

AN ANALYSIS OF TREND AND PATTERN OF FISCAL POLICY IN NORTHEAST INDIA WITH SPECIAL REFERENCE TO ASSAM

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ABSTRACT

Fiscal policy plays an important role in the development of a country. The present study aims to analyse the trend and pattern of fiscal policy variables in case of Assam in Northeast India. The study finds that all the three variables viz. total expenditure, revenue receipts and public debt showed an upward trend with slight fluctuations. From 2004-05 onwards share of revenue receipts in GSDP started to improve and it was above 15% from 2004-05 to 2019-20. Total government expenditure increased with a CAGR of 10.7% and the expenditure to GSDP ratio was more than 10% for the study period. Regarding public debt, after the implementation of the AFRBM Act in 2005, Assam maintained a debt-GSDP ratio of 28% and below as prescribed by the Twelfth Finance Commission.

Keywords: fiscal policy, total expenditure, revenue receipts, public debt, GSDP

1. Introduction

Government interferes in the economy to maintain stability and growth through its different policies. The policy of government spending as well as taxes to affect the economy and achieve macro-economic objectives are known as fiscal policy. In other words, the tools of government expenditure, taxation and debt management are together known as fiscal policy. It was Keynes who popularised the role of government intervention and the importance of fiscal policy in an economy. Before that, the classical school disregarded the function of government and supported laissez-faire or no government interference approach. Keynes challenged this notion and emphasised how government involvement might alter the level of output and employment in the economy against the backdrop of the Great Depression. Recent research emphasises the importance of expansionary fiscal policy and the ways in which it might promote economic

growth. Expansionary fiscal policy leads to increase of the private sector which further leads to improvement in economic growth of the country. The main purpose of fiscal policy is to reduce short-term swings in output and employment. Fiscal policy seeks to change aggregate demand through shifting government expenditure or taxation in order to bring the economy closer to its maximum production (Abdullah et al., 2009). Emerging economies have put much emphasis on the role of fiscal policy. This is because of the low level of revenue generated in the economy and the constraints of external borrowing which ultimately affects the growth situation of these countries.

In case of emerging countries like India, government spends a significant percentage of their commitments on debt repayment, leaving little money for things like public welfare and development of infrastructure. Indian economy was going through fiscal stress from 1980s onwards. The high levels of borrowing, fiscal deficit and low levels of revenue collection hampered the path of growth and development of the country. India follows a federal structure and in federal system, the nation's success is determined by the overall development of its states. Assam is one of the biggest economies among the North-eastern states. Fiscal policy plays a crucial role in case of Assam. Assam started to undergo fiscal crisis from the 1990s. The state's non-plan expenditures are mostly committed expenditures and the revenue situation is not up to the mark. The private sector is underdeveloped as investors prefer not to invest in the state due to social and infrastructural problems. Given such circumstance, it is necessary to analyse the trends in fiscal policy variables in case of Assam economy.

2. Review of Literature

There are few studies which have incorporated all the fiscal variables together to study their trends and pattern. Gulati (1961) analysed the trend of expenditure of central government and found higher share of revenue expenditure which was because of the social and development services. Karnik (2002) emphasised that fiscal policy has significant role in enhancing economic growth. Expenditure on infrastructure should be increased by the government and fiscal deficits should be reduced to increase the level of economic growth. Dutta and Dutta (2011) in their study on tax efforts in Assam economy found that the state is heavily dependent on central transfers and there is a need to improve the capacity of own revenue resources. Along with it, there is also need to improve the tax administration. Vora (2016) found considerable increase in revenue and capital receipts along with revenue and capital expenditure of the central government of India for the period 2007-2014. In another study of Muthuramu and Maheswari (2017) found government expenditure to be highest in 1986-87 and it fell down in the year 1996-97. In the second part of 2000s, state capital expenditures were higher than that of the central government. Singh (2019) in his study presented a brief review of the history of Indian tax reforms. By analysing the trends in taxes and the tax-GDP ratio of the central government for

