-55. It was headed by Dr. John Mathai. The Taxation Enquiry Commission specifically addressed itself to an examination of the suitability or otherwise of the present system of taxation, both at the national and sub-national levels, in the context of the development programmes and the requirements of financial resources. It was also concerned with an examination of the nature, extent, and possibilities of using taxation as an anti-deflationary fiscal instrument.

In conformity with its terms of reference, the Taxation Enquiry Commission did not go into the detailed problems involved in public expenditure except devoting a Chapter on the major trends in public expenditures of Central and State Governments. The Taxation Enquiry Commission for the first time emphasized the federal aspect of our tax structure. The Taxation Enquiry Commission opined that the system of devolution of Central taxes and the introduction of general and specific grants, apart from the taxes collected and retained by the States, have imparted a measure of elasticity in the revenues of State Governments. In this specific context the Taxation Enquiry Commission was averse to the idea of the dichotomy between Central revenue and State revenues and advocated in favour of an integrated approach to the problem of revenues.

15. Report of the Taxation Enquiry Commission, 1953-54.

It is worth mentioning here that the Finance Commissions in the past have not shown any specific regard for such an integrated approach towards the problem of revenues as envisaged by the Taxation Enquiry Commission. So far as the question of public expenditure is concerned, the Taxation Enquiry Commission emphasized the need for a curtailment of non-development expenditure and avoidance of waste and the reorientation of the public expenditure policy to production and redistribution goals. The Taxation Enquiry Commission also specifically emphasized the importance of public expenditure for regional redress of inequalities not only for removing inter-State disparities, but also for reducing intra-State and rural-urban inequalities with a view to attaining in the long run a judicious balance between area resources and area needs. It re-emphasized the role of development expenditure in increasing the people's taxable capacity.

In the matter of State taxes, the Taxation Enquiry Commission rightly found little or negligible progression, specifically so far as sales tax is concerned. For the first time, the Taxation Enquiry Commission brought out prominently the fact of relative under-taxation of the rural sector and the greater scope for increased taxation of higher rural incomes. It felt that the incidence of land revenue has considerably declined. It was aware of the large area of the non-monetised sector in the rural economy acting as formidable limit to using taxation as a fiscal instrument in the rural areas. So far as the burden of taxation is concerned, the Taxation Enquiry Commission found a relative increase in the total burden of taxation in the urban areas, as compared to the rural sector.

In the context of development programmes of the country and investments in the public sector, the Taxation Enquiry Commission emphasized the increasing role of taxation and borrowing as sources for development finance, in contrast to deficit financing. The Taxation Enquiry Commission recommended a diversionary tax policy and tax system, diversionary in the sense that the tax structure should generate a flow or transfer of resources from private consumption to public investment. In this regard it felt that people's willingness to accept such a tax policy depended upon government's assurance of a public expenditure policy ensuring not merely beneficent

expenditure but also economy in expenditure and efficient administration. Throughout the Taxation Enquiry Commission's recommendations, one finds a common suggestive strain of extending the role of indirect taxation by widening the base, range, depth, and net or coverage of indirect taxation.

On the question of the systems and rates of taxation of the states, the Taxation Enquiry Commission suggested cautious steps to bring about the maximum degree of uniformity among all the states without undue abridgement of financial autonomy of the States.

The Taxation Enquiry Commission could not give any unequivocal opinion so far as the question of arresting inflationary forces in the economy is concerned except that it opined the obvious distaste for deficit financing and the all too obvious fact of using both income-tax and commodity taxes as weapons to counteract general inflationary situations. In this context, the Taxation Enquiry Commission's recommendations¹⁶ were more evasive than unequivocal.

An important recommendation of the Taxation Enquiry Commission in the field of administration of taxes of the States as well as co-ordination of their tax policies was the setting up, under Article 263 of the Constitution of an all-India Taxation Council with a permanent secretariate in the form of Tax Research Bureau which has hitherto remained unheeded.

