



It is about time for Punjab to get out of its financial quagmire. We are transferring our own liabilities to the unborn generations, which is not right.

Harjap Singh Aujla

Punjab's economy presents two distinct faces, which are not in conformity with each other. On one hand, the economy of the present Punjab Government presents a very bleak and grim spectacle. On the other hand, the economy of the people that live within the state, due to the accumulation of black and white wealth, presents an extremely rosy scenario. A large segment of the inhabitants of today's materialistic Punjab is vibrant, upbeat and exhibits extraordinary flamboyance. Just look at the weddings in some of the rich families of the state, there are hundreds of dishes served to the guests. Most of the food goes waste. The left overs of food are not served to the poor. This is not without the existence of actual hidden or declared wealth to support such tendencies. No where in this World, such a show of wealth can go on without the backing of actual resources.

The state government due to its own actions of omission and commission is surprisingly reeling under a colossal debt of at least 61000 crores of rupees. This meter of debt is running at breakneck speed, showing no signs of slowing down. The successive democratically elected governments, instead of worrying about the symptoms of a grim fiscal crisis and trying to reverse this suicidal trend, are acting like spectators completely unperturbed and naive to the aggravating economic crisis. As a one year or two year event, small budgetary deficits can be totally understandable, but persisting with unashamed accruing of heavy debts year after year amounts to an unacceptable fiscal behavior in any society.

As far as the people of Punjab are concerned, they on an average are spending more money on consumer items than their counterparts in the rest of India. Where as, an average household in rest of India is spending between 50 and 55% of their

monthly income on consumer items, in Punjab the spendthrift people are spending in excess of 60%. The figures for Jalandhar are still higher about 80%. That means that in real terms, the Punjabis earn more income than what they disclose or for which they are paying taxes to the state government.

Compared to the Punjab Government, the central government is extracting a higher share of taxes from the well to do Punjabis. The tax collection records of the central government's two chief commissioners of income tax at Ludhiana and Amritsar is more impressive that that of Punjab's VAT collection officials. The central government is tough in collecting its dues and Punjab is unfortunately not.

If the Punjab government earns less money, or it does not have the will to collect more revenue, in such a case it should be prepared to slash its expenditures too. That is what the successive elected governments have been unprepared to do. Every day new development



Punjab's Economy Plunging Downhill

Vulgar display of wealth and depressing faces of Punjab's economy



schemes are launched, without having a look at the availability of funds. Some of the works don't proceed beyond the stage of laying of the foundation stones, others are stopped at the foundation level. Some other works remain half built. Abandoning unfinished projects has the worst effect on the economy of the state. Such unfinished projects are neither useful to the public, nor they generate any revenue for the expending authority.

Punjab of today suffers from non existence of a well meaning tax policy. We have hardly a significant house tax or property tax. Tax collection regime is quite bad in urban areas, but in rural areas no one rich or not so rich pays any tax at all to the state government. Water supply charges are much less than the cost of providing potable water to the people in rural and urban Punjab alike. Very few people pay sewer tax in Punjab. Sewerage systems are the most expensive civic amenities to build in older built up areas, but there is hardly any realization of

tax revenue from the already laid sewerage lines in any city of Punjab. Octroi duty, first introduced by the British, has been one of the oldest civic body taxes in urban Punjab. For more than half a century this tax has been a major source of revenue for Punjab's municipal governments. But a few years ago, with one stroke of pen, the Shiromani Akali Dal led Punjab Government abolished it entirely. Again, as a non thinking regime, this big step was taken without making any arrangement to compensate the municipal bodies for their losses.

After coming to power in 2007, the present government abolished the stamp duty on transfer of land within the family members. This move may have become very popular with the landed aristocracy, but it resulted in annual revenue loss worth hundreds of crores of rupees.

Auction of liquor vends is one of the biggest sources of Punjab state's income. Since consumption of liquor is increasing every year in the land of the ten gurus and a host of holy peers and faqirs, there should be a proportionate increase in liquor revenue for the state. But the government adopted a policy of allotting the liquor vends by drawing of lots



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rather than by conducting nationally advertised open auctions. This policy of allotting the liquor vends after draw of lots has resulted in loss of revenue worth hundreds of crores.

The cinema industry in Punjab was experiencing financial strain and they wanted some kind of tax relief. Instead of reducing the entertainment tax gradually to 75% or 50%, the Punjab Government abolished it totally.

Everybody knows that a lot of money was spent to build the irrigation canals in the state. These canals at one time used to be the backbone of Punjab's lifeline agrarian economy. We all know that a substantial amount of money is required each year to maintain the canal system, but the Punjab Government, in order to please the influential landlord lobby, abolished irrigation charges altogether.

Often the present leadership of Punjab, during the course of joint center state meetings, has been pleading for transferring its powers of taxation to the states. Everyone, who has the knowledge of the working of Punjab Government, should laugh at such pleadings. A state which has squandered its own legitimate sources of revenue by offering freebies to its well to do population on the eve of every election, where is the guarantee that the same government will not squander away the newly transferred power of taxation. As long as the center is collecting the taxes, Punjab is getting its share based on the formula of sharing of federally collected taxes. The Punjab's fiscal situation will be a lot worse, if the present leadership or a similar one in future collects the centrally collected taxes.

