

FISCAL CONSOLIDATION IN BIHAR AFTER DIVISION OF STATE

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Received: 14 Jan 2019

Accepted: 22 Jan 2019

Published: 31 Jan 2019

ABSTRACT

Bihar has been facing fiscal disequilibrium, increasing indebtedness and overdrafts since long. The case of Bihar in regard to fiscal consolidation should be examined in its historical perspective on a separate footing. Since 1857 when Bihar took a leading role under the leadership of Babu Kuer Singh in the first war of Independence, Bihar was deliberately pushed back.

If found the position of life value and working condition of Bihar the worst in the country (India Today, 2004). The survey conducted by India today has found that in education, investment, urbanization, infrastructure, social condition and even in law and order, Bihar ranks the last number among the major states of the country.

Data selected indicators of Human Development viz. the expectancy literacy rate, infant mortality rate (IMR), death rate and birth rate.

KEYWORDS: *The Challenges, Human Development, Major Criticism*

INTRODUCTION

Bihar has been facing fiscal disequilibrium, increasing indebtedness and overdrafts since long. The case of Bihar in regard to fiscal consolidation should be examined in its historical perspective on a separate footing. Since 1857 when Bihar took a leading role under the leadership of Babu Kuer Singh in the first war of Independence, Bihar was deliberately pushed back. It was made the internal colony of West Bengal intellectuals of Bengal characterized the struggle as 'social reactions' when leaders of Bihar launched a movement for separate Bihar, it came into existence in 1912 but even then deliberate ignorance of Bihar continued. Bihar has been treated as internal colony of Union government even after independence. It was the reason that despite fertile land in North Bihar and adequate mineral resources in South Bihar the state remained a backward colony of a backward Union of India. After the formation of Jharkhand state, the situation has further worsened.

An equally important issue relating to federal financial transfers in the disaster factor of the relatively poorer states in terms per capita income. The poorer states are dissatisfied and though finance commission and planning commission have tried to benefit them. In a poor state like Bihar, the per capita central assistance has been much lower than the average for all the states. During seventh plan it was Rs. 304 in comparison to 375 for all India average.

Bihar, the poorest among the poor and backward states of the economy has got a unique situation. Highly endowed with natural resources and manpower, the state economy has been lagging behind in the field of economic development. One of the major reasons for this has been inadequate investment in comparison to the sum of Bihar's population and the

levels of living in other states. This turn has been due to poor financial condition of the state. The fiscal situation in Bihar presents a dark scenario from which every angle one looks upon it. Growing revenue deficits and mounting debt burden have eroded the fiscal health of the economy. In recent years the revenue deficit of the state increased from Rs. 190.72 crores in 1980-90 to Rs. 1257.47 crores in (1994-95).

Table 1

Year	Revenue Relief	Revenue Expenditure	Revenue	Revenue
1989-90	3640.24	3830.96	190.72	4.98
1990-91	4193.07	4952.37	759.30	15.33
1991-92	4672.9	5186.43	513.74	19.91
1992-93	5900.67	6589.07	688.40	10.45
1993-94	6250.44	6696.25	445.81	6.66
1994-95	6307.24	7564.71	1257.47	16.61

Source: Government of India, CAG Report (Civil) 1993-94 and 1994-95.

The above disturbing affairs can be due to (i) excessive growth of states revenue expenditure and/or (ii) inadequacy of state's revenue emanating from its own resources as well as transfer from the centre. As regards the state's level of expenditure there is no denying the fact that a considerable scope for prudence and more efficient development of resources exists in the state economy of Bihar. There are several examples of wasteful expenditure incurred by the state. Available statistics also point to the presence of excessive or non-functional staff in several departments.

So far as the transfer of resources from centre to the state of Bihar is concerned the amount has certainly been increasing. The total amount transferred in the form of share in taxes and grants-in-aid increased from Rs. 1995.64 crores in 1989-90 to Rs. 3976.78 crores in 1993-94 but declined to Rs. 3780.84 crores in 1994-95 which was due to a sharp decline in the amount of grants-in-aid from Rs. 1480.29 crores in 1993-94 to Rs. 992.77 crores in 1994-95.

**Table 2: Receipts by the State of Bihar from the Government of India
(Rs. Crores)**

Year	Income Tax	Union Excise	Grants-in-aid	Total
1989-90	477.51	1066.77	451.36	1995.64
1990-91	511.68	1104.16	992.58	2608.44
1991-92	633.84	1213.76	1133.24	2980.84
1992-93	753.07	1603.48	1291.07	3647.62
1993-94	962.49	1534.00	1480.29	3976.78
1994-95	1062.97	1725.10	992.77	3780.84

Source: Government of India, CAG Report 1993-94 and 1994-95.

Bihar should be included in the list of special category state on the basis of income region in the world (except Ethiopia) and it should be provided substantial investment amount in form of lump sum assistance.)

In the context of the present financial crisis of resources for planned economic development of the state, an increase in tax yields is significant and healthy. But in current practice, sales tax suffers from some complex problems the viable solutions of which are imperative for improvement in sales tax administration in future. Tax evasion, faulty system of assessment, high rates of taxation are the deep rooted problems from which tax collection suffers a lot at present.