Considering the substantial yield and flexibility of sales tax and its indispensable place in the State's financial systems, the Taxation Enquiry Commission categorically ruled out the question of centralisation of sales tax and strongly pleaded for the continuation of the sales tax so long as the incidence of this tax rests on its resident consumers and the collection of this tax falls also on its resident dealers and so long as the question

16. *op. cit.* Vol. I, p 215. "Viewed in the long term, the objective of maintaining stability in the economy merges into the larger objective of economic development. The problem, then, is of adapting fiscal and other policies to the end of maintaining an even course of development, the level and forms of taxation and the overall budgetary position—surpluses or deficits—with reference to the variations of the economic weather; all the elements of fiscal policy must, however, remain basically attuned to the climate of economic development."

of inter-state sales does not arise. The Taxation Enquiry Commission recommended imposition of a low rate so far as the Central sales tax is concerned. Even with regard to the State sales tax, it recommended a low rate of tax and a multi-point system. However, for netting in the middle- and higher-income groups and dealers having higher level of turn-over, the Taxation Enquiry Commission recommended the levy of a single-point tax. Thus the Taxation Enquiry Commission recommended a combined flexible system of the State sales tax, with no exemption as far as possible, since each exemption reduces revenue, necessitates increase in the rates of tax on other non-exempted goods, besides widening the scope for evasion and creating confusion and complications in the accounts, not to mention the inconveniences and harassment to the dealers. The Taxation Enquiry Commission addressed itself to the other problems of administration and co-ordination of State's sales tax machinery and in this context recommended the setting up of the Inter-State Taxation Council. Among the other sources of State's tax revenues, the Taxation Enquiry Commission examined the problems and issues involved in the tax on motor vehicles and motor spirit, stamp duties and court fees, entertainment tax, tax on prize competitions and lotteries, betting tax, electricity duty, registration fees, land revenues, agricultural income-tax, irrigation charges and betterment levies, etc. Way back in 1955 itself, the Taxation Enquiry Commission recommended the adoption by all the States of an agricultural income-tax on higher agricultural incomes with a view to bringing about greater equity into the tax system and, in the long run, of eventually merging together or integrating agricultural incomes and non-agricultural incomes for the purpose of levying one single income-tax.

The next Government report was that submitted by Professor Nicholas Kaldor in 1956. In this report on Indian Tax Reform, Kaldor expressed the opinion that the Second Five-Year Plan would require additional taxation of the order of Rs. 1250 crores rather than Rs. 450 crores as envisaged in the Second Plan. He suggested three principal criteria of every effective tax system, viz., equity, economic effects, and administrative efficiency. Equity in taxation between income from work and income from property cannot be secured unless

“(i) the concept of income is made sufficiently comprehensive to embrace all beneficial receipts which increase the taxpayers’ spending power, and not merely the conventional form of income; (ii) the tax on income is supplemented by an annual tax on capital wealth in recognition of the fact that taxable capacity cannot be adequately measured either by income alone or by capital wealth alone but can be approximated through a mixture of both; (iii) in calculations of taxable income, profit or gain, permissible deductions should proceed on uniform and non-discriminatory principles as between different kinds and forms of income.”¹⁷ He later combines income and property taxes to approximately measure ability to pay.¹⁸ He also recommended that, that the tax system should be growth-oriented, should strive for administrative efficiency, and should aim at broadening the base of taxation through an annual tax on wealth, the taxation of capital gains, a general gift tax, and a personal expenditure tax by replacing the present super tax on income. He is of opinion that the rate of income-tax should be reduced to 45 per cent. He gave a figure of Rs. 576 crores per year towards avoidance and evasion of taxes. He further recommended that the dependence on regressive taxes for the entire amount of development finance is not at all reasonable. His discussion on tax-holiday is exhaustive. Kaldor emphasized that his recommendations formed an integrated whole. He is very critical of the corporation taxes for their ‘unnecessary complications’ and ‘futile endeavour to reconcile fundamentally contradictory objectives.’¹⁹

Without going into the merits and demerits of his recommendations, which fall outside the scope of our study, it may be contended that except for the general remarks on administrative efficiency, regressive taxation, etc., Kaldor’s report had almost ignored examination of State taxes in India.

The Raj Committee²⁰ is of the view that there is no perceptible progression in the incidence of surcharges on land revenue and hence the rich people engaged in agriculture pay relatively

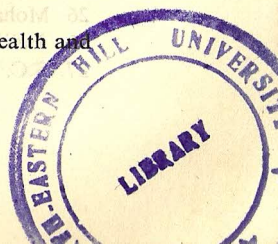
17. N Kaldor, *Indian Tax Reform*, 1956, p. 1.

18. *Ibid.*, op. cit. p. 20.

19. *Ibid.*, op. cit. p. 85.

