

Study On Fiscal Health Of A State With Special Reference To Tamil Nadu

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Abstract

In India, the bulk of accountability for social and economic development lies with the State government. As such an in-depth investigation of the different sources of State revenue and expenditure can enable us to judge exactly the impact of State budgetary operations on the social and economic development of the people. So, it is significance to appraise critically the case of the States on the basis of truthful evidence. The main objective of the present study is to analysis the trend in fiscal finance of the State Tamil Nadu during the period 1990-91 to 2017-18. This study predominantly depends on secondary source of data. To the study the trend analysis, annual growth rate has been employed. Although the State Government have been undertaking fiscal consolidation measures by way of reducing their revenue deficits/ maintaining revenue surplus and maintaining their fiscal deficit within the stipulated norms, in more recent years, the government finance has been under stress. The growth rate of revenue receipt, tax revenue, non-tax revenue and revenue expenditure which was 19.7 per cent, 20 per cent, 18 per cent and 19.2 per cent in 1990-91 declined to 4.3 per cent, 9.4 per cent, 14.5 per cent and 9.6 per cent in 2017-18 respectively. Except during 2005-06 to 2008-09 and 2011-12 to 2012-13, the State was able to maintain only revenue deficit during the period of study. In order to put the finances of the State back on the rails, apart from revenue-side measures, the State government should undertake some substantial or even radical reform measures. The present study is, however, deals only with the revenue account but not the capital account. To have a clear picture, both revenue and capital account has to study simultaneously.

Keywords: Fiscal Policy, Revenue Receipt, Revenue Expenditure, Revenue Deficit, Economic Development.

Introduction

Fiscal Policy plays a central role in inducing economic growth and development in a country and promoting fiscal and monetary stability in it. A well designed fiscal strategy helps to move an economy on to a higher growth path minimising inflation and intergenerational transfers of the burden of public debt. Appropriate and timely framed fiscal policy measures can do that by setting efficient and effective use of scarce resources and by creating the right incentive signals [1]. Perhaps the most fundamental achievement of Keynesian revolution was the re-orientation of the way the economists view the influence of government activity in the private economy. Before Keynes, it was believed that government spending and taxation were powerless to affect the aggregate level of spending and employment in the economy [2]. Now it is unanimously agreed upon that state intervention through fiscal and monetary policies is critical for optimal allocation of resources, maintenance of price stability while ensuring acceptable levels of employment and growth and also for enhancing the level of equity through realistic redistributive strategy.

Tamil Nadu has traditionally been a financially well-administered State, but in more recent years, the government finance has been under stress. It is essential to trace the causes that have led to the difficult financial situation in which Tamil Nadu is now placed. This financial crisis is standing in the way of the development of the State and if not solved quickly, it may lead to great financial instability and social tensions in the State.

Objective

The major objectives of the present study are: (i) examine the trend and composition of revenue receipts, (ii) investigate the composition and trends in own tax and non-own tax revenue, (iii) evaluate the trend and composition of revenue expenditure (iv) inspect the overall trend in revenue deficit, and (v) suggest suitable tax policies to be framed by the Government of Tamil Nadu.

Methodology

This study predominantly depends on secondary source of data. The data were retrieved from various issues of the State Finances: A Study of Budgets, Report of Finance Accounts of Tamil Nadu, Economic Appraisal of Tamil Nadu, Economic Survey of Tamil Nadu and from various reports of the Tamil Nadu State Finances, Budget Papers, and Economic and Political Weekly Research Foundation. To the study the trend, annual growth rate has been employed.

Result and Discussion

Revenue and capital are the two streams of receipts that constitute the resources of the State Government. Revenue receipts consist of tax revenues, non-tax revenues, State's share of Union taxes and duties and grants-in-aid from Government of India. Table 1 shows the trends in revenue receipt of Tamil Nadu for the period 1990-91 to 2017-18. In absolute terms, revenue receipt has increased from ₹ 5,08,789 lakh in 1990-91 to ₹ 14,627,975 lakh in 2017-18. The proportion of tax revenue to the revenue receipts ranges from ₹ 4,12,698 lakh to ₹ 12,083,631, whereas the non-tax revenue ranges from ₹ 96,091 to ₹ 2,544,344 lakh [3]. The growth rate of revenue receipt which was 19.7 per cent in 1990-91 declined to 4.3 per cent in 2017-18. Of the total revenue receipts, the average tax revenue accounts for 81 per cent and non-tax revenue accounts for 19 per cent.