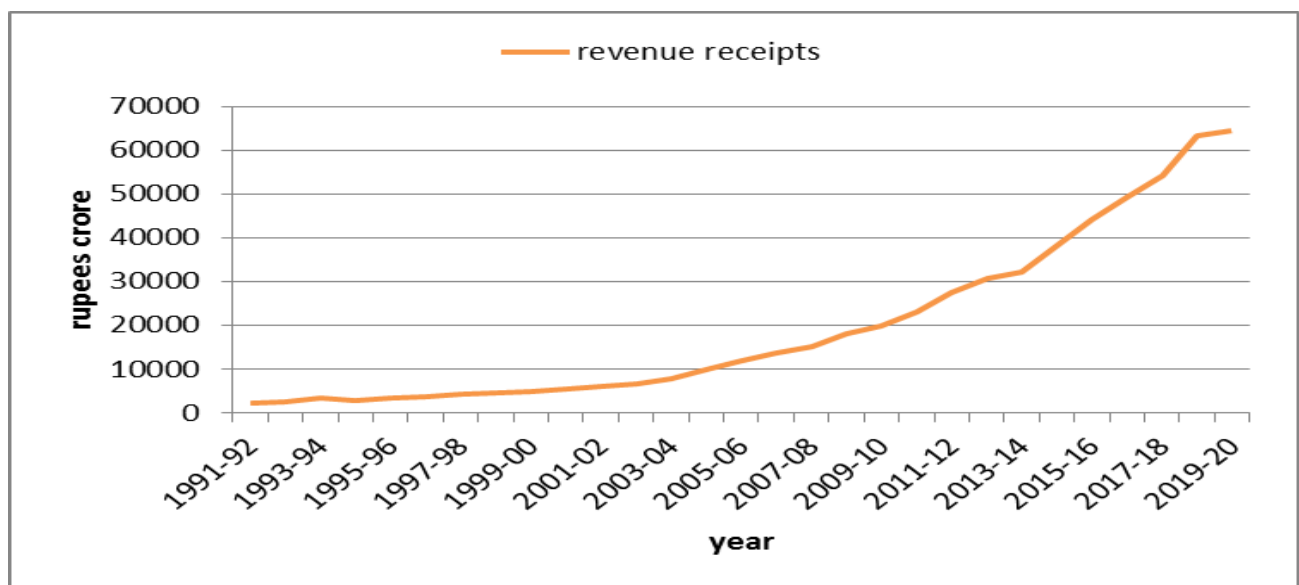
thirty years, he found that there was relative reduction in the taxes. MD et al. (2020) analysed the trend and pattern of government expenditure of India for the time period 1990-91 to 2018-19 and found that share of revenue expenditure is more than that of capital expenditure. The share of defence expenditure and interest burden is also more so it must be reduced. M D and Karunakaran (2020) analysed the trend of revenue receipts of the central government and found the revenue receipts to increase by 24 times in between 1990 to 2018. Tax was found to be buoyant and direct taxes had a higher share than indirect taxes in total taxes. Mukherjee (2022) analysed the budgets of some of the major Indian states in the post Covid period. They found improvement in state finances for the period 2021-22 because of increase in revenue collection and spending activities of the government; which led to improvement in the economic growth.

3. Objective and Methodology

The main objective of this study is to analyse the trends in fiscal policy variables viz. government expenditure, revenue receipts, public debt in case of Assam. The time period taken is from 1991-92 to 2019-20, which is the post reform period. To fulfill the objective, data has been taken from Reserve Bank of India data source. The entire study is based on secondary sources of data. Simple ratios, average and percentage are used to analyse the trend and pattern of the variables. Bai-Perron multiple structural break test has been used to find out any structural breaks in the time series data. Eviews12 software has been used to run the structural break test.

