ORISSA ECONOMIC JOURNAL

Volume IV **Number One**

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ORISSA ECONOMIC ASSOCIATION
BHUBANESWAR

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ADDRESS OF WELCOME

By

Dr. Bidyadhar Misra

Professor and Head of the Department of Rural Economics, Sociology and Applied Economics, Utkal University and Chairman of the Reception Committee

Mr. President, Mr. Vice-Chancellor, Members of the Orissa Economics Association, Ladies and Gentlemen.

I consider it a great honour and privilege to welcome you all on behalf of the Reception Committee to this Fourth Annual Conference of the Orissa Economics Association. The Association was formed in 1968 with the objectives—(a) to organize discussions on various economic problems, (b) to improve the standard of teaching of economics in the various colleges of the State, (c) to stimulate research in the subject with special reference to the economic problems of Orissa. To achieve these objectives, the Association is holding an Annual Conference every year and publishing a bi-annual journal namely, the Orissa Economic Journal. We are happy that the Association has accepted our invitation and is holding its Fourth Annual Conference this year here at Vani Vihar, the seat of the oldest University of the State. In the University Campus, we have a teaching and research department in Economics, the Department of Rural Economics, Sociology and Applied Economics which is teaching various branches of economics and conducting research on various economic problems for the last fifteen years. Its teaching and research staff are contributing papers and taking part in the deliberations of the Association every year. We are all very painfully aware that Orissa in spite of its rich resources is the most undeveloped State in India. During the last twenty years of planning, our rate of growth has been much slower than that of other States in India. The Orissa Economics Association was formed with high hopes to assist in the process of economic development by finding out facts by research and by associating itself in policy making. But so far the Government of Orissa has not entrusted any research work to the Association nor has given it any scope to associate itself in policy making. Let us hope that in the coming years, the Government and the private sector will realize the importance of an association like this in furnishing technical knowledge for the development of the State and will extend their patronage for strengthening this organization.

This year the Conference is going to discuss two important subjects namely, (1) Resource mobilisation for economic development of Orissa, (2) Credit needs of the farmers of Orissa. We hope the discussion of the subjects will be fruitful and useful. We are happy that the deliberations of the Conference this year will be done under the Chairmanship of Dr. Baidyanath Misra, a reputed scholar and teacher in economics. We feel greatly encouraged by the presence of the Vice-Chancellor who is the President of the Indian Economics Association this year, in our midst. We are grateful to him for agreeing to inaugurate the Conference. I do not intend to take your time any further. On behalf of the Reception Committee I welcome you all to the Conference.

REPORT OF THE SECRETARY
ORISSA ECONOMICS ASSOCIATION, 1971.

Dr. S. C. PATNAIK,
Secretary

Mr. President, Chairman, Reception Committee, Vice-Chancellor, Dr. S. Misra fellow delegates, Ladies and Gentlemen.

I have great pleasure in welcoming you all to the Fourth Annual Conference of the Orissa Economics Association. We are indeed very grateful to Dr. S . Misra, Vice-Chancellor of the Utkal University for having accepted our invitation to inaugurate the Conference. Dr. Misra was the founder President of the Association. It is needless to say that he is an eminent economist and educationist of the State. He has always encouraged us by his intimate connection with this Association. We take this opportunity to congratulate him for being elected as the President of the Indian Economic Association. It is more an honour to this Association and the State than to him. We are also grateful to Dr. Bidyadhar Misra, Professor of Rural Economics of the Utkal University and his colleagues for taking all the troubles in arranging this conference at Vani Vihar at short notice.

When we organised our first conference at Cuttack in 1968, our primary objective was to develop a sort of intellectual understanding among the professional economists, through an annual gathering by providing them an opportunity for the exchange of view on certain current economic problems of the State. For this purpose we have been organising annual conferences and publishing a bi-annual Journal which is largely devoted to the discussion of current economic problems of the State. With the passing of years as we gather more and more experience and when more and more people are interested in our Association, we feel inclined to expand our activities by organising more seminars on current economic topics which are of great interest to the State. But so far we have not been able to proceed in that direction, mainly on account of paucity of funds. Last year the Government of Orissa were kind enough to have provided, us a grant of Rs. 4,000|- for organising the annual conference and for the publication of the Association's Journal. However, for 1970-71 the Government grant has not so far been received and unless the grant is received soon, it may be difficult for us to continue the publications of the Journal.