Table 2 shows the trends in tax revenue of Tamil Nadu for the period 1990-91 to 2017-18. Tax revenue has increased from ₹ 412,698 lakh in 1990-91 to ₹ 12,083,631 lakh in 2017-18 [3]. Of the total tax revenue, State's own tax revenue accounted for 80.4 per cent and share in Central taxes accounted for 19.6 per cent. The growth rate of tax revenue which was 20 per cent in 1990-91 increased to 25.7 per cent in 2010-11 and sharply declined to 9.4 per cent in 2017-18. On the other hand, the average sales tax accounts for 64 per cent, State excise duty 14 per cent, stamps and registration fee 10 per cent, motor vehicle tax 5 per cent, tax on goods and passenger; revenue from other taxes registered 3 per cent of the total state's own tax revenue.

Table 3 shows the trends in non- tax revenue of Tamil Nadu for the period 1990-91 to 2017-18. Non-Tax revenue has increased from ₹ 96,091 lakh in 1990-91 to ₹ 2,544,344 lakh in 2017-18 [3]. Of the total non-tax revenue, State's own non-tax revenue accounted for 46 per cent while grants-in-aid accounted for 54 per cent. The growth rate of non-tax revenue which was 18 per cent in 1990-91 increased to 45.8 per cent in 2007-08 and declined sharply to -14.5 per cent in 2017-18. Among the State's own non-tax revenue, interest receipts,

dividend and profits registered at 34 per cent, economic services 28 per cent, social service 25 per cent and general service 13 per cent on an average..

Table 4 shows the trends in revenue expenditure of Tamil Nadu for the period 1990-91 to 2017-18. In absolute terms, revenue expenditure has increased from ₹ 563,822 lakh in 1990-91 to ₹ 16,787,363 lakh in 2017-18. The proportion of developmental expenditure to the revenue expenditure ranges from ₹ 407,906 lakh to ₹ 9,595,254, whereas the non-developmental expenditure ranges from ₹ 1,45,380 to ₹ 60,45,070 lakh and grants-in-aid & contributions ranges from ₹ 10,842 to ₹ 1,147,039 lakh [3]. The growth rate of revenue expenditure which registered 19.2 per cent in 1990-91 declined to 9.6 per cent in 2017-18. Of the total revenue expenditure, developmental expenditure accounts for 58 per cent, non-developmental expenditure 35 per cent and grants-in-aids and contribution at 7 per cent on an average.

Table 1: Trends in Revenue Receipts of Tamil Nadu

(₹ in Lakh)