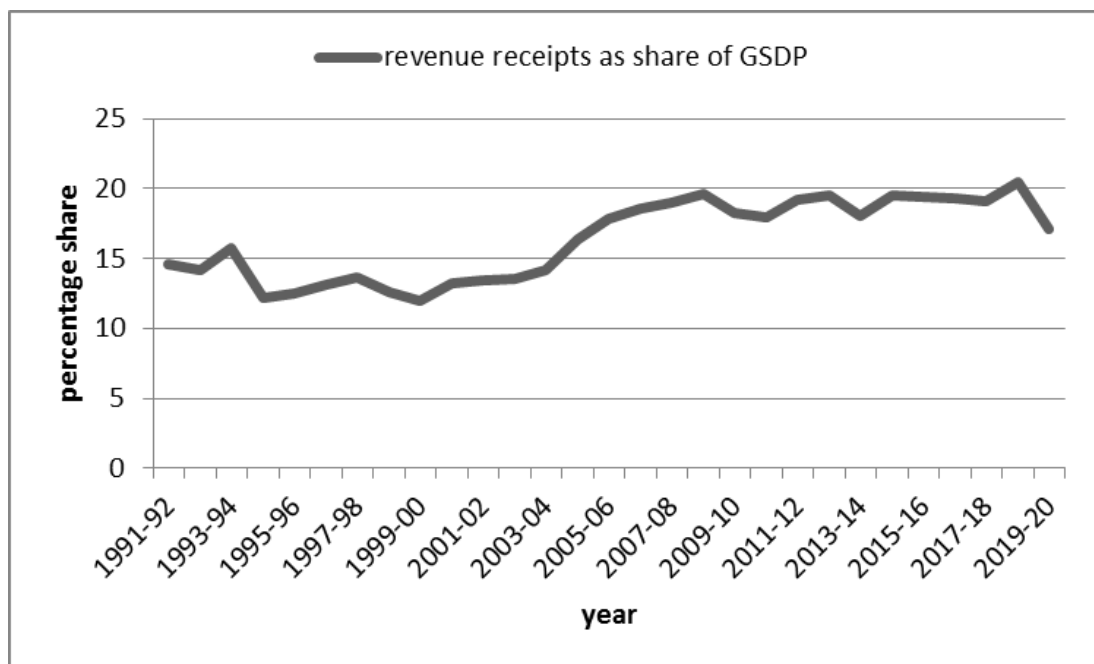
4. Trend of Revenue Receipts of Assam

Figure 1: Growth of Revenue Receipts of Assam



The revenue receipts of a state consist of tax revenue and non-tax revenue. The revenue receipts of the state showed an upward trend with slight fluctuations in some years. This fluctuation in revenue receipts was due to the unstable growth of non-tax revenue and central loans. Revenue receipts was rupees 2418.3 crore in 1991 which jumped to rupees 64495 in 2019 recording a CAGR 10.3%. In the year 1991, the state witnessed the highest annual growth rate of 36%. The reason behind this sharp increase in revenue receipts was because Assam started to gain from the special category status from the year 1990, and the loans to grants component changed from 70:30 to 90:10. This led to huge increase in central government grants which ultimately increased the total revenue receipts in 1991. In the post reform period, the state witnessed negative annual growth rate in the year 1994 which was due to decline in own tax revenue. Tax revenue has a higher share in revenue receipts of Assam as compared to non-tax revenue. The revenue receipts to GSDP ratio shows how large the government's finances are. An increase in the ratio of revenue receipts to GSDP is a good indicator the financial health of the economy. The World Bank recommended that an economy should maintain a tax-GDP ratio of 15% and above which will be considered as ideal ratio. From 1991 to 2003, revenue receipts as share of GSDP was below 15%, except in the year 1993 when this ratio was 15.7%. From 2004 onwards revenue receipts as share of GSDP was more than 15%. This indicates that Assam was able to fulfill the ideal tax-GDP ratio recommended by the World Bank. This also indicates towards the buoyancy of taxes of the state government.

Figure 2: Revenue Receipts as Share of GSDP



The study period covers a long time of 29 years and it has undergone through different changes. Structural break test will enable us to find out if there are any significant changes in the data series. In the revenue receipts series three break years have been found viz. 2005, 2011 and 2015. The probable reasons for these break years are- in 2005, value added tax (VAT) was introduced which increased the share of commodity taxes which led to sharp increase in tax revenue of the state government. In 2011 the state achieved a revenue surplus of rupees 930 crore and fulfilled the objective of the Assam Fiscal Responsibility and Budget Management Act to achieve revenue surplus. This surplus in the revenue account was beneficial for the fiscal situation of the state and in that year, state’s annual growth rate of revenue receipts increased to 19%. In 2015 Assam received a heavy amount of central government grants which was because of the launch and implementation of central government initiatives like Swachh Bharat Abhiyan, Nirmal Bharat Abhiyan etc.