There are many academic associations in the State. But we feel ours is different from others as it has a special role to play in the economic development of the State. Therefore, we take this opportunity to appeal to the Government of Orissa, different Universities of the State and other bodies to appreciate our special position and provide us with their full support and liberal financial assistance, so that the Association will be able to play its role more effectively in a manner which will be in the best interest of the rapid economic development of the state.

A special feature of the activities of the Association this year is that more students and persons beyond the academic circle have shown interest in our activities by enrolling themselves as members. We hope, in the years to come more and more people connected with banking, co-operatives, industries and different Government departments concerned with the economic development of the state will be interested in us by enrolling themselves as associate members.

We are a group of professional economists who sincerely believe that we cannot either do justice to our profession or to the state by simply remaining confined to the class-room abstract teaching. We feel great concern for the growing unemployment and poverty of the people of the State. It is very unfortunate that Orissa still remains one of the most backward states of India, in spite of its vast potential resources. There may be many factors which account for its retarded development. But the largest single factor which account for our very slow economic progress is the total dependence of decision-making process on the bureaucratic machinery of the state, which is very much divorced from the realities of our social and economic life. The bureaucracy often displays utter lack of understanding of the aspirations of the people and formulates plans in an unrealistic manner and implements them without any sense of involvement. Bureaucracy, as it exists today, is very much inadequate by the training, attitude and in its way of working to meet the challenges of a developing economy. A machinery which was devised for the limited purpose, of maintaining law and order and for discharging a few simple and routine functions of a 19th century or early 20th century state finds itself very much inadequate to understand and cope with the complex task of economic development. Policy decision is often divorced from the realities because of its total dependence on such an outdated machinery.

The active participation of professional groups and specialists in the decision-making process has become all the more imperative today than at any other time; because of the growing complexities of social and economic life and the mechanism of change. This is exactly the field, where we plead for our active participation, in the best interest of the state.

We have plenty of resources and there is no dearth of talents amongst us. What is necessary is to combine both the factors to usher in a new era of economic prosperity for this State. As a professional group we should try to impress it upon the new Government and take initiative in this regard.

There are two ways in which the Association can take initiative to begin with. Firstly, there should be greater integration between the study of economics in the class-room and the economic development of the State. Regional economics in its applied form should find a definite place in the curriculum. Greater opportunity should be provided for undertaking different project studies and there should be greater participation of the students as a part of their curriculum.Secondly, opportunity should be provided to the economists to participate in various decision making process relating to economic development, formulation of the plans, their implementation and evaluation.

In this regard, I would like to suggest two preliminary steps for streamline planning in our State. Firstly, the planning Board at the State level should be revived and it should be recognised with greater participation of this professional group, so that it would be possible to have a fresh look into theplanning and its implementation in the State. Secondly, a Resource Mobilisation Committee with greater representation of this professional body should be set up to have a fresh and objective look at our resource position for implementing the plans.

I do not like to elaborate more on this point. I earnestly hope to have support and encouragement from this learned gathering, our elders and the new and emerging leadership of the State in our humble and noble effort to participate in realistic manner in the decision-making process, plan formulation, project study and in their proper evaluation. I hope that this Association will have its rightful place in actively assisting the Government in bringing about the desired economic and social changes in the State.

I do not like to delay you any more. I would like to thank the members of the Executive Committee, its President and the members of the Association and the editors of the Journal for their encouraging co-operation. I will be failing in my duty if I do not record my gratitude to Shri B. B. Acharya, Head of the Department of Commerce, Ravenshaw College for auditing the accounts of the Association for the current year. Last but not the least, I thank you ladies and gentlemen, for your kind presence and co-operation.

PRESIDENTIAL ADDRESS

ECONOMIC POLICY IN THE '70s.

DR. BAIDYANATH MISRA,

Orissa University of Agriculture & Technology, Bhubaneswar.