Year	Tax Revenue	Share % in Revenue Receipts	Non-Tax Revenue	Share % in Revenue Receipts	Revenue Receipts	Growth Rate
1990-91	412,698	81.1	96,091	18.9	508,789	19.7
1991-92	492,358	72.7	185,208	27.3	677,566	33.2
1992-93	558,174	79.6	143,459	20.4	701,633	3.6
1993-94	635,399	78.8	171,216	21.2	806,615	15.0
1994-95	756,916	82.1	165,024	17.9	921,940	14.3
1995-96	895,679	84.5	164,246	15.5	1,059,925	15.0
1996-97	1,014,895	84.8	181,233	15.2	1,196,128	12.9
1997-98	1,141,394	84.0	217,301	16.0	1,358,695	13.6
1998-99	1,203,428	84.4	222,655	15.6	1,426,083	5.0
1999-00	1,358,593	83.2	274,160	16.8	1,632,753	14.5
2000-01	1,506,600	82.3	325,067	17.7	1,831,667	12.2
2001-02	1,587,977	84.4	293,826	15.6	1,881,803	2.7
2002-03	1,738,929	83.5	344,746	16.5	2,083,675	10.7
2003-04	1,948,917	82.2	421,654	17.8	2,370,571	13.8
2004-05	2,359,344	82.9	485,810	17.1	2,845,154	20.0
2005-06	2,833,876	83.4	562,123	16.6	3,395,999	19.4
2006-07	3,416,501	83.5	674,822	16.5	4,091,323	20.5
2007-08	3,768,438	79.3	983,612	20.7	4,752,050	16.1
2008-09	4,219,517	76.7	1,284,734	23.3	5,504,251	15.8
2009-10	4,530,286	81.1	1,054,127	18.9	5,584,413	1.5
2010-11	5,869,615	83.6	1,149,146	16.4	7,018,761	25.7
2011-12	7,223,226	84.8	1,296,988	15.2	8,520,214	21.4
2012-13	8,577,396	86.8	1,305,374	13.2	9,882,770	16.0
2013-14	8,957,086	82.9	1,846,556	17.1	10,803,642	9.3
2014-15	9,548,057	78.0	2,693,987	22.0	12,242,044	13.3
2015-16	10,082,994	78.2	2,817,793	21.8	12,900,787	5.4
2016-17	11,047,917	78.8	2,975,196	21.2	14,023,113	8.7
2017-18	12,083,631	82.6	2,544,344	17.4	14,627,975	4.3

Source: Financial Accounts of Tamil Nadu

Table 2: Trend in Tax Revenue of Tamil Nadu*(• in Lakh)*

Year	State's Own Tax Revenue	Share % in Tax Revenue	Share in Central Taxes	Share % in Tax Revenue	Tax Revenue	Growth Rate
1990-91	312,406	75.7	100,292	24.3	412,698	20.1
1991-92	373,411	75.8	118,947	24.2	492,358	19.3
1992-93	416,206	74.6	141,968	25.4	558,174	13.4
1993-94	480,138	75.6	155,261	24.4	635,399	13.8
1994-95	583,376	77.1	173,540	22.9	756,916	19.1
1995-96	715,120	79.8	180,559	20.2	895,679	18.3
1996-97	798,345	78.7	216,550	21.3	1,014,895	13.3
1997-98	868,564	76.1	272,830	23.9	1,141,394	12.5
1998-99	962,530	80.0	240,898	20.0	1,203,428	5.4
1999-00	1,091,893	80.4	266,700	19.6	1,358,593	12.9
2000-01	1,228,225	81.5	278,375	18.5	1,506,600	10.9
2001-02	1,308,235	82.4	279,742	17.6	1,587,977	5.4
2002-03	1,443,822	83.0	295,107	17.0	1,738,929	9.5
2003-04	1,609,217	82.6	339,700	17.4	1,948,917	12.1
2004-05	1,957,982	83.0	401,362	17.0	2,359,344	21.1
2005-06	2,369,520	83.6	464,356	16.4	2,833,876	20.1
2006-07	2,838,407	83.1	578,094	16.9	3,416,501	20.6
2007-08	3,042,404	80.7	726,034	19.3	3,768,438	10.3
2008-09	3,460,332	82.0	759,185	18.0	4,219,517	12.0
2009-10	3,747,110	82.7	783,176	17.3	4,530,286	7.4
2010-11	4,887,036	83.3	982,579	16.7	5,869,615	29.6
2011-12	5,951,731	82.4	1,271,495	17.6	7,223,226	23.1
2012-13	7,125,428	83.1	1,451,969	16.9	8,577,396	18.7
2013-14	7,371,810	82.3	1,585,276	17.7	8,957,086	4.4
2014-15	7,865,654	82.4	1,682,403	17.6	9,548,057	6.6
2015-16	8,049,456	79.8	2,033,538	20.2	10,082,994	5.6
2016-17	8,594,140	77.8	2,453,777	22.2	11,047,917	9.6
2017-18	9,685,509	80.2	2,398,122	19.8	12,083,631	9.4