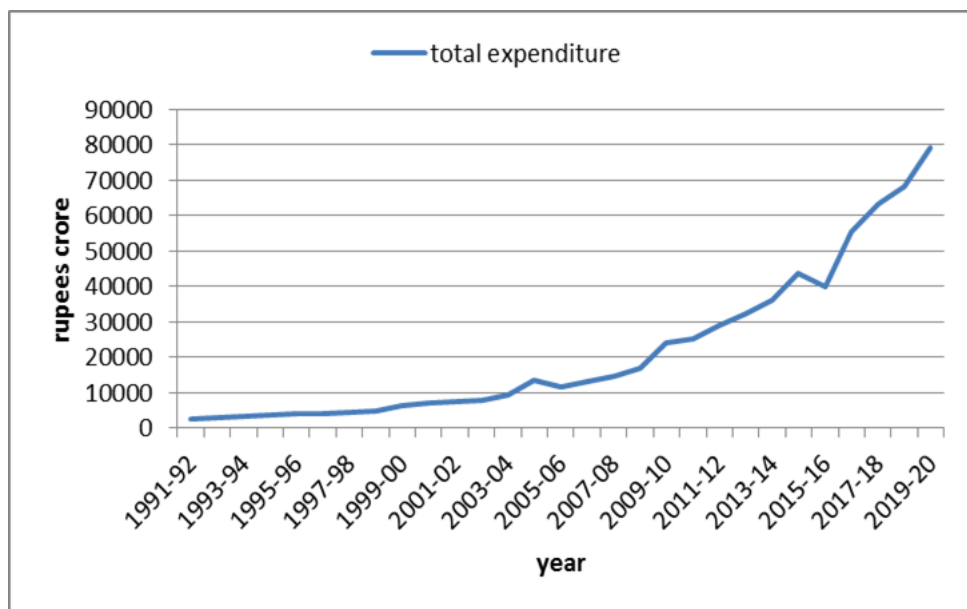
Table 1: Structural Break Analysis for Revenue Receipts

Variable	No of Break	Break Years
Revenue Receipts	3	2005-06, 2011-12, 2015-16

Source: Author’s Calculation using Eviews12

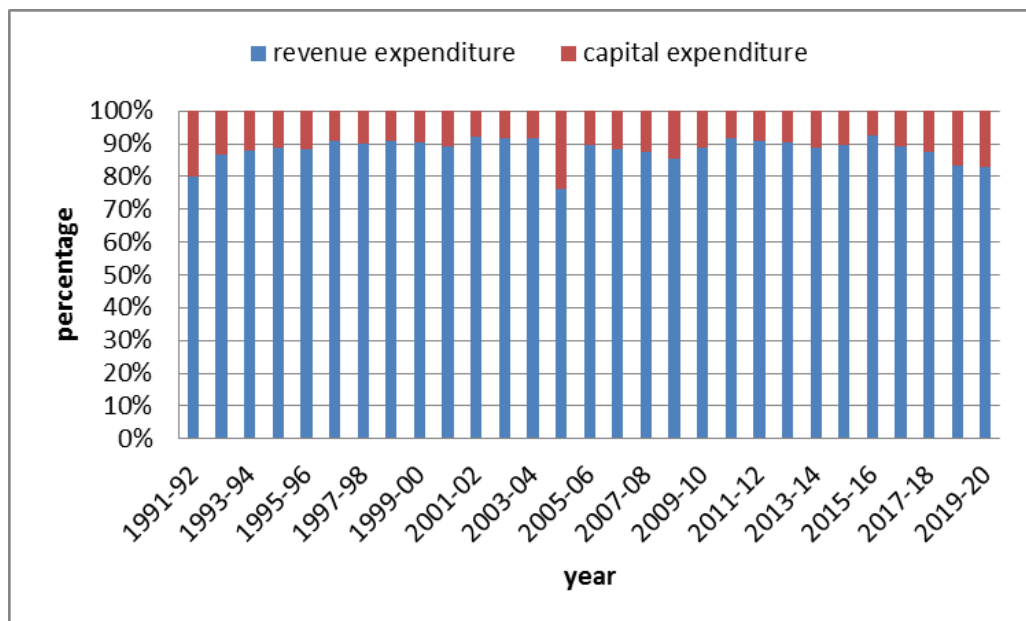
5. Trend of Government Expenditure of Assam