I express my sincere thanks to you for inviting me to preside at the conference. I propose to discuss the economic policy of the coming decade. The present situation is frightening. We have at present colossal poverty, acute unemployment and considerable economic disparity. Even today, after two decades of planning, almost two out of every three eke out marginal existence and struggle against hunger, poverty, ignorance and chronic ill-health. On the basis of minimum nutritional requirements of food (i.e. about 2250 calories per capita per day), a per capita expenditure of Rs. 324 per annum or Rs. 27 per month in rural areas and a per capita expenditure of Rs. 486 per annum or Rs. 40.50 per month in urban areas are regarded the nationally desirable minimum level of consumer expenditure in 1968-69 prices. Considered on this basis, about 40 per cent of the rural population and about 50 per cent of the urban population lived below the desirable minimum in 1968-69.[1] This shows that a vast majority of the people live on diets which are inadequate even in respect of calories.

I do not mean to say that there has been no development in India during the last 20 years. The economic base of India has been considerably improved. There are also strong developmental impulses within it like the increase in productive capacity of the industrial sector which could move the country rapidly forward. India is no longer a backward country, but the majority of people are still exceedingly poor. It is because of the fact that the gains of development have not been equitably distributed. A comparison between the per capita consumption of upper and lower income groups during 1960-61 and 1968-69 will throw sufficient light regarding the magnitude of the problem.

For example in 1960-61, per capita private consumer expenditure amounted to Rs. 276.3 per annum or 75.7 paise per day per person. When consumption expenditure of rural and urban areas is taken into account, it is

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(1) Poverty in India : Dimensions and Trends, Economic & Political Weekly, Vol. VI, No. I, January 2, 1971.

found that the per capita private consumer expenditure of the rural population (constituting 356 million) was Rs. 261.2 while that of the urban population (constituting 78 million) was Rs. 359.2 per annum. These low average consumption expenditures do not also indicate the magnitude of the problem During the same year, the per capita per annum consumer expenditure of the poorest 5 per cent of the rural population was only Rs. 75.6 and of the next 5 per cent was Rs. 100.4. On the other hand, the per capita per annum consumer expenditure of the richest 5 per cent of rural areas was Rs. 870.6 and of the next 5 per cent was Rs. 493.3. In 1967-68 for which figures are available, per capita annual consumer expenditure of the poorest 5 per cent at 1960-61 prices came to Rs. 74.8 and of the next 5 per cent to Rs. 102.0. In contrast, per capita annual consumer expenditure of the top 5 per cent came to Rs. 908.6 and of the next 5 per cent to Rs. 514.8 at 1960-61 prices. This shows that the benefits of economic development have accrued to the upper class group of the rural population.

In case of urban population, the situation is still worse. In 1960-61, the per capita annual consumer expenditure of the bottom 5 per cent was Rs. 96.2 and of the next 5 per cent was Rs. 129.7. In contrast the per capita consumption expenditure of the top 5 per cent was Rs. 1,268.8 and of the next 5 per cent was Rs. 753.4. In 1967-68, per capita consumption at 1960-61 prices came to Rs. 78.2 for the poorest 5 per cent and Rs. 112.4 for the next 5 per cent. Therefore the economic well-being of the poorest 10 per cent deteriorated during the second decade of planning. On the other hand, the per capita consumption of the richest 5 per cent at 1960-61 prices increased to Rs. 1330.0 and of the next 5 per cent to Rs. 789.8. These figures not only indicate the extent of inequality in the country, they also show that the gains of development have remained largely confined to the upper class people both in rural and urban areas.

Another problemwhich has been agitating the minds of the people is unemployment. Though rational methods have not been devised to estimate the volume of unemployment, it is estimated that the number of unemployed at the beginning of the Second Five Year Plan was about 5 millions which grew to about 9 millions by the beginning of the Third Plan. It was thought that, even if the third plan targets were fully achieved—which was not the case—the pool of unemployed would grow into 12 millions by the beginning of the Fourth Plan, which again, has had a delayed start. It is now estimated that total unemploymentin the country has reached the figures of about 20 millions. If unemployment is assumed to be confined to non-agricultural workers, about 27 per cent of the same seem to be unemployed.

It is not possible to make an estimate of the existence of surplus labour or disguised unemployment in agriculture. The magnitude of surplus labour would depend upon the definition of disguised unemployment for which there is a great deal of controversy.(2) If the simplest procedure is followed which involves detailed surveys of agricultural output and occupation at the village level, with a view to finding out whether, with unchanged agricultural techniques, and taking full account of the seasonal peaks in demand for labour during harvesting seasons, there exists an excess of labour availability over labour requirements, surplus labour would vary from region to region. However, if on an average surplus labour amounts only to 10 to 15 per cent of the agricultural workers, the number would not be less than 20 million. This shows that the size of unemployment both among non-agricultural and agricultural workers would come to about 40 million out of a total working force of about 240 million.