20. Report of the Committee on Taxation of Agricultural Wealth and Income, Government of India, 1972.

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less than comparable strata deriving their income from non-agricultural sources. Unlike the Taxation Enquiry Commission, the Raj Committee points out the difficulties involved in a scheme of integrated taxation of agricultural and non-agricultural wealth. The Committee is also of the view that the existing land revenue does not offer a satisfactory basis for a system of progressive surcharge. The Committee proposes the introduction of an Agricultural Holding Tax, which would introduce an element of progression in taxing land. Since capital gains cannot be taxed until an asset is sold, the Committee recommends that other alternatives have to be looked for in order to recoup a part of the cost of development projects within a reasonable period. The Committee also suggested that income from livestock breeding and poultry and dairy farming, which is now exempt from taxation, should be subject to income-tax. In its specific comment regarding Assam, the rates of land revenue assessed on grants to tea garden are relatively low; as low as Rs. 375 per acre²¹ on the land under tea in Cachar.

Among the other non-official and research studies done on the subject in recent years, those of Bhargava,²² Tripathy,²³ James Cutt,²⁴ Venkataraman²⁵, Zahir,²⁶ Patnaik,²⁷ and Gupta²⁸ are noteworthy.

21. *Ibid*, p. 126, *et al.*

22. R N. Bhargava,

(a) *Public Finance—Its Theory and Working in India*, Chaityanya Publishing House, 1954.

(b) *The Theory and Working of Union Finance in India*, Chaityanya Publishing House, 1967.

(c) *Indian Public Finances*, George Allen & Unwin Ltd., London, 1962.

23. R.N. Tripathy,

(a) *Public Finance in Underdeveloped Countries*, World Press, 1968.

(b) *Fiscal Policy and Economic Development in India*, World Press, 1969.

24. James Cutt, *Taxation and Economic Development in India*, Vikas Publications, 1969.

25. K. Venkataraman, *State Finances in India—A Perspective Study for The Plan Period*, Allen & Unwin, London, 1968.

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

27. S.C. Patnaik, *Orissa Finances in Perspective (1951-52 to 1965-66)*,

Bhargava's first and second works are basically the same. In these two works, which are largely textual in nature, he has, in the first, dealt with the basic principles of government finance in the context of a federal set-up, and, in the second, with a view to knowing the working of these principles in practice, he has studied the finances of the Central and State Governments in India in the post-independence period from 1947-48 onwards. His work covers a discussion on trends in Union and State finances and a description of various taxes, direct and indirect. In his work on Indian Public Finances, Bhargava has made an attempt to explain the objectives of State policy and the criteria to be employed in judging its success. He examines alternative methods of raising resources for the public sector and critically explains the advantages and limitations of the alternative methods. In this context, the different forms of taxation at the Union and State levels and expenditure programmes of the Union and State Governments are briefly reviewed and the role and importance of public enterprise surpluses, public borrowings, deficit financing, and external assistance is examined. In a sense, therefore, his work is concerned with an examination of the sources from which money came into the coffers of the State and how this money was spent particularly in the fiscal years 1950-51, 1955-56, and 1960-61. His work has emphasized the subordinate fiscal position of the States.

Tripathy's first work, published in 1958, was adaptation of his doctoral dissertation. He is primarily concerned with an analysis of the extent of compatibility of Indian fiscal policy with the one which is the most conducive to rapid economic development. In this context, he has evolved suitable criteria, which he suggests, should guide fiscal policies of developing countries. He has laid emphasis on aspects relating to development expenditure and the performance of the public sector in India. Besides, his work makes a detailed examination of problems and issues involved in using taxation and

1972, The People's Publishing House Pvt., Ltd., New Delhi.

28. Baij Nath Gupta, Government Budgeting, Asia Publishing House, Bombay, 1967.

public borrowing as two important fiscal sources of development finance for planning. Tripathy's second work, published in 1964, is a theoretical study on the role of fiscal dynamics in the economic development of underdeveloped countries. It is well-known that an important objective of fiscal instruments in underdeveloped countries is the mobilisation of maximum resources for financing the development plans of the public sector of the economy. In line with this thinking Tripathy's work incorporates a study of the role of taxes, public borrowing, and deficit financing in the mobilisation of resources.

An important and useful work on the subject is that of James Cutt, published in 1969. Cutt's doctoral thesis is perhaps the first comprehensive and original treatise which thoroughly examines the role of taxation in the development plans in India after the Taxation Enquiry Commission Report, 1953-54. His work is however limited to a more specific and detailed consideration of major tax devices in terms of the three primary objectives of taxation, which, in their turn, may be said to have been derived from Constitutional and Planning aims, viz. growth, redistribution, and stabilisation. Among the State taxes, his work covers a detailed examination of two major taxes, sales tax and agricultural income-tax.