Figure 3: Growth of Total Government Expenditure of Assam



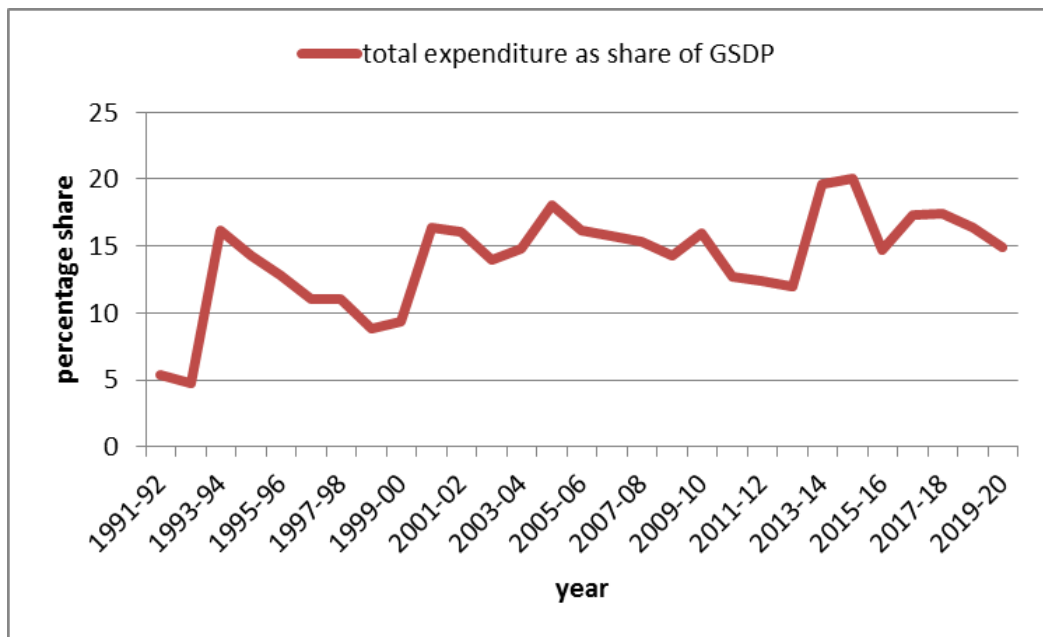
As said by Wagner (1883), government expenditure increases with increase in economic activities. Government expenditure is important for development of the society and country as a whole. Total government expenditure of Assam increased from rupees 2678 crore in 1991-92 to rupees 79318 crore showing a compound annual growth rate of 10.7 %. The years 2004 and 2009 recorded an unusual annual growth rate of 45% and 43% respectively, in the total government expenditure of Assam. In the year 2004, the state experienced a tremendous increase in the energy sector. In the year 2001, Assam Electricity Regulatory Commission was established and accordingly in the subsequent year's expenditure on power sector increased. Overall it led to huge increase in total government expenditure in the year 2004. Similarly the high annual growth in total expenditure in the year 2009 was because of the implementation of the 6th Pay Commission. The state's committed expenditure burden increased tremendously in 2009 leading to increase in the total government expenditure. The state also witnessed negative annual growth rates in total expenditure in some of the years. The years 2005 and 2015 witnessed negative annual growth rates. In both these years, reduction in capital expenditure led to the negative annual growth rate in total expenditure of the state. Total government expenditure is divided in revenue expenditure and capital expenditure. Figure 2 reveals that revenue expenditure has a higher share in comparison to capital expenditure. On average revenue expenditure is more than 80% for the study period. The lesser share of capital expenditure indicates that the state is lagging behind generating capital assets. The post reform period shows decline in share of capital expenditure.