This is the background on the framework of which we have to formulate policies and programmes of activities for the next decade. The long-term projections of the Fourth Five Year Plan envisages doubling of the national income in the 12 years from 1968-69 to 1980-81. This projection depends on several assumptions. One is that the national income will increase at 5.5 per cent per annum during the Fourth Plan and 6.2 per cent per annum for seven years thereafter. Second, the rate of population growth which is at present 2.5 per cent per annum is expected to come down to 2.4 by the end of the Fourth Plan and thereafter to 107 per cent per annum in 1980-81. Third, the capital output ratio would be 2.0 during the period of the Fourth Plan and 2.4 for the subsequent seven years of the coming decade. On the basis of these assumptions, the Planning Commission proposes to raise the ratio of net investment to net national product from a level of 10.8 per cent in 1968-69 to 14.5 per cent in 1973-74 to 17-18 per cent by 1980-81. Assuming that all the projections come true, what would be the impact of the doubling of income on the economic well-being of the people?

With an estimated 31 per cent increase in population a doubling of national income will increase per capita national income by 53 per cent, from Rs. 552 in 1968-69 to Rs. 844 in 1980-81 at 1968-69 prices. The per capita private consumption will increase by 42 per cent, from Rs. 488

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(2) See Contributions to Indian Economic Analysis: A Survey, by Jagadish N. Bhagawati and Sukhamay Chakravarty, The American Economic Review, Vol. LIX, No. 4, Part 2, September, 1969, Supplement, pp. 54-60.

to Rs. 693 at 1968-69 prices. But this will not materially improve the economic condition of a sizeable section of the people. As the official projection shows the poorest 10 per cent are outside the stream of economic activity and therefore their income and living standards cannot be expected to rise with the growth of the economy in the absence of special assistance. The second poorest 10 per cent would have a per capita consumption level (valued at 1968-69 prices) of about Rs. 320 per annum or about Rs. 27 per month by the end of the period. This would be equivalent to the consumption level of Rs. 15 per month in terms of 1960-61 prices which is appreciably below Rs. 20 per month per capita, which was deemed a minimum desirable consumption standard.(3)

If the economy progresses according to plan perspective, Dandekar and Rath estimate that by the end of 1980-81, a little under 30 per cent of the rural population and a little under 45 per cent of the urban population would have living standards below the minimum (in terms of calories) of Rs. 324 per capita per annum for rural areas and Rs. 486 per capita per annum for urban areas in terms of 1968-69 prices. The Planning Commission's estimates are not materially different from this. If this is the perspective for the coming decade, those who are committed to planning would probably carefully ponder over the matter and give alternative suggestions for improving the economy so as to provide at least the minimum consumption standard for all the sections of the community in terms of calories by the end of the decade.

The first policy change we need in this case is the change in planning techniques. In India, planners overemphasise macroeconomic planning and neglect detailed and concrete analysis of social and economic microcosms. Macroeconomic projections can have validity provided (a) you have adequate and accurate data and (b) the various sectors of the economy are closely inter-related. We have deficiency in both the fields. As such, an elaborate statistical analysis with sophisticated models involves a wide range of possible errors. For example, microeconomic analysis leads to too much outlay on the more easily measurable sectors and too little on those whose rates of return are hard to assess. But increased investment in measurable sectors does not necessarily mean that they are the focal points of growth. This implies the need for skilled project evaluation and small

(3) Fourth Five Year Plan, 1969—74, pp. 33-34. The Planning Commission prescribes Rs. 20/- per capita consumption as minimum desirable consumption standard.

scale, local analysis and planning in order to judge the social profitability of investment and proper utilisation of investible resources.[4]