Source: Financial Accounts of Tamil Nadu

Table 3: Trend in Non-Tax Revenue of Tamil Nadu*(• in Lakh)*

Year	State's Own Non-Tax Revenue	Share % in Non-Tax Revenue	Grants-in-Aid	Share % in Non-Tax Revenue	Non-Tax Revenue	Growth Rate
1990-91	38,148	39.7	57,943	60.3	96,091	17.9
1991-92	111,846	60.4	73,359	39.6	185,208	92.7
1992-93	61,279	42.7	82,179	57.3	143,459	-22.5
1993-94	70,387	41.1	100,827	58.9	171,216	19.3
1994-95	77,266	46.8	87,758	53.2	165,024	-3.6
1995-96	85,845	52.3	78,400	47.7	164,246	-0.5
1996-97	88,545	48.9	92,688	51.1	181,233	10.3
1997-98	112,187	51.6	105,114	48.4	217,301	19.9
1998-99	115,669	51.9	106,985	48.0	222,655	2.5
1999-00	135,682	49.5	138,475	50.5	274,160	23.1
2000-01	171,078	52.6	153,989	47.4	325,067	18.6
2001-02	155,672	53.0	138,154	47.0	293,826	-9.6
2002-03	186,061	54.0	158,684	46.0	344,746	17.3
2003-04	209,379	49.7	212,275	50.3	421,654	22.3
2004-05	220,835	45.5	264,975	54.5	485,810	15.2
2005-06	260,076	46.3	302,047	53.7	562,123	15.7
2006-07	342,257	50.7	332,565	49.3	674,822	20.0
2007-08	330,436	33.6	653,177	66.4	983,612	45.8
2008-09	571,220	44.5	713,501	55.5	1,284,734	30.6
2009-10	502,701	47.7	551,422	52.3	1,054,127	-17.9
2010-11	465,144	40.5	684,002	59.5	1,149,146	9.0
2011-12	568,357	43.8	728,631	56.2	1,296,988	12.9
2012-13	655,426	50.2	649,948	49.8	1,305,374	0.6
2013-14	934,328	50.6	912,228	49.4	1,846,556	41.5
2014-15	835,059	31.0	1,858,927	69.0	2,693,987	45.9
2015-16	891,830	31.6	1,925,962	68.4	2,817,793	4.6
2016-17	991,375	33.3	1,983,820	66.7	2,975,196	5.6
2017-18	1,076,399	42.3	1,467,943	57.7	2,544,344	-14.5

Source: Financial Accounts of Tamil Nadu

Table 4: Trend in Revenue Expenditure of Tamil Nadu

▪ *in Lakh*

Year	Developmental Expenditure	Non-Developmental Expenditure	Grants-in-Aid and Contributions	Revenue Expenditure	Growth Rate
1990-91	407,906	1,45,380	10,842	563,822	19.2
1991-92	676,404	1,71,748	19,800	867,952	53.9
1992-93	624,396	2,00,678	29,178	854,253	-1.6
1993-94	615,847	2,46,956	12,998	875,801	2.5
1994-95	663,618	2,86,559	13,324	963,495	10.0
1995-96	728,985	3,40,824	21,247	1,091,057	13.2
1996-97	863,713	4,09,551	33,223	1,306,488	19.7
1997-98	944,852	4,67,205	83,027	1,495,085	14.4
1998-99	1,078,266	5,87,977	103,498	1,760,804	18.4
1999-00	1,193,462	7,74,313	102,507	2,072,783	17.0
2000-01	1,242,023	8,35,371	97,851	2,175,244	5.1
2001-02	1,191,944	8,92,096	71,657	2,155,697	-0.9
2002-03	1,423,566	9,89,491	155,712	2,568,770	19.2
2003-04	1,320,518	1,058,910	147,667	2,527,095	-1.6
2004-05	1,513,682	1,205,827	195,977	2,915,487	15.4
2005-06	1,708,891	1,289,090	202,886	3,200,866	9.8
2006-07	2,082,309	1,499,485	244,701	3,826,497	19.5
2007-08	2,349,693	1,612,879	334,930	4,297,502	12.3
2008-09	3,103,281	1,857,770	397,975	5,359,026	24.7
2009-10	3,507,941	2,029,653	399,941	5,937,535	10.8
2010-11	4,113,151	2,592,343	586,137	7,291,631	22.8
2011-12	4,740,384	2,894,119	749,301	7,668,642	15.0
2012-13	5,625,124	3,165,212	916,408	9,706,744	15.8
2013-14	6,492,035	3,572,924	917,508	10,982,467	13.1
2014-15	7,719,245	4,165,519	998,036	12,882,800	17.3
2015-16	8,474,958	45,51,189	1,073,176	14,099,323	9.4
2016-17	8,927,697	51,45,272	1,246,557	15,319,526	8.7
2017-18	9,595,254	60,45,070	1,147,039	16,787,363	9.6