Figure 4: Revenue and Capital Expenditure of Assam



Along with the trend of total government expenditure, it is also important to analyse the trend of total expenditure as a share of GSDP. This is depicted in figure 5.

Figure 5: Total Government Expenditure of as Share of GSDP



As share of GSDP, total expenditure of Assam was more than 10% for most of the years in the post reform period. In the initial years of the study period, total expenditure as share of GSDP was lower than 10%. In 1993, this share increased to 16 percent. In the later years, total expenditure as share of GSDP was above 10% except the years 1998 and 1999.

Table 2: Structural Break Analysis of Government Expenditure

Variable	No of Breaks	Break Years
Total Government Expenditure	2	2011-12, 2015-16

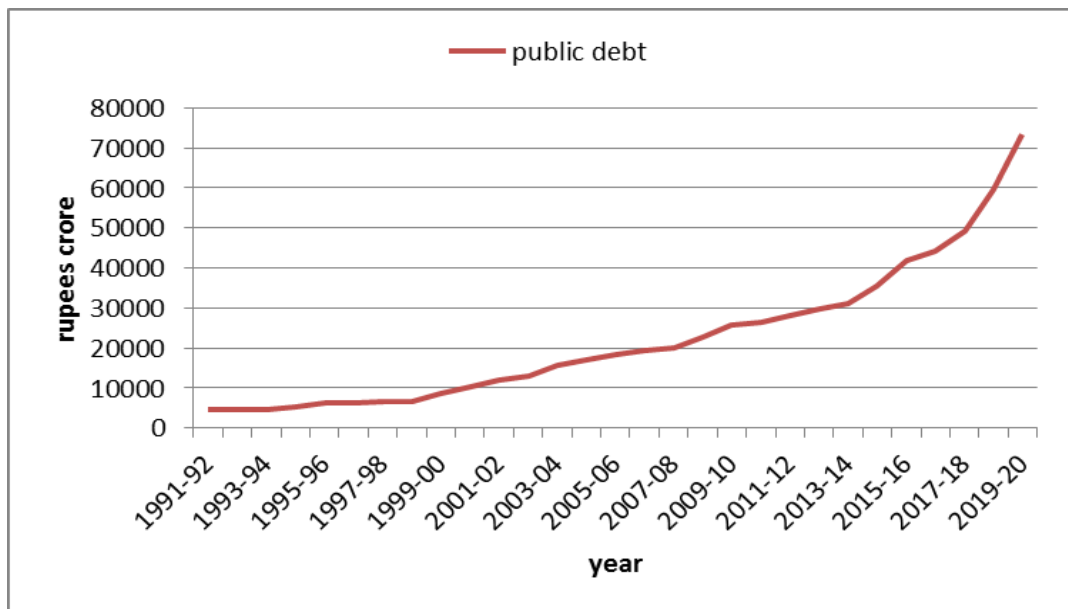
Source: Author’s calculation using Eviews12

The probable reasons for the break years in total expenditure are-year 2011 saw an increase in the annual growth rate of capital expenditure as compared to revenue expenditure. This led to an annual increase of 16% in total expenditure in 2011, which was just 4.4% in the previous year. The high level of capital expenditure in the transport and communication head led to such

increase. Again in 2015, state government implemented various central government schemes because of which the revenue expenditure increased which led to increase in total government expenditure.

6. Trend of Public Debt of Assam

Figure 6: Growth of Public Debt of Assam



Public debt means all financial obligations of the government (Lahiri and Kannan, 2004). Article 293 of the Indian Constitution states that, state governments in India are only permitted to borrow money from internal sources. With the expansion of the economy, government’s borrowing needs will increase. But high levels of borrowing will be detrimental for the economy as a heavy amount of interest will be associated along with the debt repayment. The total public debt of the state recorded a CAGR of 8.6% from 1991 to 2019. Throughout this period the annual growth rate of public debt recorded a positive growth. The year 1999 recorded the highest annual growth in public debt which was 28%. The underlying reason behind it is that, one of the important sources of public debt Ways and Means advances (WMA) increased tremendously in that year over the previous year. Public debt as share of GSDP is an important indicator of fiscal stability of an economy. It shows whether an economy is able to repay its borrowed funds. The public debt of Assam as a share of its GSDP is shown in figure 6. During the starting years, public debt as share of GSDP was very high. It was in the range of 30 to 35 percent. after the Assam Fiscal Responsibility and Budget Management Act was implemented in 2005, the ratio of public debt to GSDP started too decline slowly. From 2007 to 2019 public debt as share of