The need for macro-planning is essentially to reduce waste, because India being poor, can less afford waste. But more fundamental line of approach is to generate sufficient amount of resources to accelerate the process of growth. As the Planning Commission has estimated, we have to step up net investment to the extent of 17-18 per cent in order to double the national income within a period of 12 years. This will not, as we have seen, materially improve the economic well being of the people. This means that unless we step up investment further than what has been envisaged by the Planning Commission, the rate of growth is not likely to be significant. Even centralised planning is no substitute to high rate of saving and investment. In Soviet Russia the government had a large surplus of public revenue over administration costs with which it was able to finance very high rates of investment in human and physical resources. In the First Five Year Plan the Soviet Government took about 37 per cent of national income, and after spending 6 per cent on defence and 12 per cent on other recurrent expenditure, had a surplus of around 19 per cent of the national income, to invest in capital formation. In addition to this, the Soviet Government had the communist discipline and administrative efficiency. Since in India, there is a wide gap between intention and performance due to inefficient economic organisation, the rate of saving and investment should be larger than that of the U.S.S.R. to speed up the rate of development.

However, on the basis of a general framework of development, we can say that a community needs to spend 10 to 12 per cent of its income on public services, excluding defence, but including education, health, roads and general administration. On top of this some 18 to 20 per cent of national income must be invested or reinvested in new capital, in the private and public sectors. So in round numbers 30 per cent of national income is needed for public services and capital formation (excluding defence expenditure). Private consumption should not therefore exceed 70 per cent of the national income. If it exceeds 70 per cent, we have to depend on outside capital for economic growth. As Lewis has said there is no formula for achieving economic independence other than to keep private consumption down to 70 per cent of national income or less.[5]

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(4) The Crisis of Indian Planning, Ed. by Paul Streeten and Michael Lipton, Oxford University Press, London, 1968, pp. 7-9.

(5) W. Arthur Lewis, Some Aspects of Economic Development, George Allen and Unwin Ltd. London, 1969, p. 48. The size of private consumption below 70 per cent would depend upon the size of defence expenditure.

Now if 30 per cent is to be saved, this should be divided between private saving and public saving. If private saving is high, there need not be high taxation. But in India total net saving in 1969-70 constituted about 8.5 per cent of national income of which government saving, private corporate saving and household saving came to 1.2, 0.4 and 6.8 per cent respectively. This shows that consumption in India is more than 90 per cent. The chief strategy of developmental planning in India over the next decade is to restrain consumption to round about 70 per cent for achieving economic independence as well as growth. Since private saving is low, the government has to step up its taxation to increase public saving. Public saving means the difference between the government revenues and its expenditure on current account i.e. a budget surplus.

This implies two things. First the government should raise more revenues by taxes and other sources. And second, it must restrict its current expenditure. Suppose the government has to step up public saving by about 8 per cent from its present level of 1.2 per cent, it must raise 20 per cent of national income in taxes out of which it should restrict its current expenditure to about 60 per cent. If more than 8 per cent public saving is desired, the government will have to raise resources from its public enterprises by running them efficiently. All that we need to say here is that there is no other method to increase the pace of economic growth without reducing private consumption and restraining current government expenditure. It is obvious that rapid development in India is impossible without such a social discipline.

It is not possible to discuss here the method of resource mobilisation. But it is possible to raise 20 per cent of national income by taxes without impairing economic incentives. If the fiscal policy is designed to mop up a great part of the surplus income which is at present wasted in unproductive consumption, we can get sufficient surplus for economic development.

For example, the per capita consumption of the top 5 per cent of rural population and urban population comes to Rs. 1,544.6 and Rs. 2,263.4 respectively at 1968-69 prices. The per capita consumption of the next 5 per cent of both rural and urban population comes to Rs. 875.1 and Rs. 1,344.1 respectively at the same price level. If the government could reduce the consumption of the top 5 per cent by 15 per cent and the next 5 per cent by 7.5 per cent by means of taxes, the government would be able to get annually Rs. 865.5 crores.(6) This amount comes to about 21 per cent of

(6) Poverty in India. Policies & Programmes, Economic & Political Weekly Vol. VI, No. 2, January 9, 1971.

the total income of the country. This is just simple exercise to say that 20 per cent can be collected by way of taxes for meeting the needs of development without reducing the level of consumption of the poor class of people.