Punjab's public sector transport undertakings, the Punjab Roadways and the Pepsu Road Transport Corporation have been losing money, some due to the strong arm tactics of some influential private

transporters and some due to misplaced fiscal policies of the present government. The government should have taken cost cutting and corruption reducing steps to make these bodies profitable. But it has recently taken steps to further increase the mounting losses. Recently a lot of air-conditioned buses have been inducted into the fleets of both these undertakings, but the fare for the air-conditioned coaches has been fixed only 10% higher than the economy class fare. Every one knows that the cost of running an air-conditioned bus is much higher than that of an ordinary coach. Just have a look at how much higher fare the Indian Railways are charging from the travelers in the air-conditioned category. The air-conditioned bus fares in Punjab should be at least doubled in comparison to the ordinary class.

Punjab Government has thousands of acres of agricultural land, which is under the possession of some peasants and some big landlords. Now the government wants to give ownership rights of this land to the tillers and the big landlords. But the government wants to charge only a nominal fee from the poor and the rich alike. Punjab should first see if this land can be sold at market rates for SEZs or other mega projects, after that the land should be mutated in the name of tillers by charging marginally lower prices than the market rate.

The practice of laying foundation stones and opening ceremony stones is also proving very expensive. Considering one day's gross salary of the all the police personnel and other civil servants that accompany the chief minister or the deputy chief minister, the one day cost of the vehicles in the cavalcade, the cost of consumed petrol, these costs often exceed the total cost of the project.

In advanced countries, the foundation stones are restricted to only a few nationally important projects. In Punjab some projects with beautifully carved stones in place do not see the light of the day due to shortage of funds and some projects fall prey to the official policies of vendetta after change of governments. Generally the priorities of the new government are not the same as those of its predecessors. Because of this the money spent on abandoned projects is wasted. In the western countries most projects are allowed to be completed.

The U.S. Federal Government gives financial aid to the states for expensive infrastructure projects such as highways, dams and bridges. No foundation stone is laid for projects even worth millions of dollars. Only one painted metal board is displayed at an appropriate place, which mentions the amount of federal assistance and the state's share. The name of the governor is written on the board along with the name of concerned commissioner and director of the executing division. No other name finds mention on the board. The project once started is continued until it is commissioned.

In America, the state governments are mandated to have balanced budgets. If during one particular year some extra money has been spent, in the next year it will spend that many less dollars. This makes the states more responsible. There is no scope for populist freebies in American state administrations.

If during the eight year long Presidency of Ronald Reagan, America ran a record fiscal deficit, then during the last year of the eight year long Presidency of Bill Clinton, the Reagan generated fiscal deficit was completely wiped out and America's federal budget showed a small surplus.

Coming back to Punjab, what the present Government is experiencing at the macro level, the Punjab State Electricity Board is experiencing at a slightly smaller level. On paper, the

Punjab State Electricity Board is an autonomous board to run the affairs of electric power generation and supply in the state, but in actuality its chairman and the other members are completely under the control of the Punjab Government. As a truly autonomous body, the power board should be allowed to determine what price per unit it has to charge from its customers to stay profitable. But the low rates are being dictated by the Punjab Government. The Punjab Government also forces the electricity board to supply long hours of free power to certain groups which the government wants to help for electoral gains. For the healthy growth of the electricity board, the annual profit should be at least 5% and preferably 10%. Such a profit can be used as the down payment to obtain loans from the lending agencies for augmenting generation for future.

By now there is a loan of 13000 crores of rupees on the Punjab State Electricity Board. Such a massive debt makes it impossible for the



The Punjab Government's finances are in a mess. At the same time there is plenty of legitimate and illegitimate wealth with its politicians, bureaucrats and the influential people. The Punjab Government does not have the will power to tax its favored creamy layer and the wealthy people want to keep extending the span of their tax holidays as long and wide as they can stretch.

state board to arrange financing for meeting the costs of additional power generation, distribution and maintenance of the infrastructure. That is one of the main reasons why Punjab Government wants to get additional electricity generated from private companies. But these companies are not charity organizations. They have to meet their costs, earn some bonus and fringe benefits for the stake holder biggies and set aside some dividend for their share holders. That is why in spite of recently concluded agreements, it will be impossible to obtain electricity from the private companies at rates less than rupees 3 per unit. If coerced to reduce rates, these companies will declare bankruptcy and abandon the projects.

The financial vows of the Punjab State Electricity Board are much deeper than what meets the eye. The Punjab State Electricity Regulatory Commission has the authority to direct the state government to compensate the electricity board for the amount it loses as a result of distribution of free power. On paper that is true, but in actual scenario the Punjab Government invariably fails to release this requisite amount in total. In order to make some money on the side, the board resorts to selling its surplus power during the winter months, when the demand within

the state is low. Let us face the fact that the total electric power available from all domestic sources in Punjab, ranges between 6000 and 7000 megawatts. During the winter months, when there is no demand from the air-conditioners and the tube-wells also do not run crazy like they do during the paddy season, the statewide demand falls below 6000 megawatts. That means that during the winter months, Punjab should not suffer from any power cuts. But surprisingly long hours of power cuts are still being enforced under the present regime. By cutting power supply to its own bill paying consumers, the board ends up saving some electricity which it sells at higher prices to other states. In the process the board earns some money on the side. Ethically this is an unacceptable practice, but the government allows it because it can not compensate the board for the free power it is giving to some vote-banks. It was expected that when the parliamentary elections were to be held in April - May of 2009, efforts will be made to make sure that there is no shortage of electricity in the state. That prophecy came out to be true. Power was purchased at higher