Source: Financial Accounts of Tamil Nadu

Table 5: Trend in Fiscal Position of Tamil Nadu

• in Lakh

Year	Revenue Receipt	Revenue Expenditure	Revenue Surplus/ Deficit
1990-91	508,789	563,822	-55,033
1991-92	677,566	867,952	-1,90,386
1992-93	701,633	854,253	-1,52,620
1993-94	806,615	875,801	-69,186
1994-95	921,940	963,495	-41,555
1995-96	1,059,925	1,091,057	-31,132
1996-97	1,196,128	1,306,488	-1,10,360
1997-98	1,358,695	1,495,085	-1,36,390
1998-99	1,426,083	1,760,804	-3,34,721
1999-00	1,632,753	2,072,783	-4,40,030
2000-01	1,831,667	2,175,244	-3,43,577
2001-02	1,881,803	2,155,697	-2,73,894
2002-03	2,083,675	2,568,770	-4,85,095
2003-04	2,370,571	2,527,095	-1,56,524
2004-05	2,845,154	2,915,487	-70,333
2005-06	3,395,999	3,200,866	1,95,133
2006-07	4,091,323	3,826,497	2,64,826
2007-08	4,752,050	4,297,502	4,54,548
2008-09	5,504,251	5,359,026	1,45,225
2009-10	5,584,413	5,937,535	-3,53,122
2010-11	7,018,761	7,291,631	-2,72,870
2011-12	8,520,214	7,668,642	8,51,572
2012-13	9,882,770	9,706,744	1,76,026
2013-14	10,803,642	10,982,467	-1,78,825
2014-15	12,242,044	12,882,800	-6,40,756
2015-16	12,900,787	14,099,323	-11,98,536
2016-17	14,023,113	15,319,526	-12,96,413
2017-18	14,627,975	16,787,363	-21,59,388

Source: Financial Accounts of Tamil Nadu

Table 5 shows the trends in fiscal health position of Tamil Nadu for the period 1990-91 to 2017-18. Except during 2005-06 to 2008-09 and 2011-12 to 2012-13, the State was able to maintain only revenue deficit during the period of study.

Findings and Conclusion

The study sought to explore the trend in fiscal finance of the State Tamil Nadu during the period 1990-91 to 2017-18. Some of the important observations made from the above analysis are: growth rate of revenue receipt, tax revenue, non-tax revenue and revenue expenditure which was 19.7 per cent, 20 per cent, 18 per cent and 19.2 per cent in 1990-91 declined to 4.3 per cent, 9.4 per cent, 14.5 per cent and 9.6 per cent in 2017-18 respectively. Except during 2005-06 to 2008-09 and 2011-12 to 2012-13, the State was able to maintain only revenue deficit during the period of study.

The order to put the finances of the State back on the rails, apart from revenue-side measures, the State government should undertake some substantial or even radical reform measures. Although the State Government have been undertaking fiscal consolidation measures by way of reducing their revenue deficits/ maintaining revenue surplus and maintaining their fiscal deficit within the stipulated norms, while also undertaking higher expenditure towards capital asset creation. However, the links between revenue balance and fiscal deficit is clear on the debt levels which in turn affect the ability to spend on capex. The sustainability of the fiscal profile of the States would be contingent on the revenue generation ability and control of non-developmental expenditure by the State. In terms of revenues, the GST compensation from the centre would be a significant contributor and any shortfalls in the same could have adverse implication for the State. Also, any increase in revenue expenditure viz. social expenditure could upset the fiscal math of the State, all of which could lead to lower capital expenditure which would constraint the future growth potential of the State.

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