But additional capital formation or a progressive fiscal policy cannot eradicate poverty, inequality or unemployment. A higher rate of economic growth is always more desirable than a lower rate of growth. But the experience of India's development shows that the gains of development generally accrue to the richer section of the community. Fiscal policy is not in a position to correct this imbalance. How can then we combine economic growth with social justice? Some people suggest unemployment relief and special aid to the poor to end the misery and agony of these sections of the people. This is a wrong approach. Relief to the poor and unemployed where the magnitude of poverty and the size of unemployment are colossal would open the road to bankruptcy. Another suggestion is socialisation of all the means of production for ensuring equitable distribution of income and rapid economic growth. But this is not relevant in a democratic country like India where economic and political freedom are rated very high. The key and basic idustries should of course be nationalised along with banking, insurance, foreign trade and other strategic sectors of the economy for effective implementation of the planned programme. But other sectors should remain under private ownership and control.

The only solution is therefore to distribute equitably some of the important means of production so that social justice cannot be sacrificed in the process of economic growth. But the question is : will the equitable distribution of income be detrimental to economic growth? We hope not. Let us take the case of land. We need to increase the productivity of land for eliminating rural poverty. Without productive employment of labour, rural poverty cannot be corrected. Even the elimination of urban poverty depends on rural development. The rural poor continuously migrate into urban areas in search of employment and when they fail to get profitable employment, they add to the slum life of the cities. In fact, the rate of the development of the whole economy is determined by the rate of expansion in its slowest moving component part; and given the tendency to diminishing returns, agriculture clearly qualifies for the highest priority at the present stage.

But suppose we fix a ceiling on land and thus redistribute land, can we increase the productive efficiency of land? Since land is a major means of production, the need for redistribution of land for establishing an egalitarian society is inevitable. The present distribution of land shows that taking the country as a whole, nearly 36 per cent of the rural households do not cultivate any land or less than half an acre each. Households cultivating no land or less than 2.5 acres each constitute 57.59 per cent of the rural households and between them they operate only 7 per cent of the total land. On the other hand, only 2.09 per cent of the households have operational holdings of more than 30 acres each, but between them they operate nearly 23 per cent of the total land.(7) It is obvious that any measure to redistribute land will decrease the size of farms since more people will be employed to cultivate a fixed amount of land.

The main question therefore is the problem of efficiency of small farms. The Farm Management studies of different states have clearly shown that there is an inverse relationship between farm size and productivity per acre. This inverse relationship is due to the fact that the smaller farms are characterised by peasant family cultivation and the larger farms by capitalist cultivation. Cultivation is thus carried on in the small farms right upto the point where the marginal product is zero (or at least below the ruling market wage) and stops on the capitalist farms at the point where the marginal product equals the market wage. Hence small farms have higher productivity per acre and more efficinet in the economic sense.(8) If this is so, there is no reason to believe that redistribution of land by fixation of ceiling will reduce the productivity of land. On the other hand, the new technology that has emerged in recent years may make cultivation of small farms a still more profitable proposition.

The second question which is important in this respect is the development of small scale and cottage industries for developing rural economy. Fixation of ceiling on land will not provide sufficient land to engage all those who live in rural areas. Additional employment opportunities are therefore necessary to provide employment to the landless. But here there are a host of questions regarding the efficiency, suitability and technological form of these industries which arouse passion in the country. We will answer only a few questions which are relevant in the context of development with social justice.

From the distributional point of view, the promotion of small scale and cottage industries needs no emphasis. In India, there is a great deal of concentration of economic power. The report of Monopoly Commission shows that about 75 families control 46 per cent of the capital of private business. The development of small scale and village industries will bring about dispersion of industries and thus promote the object of regional develop-

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(7) The data for cultivated or operational holdings relate to the year, 1960-61

(8) A. K. Sen size of Holdings and Productivity. The Economic Weekly, February 1964, 16, pp. 333-326.

ment. Further, it will also provide scope for effective utilisation of human and other resources that lie unutilised in the rural sector. This will increase the income of the rural sector thus preventing the flow of surplus labour to urban areas. The development of small scale and cottage industries can therefore be taken as a distribution of industrial capital to prevent concentration of capital in a few hands.

But the more pertinent question is the productive efficiency of these industries. First of all let us indicate the difference between cottage industries and small scale industries. The village or cottage industries are more labour intensive; it is not certain that they are less capital intensive. This means that they use more labour but not less capital (if not more, at least the same amount of capital) to produce a given amount of output. The technology of small industries is at par with or closely approximate the modern large scale industry. Therefore they are not labour intensive. It follows from this that the technology of the village or small scale industries cannot compete with larger ones, and the products of these industries may need some protection in the form of subsidy. But such subsidy is much better than outright subsidy given to the unemployed for their maintenance. We should not also forget that the opportunity cost of unemployed labour is equal to the dole he receives from his family. We save this amount by providing employment to those who are now unemployed or full employment to those who are partially employed.