Out of the total receipts of Bihar government, 80 % is received from central grants and revenue from divisible pool. During the last six years increase in tax revenue is 80% that is from Rs.2916 crore in 2003-04 to Rs.5226 crore in

2009-10 and increase in non tax revenue was 32% that is from Rs.320 crore to Rs.422 crore. On the other hand increase in Central disbursement to Bihar is 968% that is from Rs. 12456 crore to Rs.33,351 crore sales tax now called VAT has 56% in the tax revenue to Bihar State.

Challenge for the State Government

Social Service expenditures include expenditures on education, sports, art, culture as well as expenditure on medical health and family and child welfare. We see in this tale that in combined Bihar only Rs. 476 per capita was spent in 1998-99 on total social services. No doubt why the India Today back listed Bihar in its recent ranking survey. It found the position of life value and working condition of Bihar the worst in the country (India Today, 2004). The survey conducted by India today has found that in education, investment, urbanization, infrastructure, social condition and even in law and order, Bihar ranks the last number among the major states of the country. The economy of Bihar has fallen into the trap of under development or backwardness. The more it struggles to free itself, the more it is entangled in it. Within one year, it has lost its three higher rank-numbers falling down from 17th to 20th number.

So, the Government of Bihar itself has to think upon the worsening fiscal conditions of the state. Human development and investment climate need good governance and good infrastructure. Lack of regular power supply, bad roads, robbery, murders for money and above all Bihar's most developed kidnapping industry are costing the industrialists and businessmen from the four boundaries of Bihar.

The quality of state expenditure is judged by the creation of capital assets to generate income, expenditure on social services and economic services in comparison to general services and plan expenditure in comparison to non-plan expenditure. From this angle following are the parameters to measure the quality of public expenditure.

- Ratio of capital expenditure to total expenditure
- Ration of capital expenditure to state gross domestic product
- Ratio of social and economic services to Revenue expenditure
- Ratio of Plan expenditure to non plane expenditure.

The Fiscal of Scenario of Bihar

It will be relevant firstly to discuss the background, salient features and a brief review of reform policy both at the national and state level before we analyses the fiscal management during reform period. It will make the study more logical fruitful and beneficial both to academicians and policy makers. Economic reforms in India was introduced in 1991 by the then Finance Minister and present Prime Minister, Dr. Manmohan Singh in his first budge presented to parliament when Mr. P. V. Narsimha Rao was the Prime Minister of India.

Neglect of Agriculture – The Major Sign of Economic Reforms

A major criticism of the process of economic reforms is the neglect of agriculture. Data reveal that food grains production increased from 129.6 million tones in 1980-81 to 176.4 million tones in 1990-91 resulting in annual compound rate of 3.1 per cent. But during the 10-year period of economic reforms, food grains production increase from 176.4 million tones in 1990-91 to 195.9 million tones in 2000-01, indicting an annual average growth rate of 1.0 per cent, which was lower than

the growth rate of population, complacency on the food grains front can certainly cost the nation very dearly in the coming decade.

Social Infrastructure and Human Development

Data selected indicators of Human Development viz. the expectancy literacy rate, infant mortality rate (IMR), death rate and birth rate. If the purpose of all development is to improve the quality of life, then human development indicators are the end products of the development process.

Our Prime Minister Dr. Manmohan Singh has clearly stated that there is a solid case of reducing subsidies on non-merit goods. There is no doubt that subsidies at the present level account for nearly 14-15 per cent of GDP and the continuance of subsidies at such a massive scale is neither desirable nor sustainable. Even Dr. Manmohan Singh tried to scale down subsidies in his first budget, but later abandoned the endeavor on the advice of the then Prime Minister.

CONCLUSIONS

Sharp deterioration in state finances in recent years has been a matter of serious concern for the planners and policy makers. The falling fiscal health of states is evidenced by sharp increases in revenue, fiscal and primary deficits, increase in their indebtedness, contingent, contingent liabilities and decline in development expenditure.

Bihar is the poorest of India and perhaps one of the most backward regions of world map where even now 42% populations are below the poverty line. Actually it is a bitter truth that Bihar, the land of ancient glory, the birth place of great economist Kautilya, is now a land of poverty, in equality unemployment, bad governance and kidnapers. After the division of state these problems have taken a very serious turn.

Fiscal deficit is an indicator of the borrowings by the government. Over all fiscal deficit including the revenue deficit, gross fiscal deficit net fiscal deficit as well as primary deficit has been increasing during the last decade pushing Bihar into the trap of increasing indebtedness.

Fiscal imbalances in the state are structural. Expenditures have grown faster than revenues in recent years. Growth of revenue has been constant around 20% of SGDP while aggregate expenditure has risen up to about 28.5% of the SGDP. Given the difference between levels of expenditure and revenues growth rate, differences are changed into revenue deficit.

During the plan period, the state had accepted certain policies as regards the creation and management of the public debt. Debt creation was directly related to the financing of the state investment under the plan and thus the debt policy was part of the fiscal policy and in a wider context a part of the policy of economic planning and development.

In the post-Independence economic history of our country, 1991 is a watershed year. This was the year in which the economy was faced with a severe balance of payments melt down. In response, we launched a broad ranging economic programme not just to restore the balance of payments but to reform, restructure and modernize the economy.

The infrastructure needs of the economy are large because of the demand generated by economic growth, rise in population, rapid urbanization as well as the need for making up the accumulated backlog. Provision of infrastructure was once considered to be an exclusive responsibility of the government.

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