GSDP was 28% and below. The ideal debt to GSDP ratio to be maintained by the states is 28% as prescribed by the Twelfth Finance Commission. Thus Assam was able to bring down this ratio and maintain a stable position of its fiscal situation.

Figure 7: Public Debt as Share of GSDP

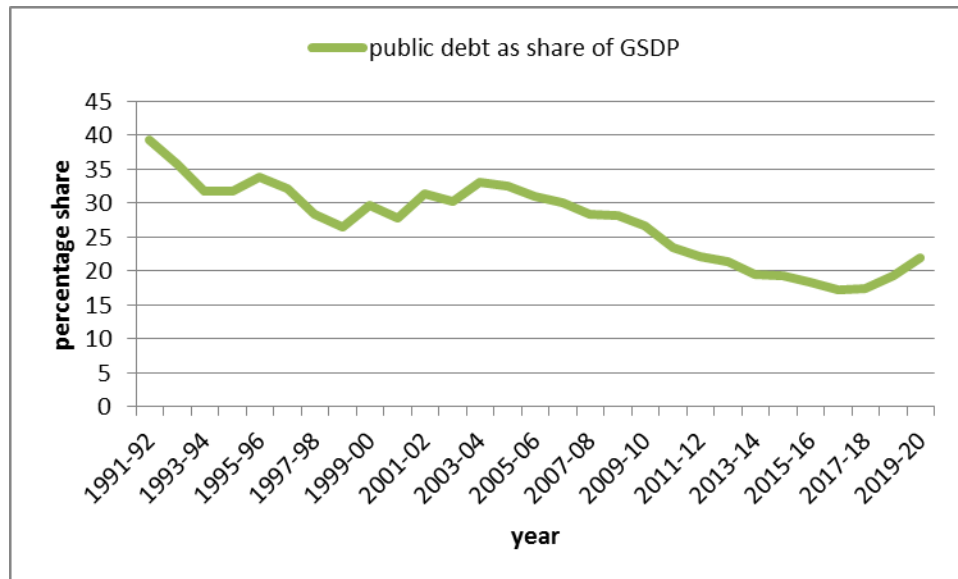


Table 3: Structural Break Analysis of Public Debt

Variable	No of Breaks	Break Years
Total Government Expenditure	2	2002-03, 2014-15

Source: Author’s calculation using Eviews12

The probable reasons for the break years are- national small savings fund (NSSF) started to become an important source of borrowing in case of Assam from 2002 onwards as from 1999, it was incorporated as a part of internal debt. The state government did not receive any debt relief funds in 2013 after the implementation of AFRBM act, which led to increase in public debt of the state to 14% in 2014.

7. Conclusion

In this study an attempt was made to analyse the different fiscal variables of Assam in the post-reform period. All the three variables viz. total expenditure, revenue receipts and public debt

showed an upward trend with slight fluctuations. The revenue receipts of the state government increased 25 times during the study period. After recording low revenue receipts to GSDP ratio for some years in the late 1990s, from 2004 onwards share of revenue receipts in GSDP started to improve and it was above 15% from 2004 to 2019. This indicates towards the buoyancy of taxes of the state government. In terms of total government expenditure, share of revenue expenditure is more than that of capital expenditure. The lesser share of capital expenditure of the state government indicates that the state is far away from generating sufficient amount of capital assets. Although public debt shows an increasing trend during the study period, but the state was able to control its debt-GSDP ratio. Specially after the implementation of the AFRBM Act in 2005, Assam maintained a debt-GSDP ratio of 28% and below as prescribed by the Twelfth Finance Commission. This implies that the state's fiscal situation was in a stable position.

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