K. Venkataraman's work published in 1968 is a very useful study of States' finances in a combined way. In a developing economy with federal structure, the author rightly asserts the pivotal role of the States. He provides not only a descriptive account of the finances of the States since independence, but also offers a perspective analysis into national, state and local finances. He has dealt with in detail the problems of plan financing, taxation, borrowing, and public expenditure. In his previous work²⁹ also published in 1965, he lays stress on the fact that responsibilities have to be matched with resources at all the levels of local, state, and central finances.

Among the works which have laid special emphasis on the public expenditure aspect of fiscal science, that of Zahir is mentionable. Zahir's work is solely concerned with the role of public expenditure in redistributing income. His work is an

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

empirical- cum-analytical objective study of the influence of the changing pattern of public expenditure on distribution of income in India from 1951-52 to 1965-66. Zahir has made an attempt to prove how "inflation caused by mounting Government expenditure, coupled with deficit financing, has distorted the given pattern of distribution during the same period."³⁰ He thus goes on to suggest that, "The phenomenon of the unmerited income transfers from the masses and the salaried middle classes into the pockets of the upper middle income groups has been in operation during this period. The welfare State, instead of distributing welfare, has in fact proliferated misery."³¹ Zahir has also discussed in detail how far the instrument of public expenditure in India has increased or decreased regional inequalities in India during the period 1951 to 1966, which throws ample light on the achievement or otherwise of the objective of balanced regional development.

Patnaik's work is perhaps the latest study which almost coincides with the purpose of our study. He has made an analytical study of the growth of the regional finances of Orissa from its inception as a separate province in 1936 to the end of the Third Five-Year Plan in the context of the federal structure of the country. His work brings into sharp focus the financial problems of the States (Orissa in particular) arising out of the implementation of the Five-Year Plans. He has studied in detail the existing pattern of the allocation of the financial resources between the Union of India and its constituent units and has found that the existing pattern generates imbalances between the revenue capacities and the needs of the States, much to the detriment of the backward States of India. In this particular context, he has made a successful attempt at enquiring into the nature, causes, and dimensions of such maladjustments and imbalances, taking Orissa as typically backward State. Patnaik's doctoral thesis has rightly admitted that very little has been done in India on the finances of State Governments which fact strengthens the case for our

30. Mohammad Zahir, *Public Expenditure and Income Distribution in India*, 1972, p. IX of Preface.

31. *Ibid*, p. IX of Preface.

study into the finances of Assam State Government.³² Patnaik suggests that, "The federal-state disequilibrium of resources resulting from the constitutional arrangement, the inter-state economic disparity arising out of different levels of development and the consequences arising out of different levels of development and the consequences arising out of comprehensive economic planning can be largely met, if federal devolution of resources is based on the criterion of 'need'."³³ It is well-known that the criterion of 'need' is open to various interpretations and is very difficult to give a precise, unequivocal, and universally acceptable definition of 'need' owing to the relativistic nature of the concept. Patnaik has taken per capita income, population, and area of the State as the three chief ingredients for formulating the 'need' formula for the purpose of financial devolution.

Among the works dealing chiefly with the theoretical aspects of Government budgeting in India, B.N. Gupta's doctoral dissertation qualifies for a short review. After outlining the growth of development of Government budgeting, Gupta's work brings out the close relationship between the budgets and economic policies of a Government. He has also described and discussed in detail the functions, objects, organisation, and classification of Government budgeting and the procedures of budgeting. He has also discussed the problem of Parliamentary control over budgeting. But Aggarwalla's work³⁴ on the same subject is both comprehensive and exhaustive. Among the special problems

32. At least, even for a study of State finances of Orissa, Patnaik had recourse to the official literature on the subject as contained in the Orissa Taxation Enquiry Committee Report, 1961. For Assam, there has been no official study done on these lines so far, although the constitution of a taxation enquiry committee was suggested by two opposition members of the Assam Legislative Assembly, viz. Hareswar Goswami and Gauri Sankar Bhattacharjee in 1953 and 54. See Assam Legislative Assembly Debates, (a) March-April Session, Vol. 1, No. 27, 11-4-53 (which was negatived) and (b) Adjourned Budget Session, Vol. 1, No. 23, 22-7-54 (which was withdrawn). Only in 1977, there was an unpublished one-man report of Raja C. Chelliah.

33. Patnaik, op. cit. p. 284.

34. R.N. Aggarwalla, Financial Committees of the Indian Parliament, 1966.

involved in Government budgeting, Gupta has discussed those relating to estimation of revenues, balancing of the budget, and performance budgeting.

The Reserve Bank of India bulletin for June 1966 reported a useful work of Madalgi, dealing with the expenditures of State Governments during the period 1951-52 to 1965-66.³⁵ Madalgi's paper made a detailed examination of the growth of expenditures of the State Government by major heads of expenditures, both in the aggregate and in per capita terms.

Last but not the least useful work to be mentioned in this connection is the work of Chelliah.³⁶ The work is an adaptation of his doctoral dissertation with some differences of form and matter, and in the second edition many improvements have been made to bring it upto date. This work has been specially meant for under-developed countries, which have adopted the mixed enterprise system as the institutional framework for promoting growth. The author attempts to fulfil three main tasks in this book : (a) analysis of the fundamental problems of fiscal policy in under-developed countries; (b) delineation of the basic structure of public finance, with special emphasis on tax structure, which is most appropriate for a country, like, India; and (c) evaluation of the basic features of the Indian tax system and fiscal policies, which is set against the background of planned economic development. His illuminating general discussions on the shared Central taxes and the State sales tax laws are thought-provoking.

Methodology

The relevant statistical data for the twenty-eight consecutive years from 1951-52 to 1978-79 have been collected from various official documents and sources and two variable simple linear regression equations are fitted to the data (by the method of least squares) to estimate the trends and fluctuations in revenues and expenditures of the Government of Assam for the said period. The different items or broad heads

35. S.S. Madalgi, State Government's Expenditure 1951-52 to 1965-66, Division of Planning and Special Studies, Economic Department, Reserve Bank of India.
36. Raja J. Chelliah, Fiscal Policy in Underdeveloped Countries, George Allen & Unwin (India), 1969.

of revenues and expenditures having thus regressed on time, the variations explained by the time factor have been found out. The other factors responsible for residual or unexplained variations have been enquired into as far as possible. The analysis is so made as to find out the trends and fluctuation patterns in both revenues and expenditures of the Government of Assam during the period, 1951-52 to 1978-79. Not only the aggregative picture of the Assam Government budgets for this period has been described and analysed, the detailed constituent sources of revenue and heads of expenditure have also been analysed in detail. The head-wise expenditures have been interpreted in per capita terms to enable us to find out the trend of expenditures of the Government of Assam on different items. Thus, the methodology adopted for this study is both descriptive and analytical, and statistical techniques of time series analysis, have been used. This is followed by suggestions for effecting improvements. The relationship between state income and public revenues and state income and public expenditures have also been studied. A similar analysis has been made with regard to capital formation out of Assam Government's expenditures. Besides, the public debt position of the Government of Assam has also been studied.

Sources and Limitations of Data

The major sources of data for our study are the annual budgets of the Assam State Government, including their Memoranda for the years 1951-52 to 1978-79. We have the 'actuals' from the above-mentioned source for the twenty-eight year period as covered by our study. These actual figures have been further compared and verified by us from the corresponding data available in the Statistical Abstracts of Assam for the years 1958, 1960-61, 1967-68, and 1978, published by the Department of Economics and Statistics of the Government of Assam. Another source of information, which we have utilised in our study, constitutes the budget speeches of the Finance Ministers for the years 1950-51 to 1979-80. These are also published along with the respective budgets and their memoranda by the Government of Assam. In addition, for the purpose of our study, we have fully scanned and analysed the

debates of the Assam Legislative Assembly on the budgets specially for the years 1950-51 to 1979-80. We have also used, wherever possible, the budgetary data relating to India and other State Governments as published from time to time in the Reserve Bank of India bulletin and the Reserve Bank of India's Annual Reports on Currency and Finance. As a further cross check, we have utilised the summarised budgetary data relating to Assam State Government, published annually in the Statistical Handbook of Assam, issued by the Department of Economics and Statistics, Government of Assam. So far as the data on the Government capital formation is concerned, we have relied on the official "Estimates of Capital Formation in Assam 1950-51 to 1964-65", published by the Department of Economics and Statistics, Government of Assam. We have also culled relevant and available data from the official document entitled 'Economic Survey, Assam' for available number of years. It may be mentioned here that this last-mentioned document is also placed before the Assembly every year at the time of the presentation of the budgets.

It must be pointed out here that there exist for some years great discrepancies and differences in the actual figures of revenue and expenditure under certain heads in the different official sources even though all these are published by the Government of Assam and its various official agencies. Wherever possible, before using the data, we have corrected these discrepancies and differences by reconciling them with our primary source of our data, viz., the annual budgets and their memoranda. In some cases where the discrepancy could not be reconciled and the sources of differences could not be detected, we have pointed it out in the relevant tables. Only a very few statistical data could not be made available in which places Revised Estimate, Budget Estimate and Estimated figures are used.