Again, since India has a limited capacity of capital absorption due to lack of technology, shortage of skilled personnel and low geographic mobility of labour, the need for intermediate technology is imminent for initiating a process of development. When total amount of capital is inadequate and unemployment is widespread, intermediate technology helps in providing immediate employment by requiring less capital for the employment of one unit of labour. Similarly when immobility of labour is widely prevalent, cottage and small scale industries may have widespread locational advantages. The wastes of small size are smaller than the wastes of the under-employed and immobile labour. In the the absence of skilled personnel, small-scale investments provide better facilities for training in management and pave the way for an industrial environment in the country. We should not forget that if capital accumulation exceeds the country's absorptive capacity, it may cause inflation or balance of payment difficulties and thus retard economic progess to a substantial extent.

This does not mean that we should neglect large-scale industries. Opportunities for long-term employment grow through increase in productive capacity by means of new investment in large-scale and basic industries. The difference between large-scale industries and cottage industries is that whereas labour intensive techniques with a given amount of capital investment create a larger volume of employment and higher level of present consumption (since most of the wage income is spent on consumption), the large-scale industries yield a lower volume of present employment and consumption. But the latter can promise a higher rate of economic growth in the future, and therefore a higher potential level of employment and consumption in the future. We can therefore neglect large industries only at our peril. Further, there has been a sustained increase in the productive capacity of the industrial sector more or less since 1954-55. It is estimated to attain a growth rate in industrial output of 8-10 per cent per year during the Fourth Plan period on the basis of capacities already built up so far with feasible multi-shift working. All that is emphasised here is to demarcate the sphere of activity and promote cottage industries (labour intensive technology) and small-scale industries particularly in activities using mostly agricultural commodities. Taken together, these two types of industries would provide immediate employment opportunities, increase the income of the rural sector and correct regional disparity.

It seems to me that the strategy of development for the next decade is the rehabilitation of the small man by means of local planning, small farming and intermediate technology. I conclude by quoting a couplet from Walter from his 'My creed' where he says,

"I would be humble for I know my weakness; (and later) I would look up—and laugh and love—and lift."

PART I

Mobilisation of Resources for Economic Development of Orissa

MOBILISATION OF RESOURCES FOR ECONOMIC DEVELOPMENT OF ORISSA

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Mobilisation of resources for the economic development of a region depends on (a) how efficiently the production effort is organised giving rise to further resources, both material as well as human, (b) how well the fiscal and other devices are initiated and worked in practice for mobilising the resources and (c) how far economy and administrative propriety are observed in planned and other expenditure, so that wastage and misdirection or leakage of resources are avoided. In a backward economy, the inadequacy of resources relatively to needs necessitates efforts for resources on a wider and more comprehensive scale and in a mixed economy like ours, the problem of mobilisation has to be viewed from the point of view of needs of both the public and private sectors. If natural resources are available in the region, they will have to be developed into revenue-yielding assets. Resources are never a fixed fund to be drawn upon. Their development depends on the magnitude of investment, which gives rise to output, employment, and savings. Basically the issue in the generation and accumulation of savings and surpluses and their use not for immediate consumption but for further investment for creation of capital goods. And this capital formation consists of not only of tangible goods like machinery, tools and plants but also intangible goods like education and health.

An under-developed and backward economy has a low per capita income and high marginal propensity to consume. Moreover it is dominated by an agricultural, and non-entrepreneural population, where only very few people are in the higher income brackets. Naturally, the prospects of savings in such an economy are poor and it is doubtful, if even the "frustrated savings" as conceived by Prof. Hirschman in his book "Strategy of Development" are existing. So the problem is not merely that of effective mobilisation of savings by an efficient administrative machinery as suggested by Nurkse and Hirschman but creation of savings through sufficient investment and employment opportunities.(1)

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1. **Hirschman : Strategy of Economic Development, page 37.**

A developing economy in the frame work of a federal set up needs funds for investments. This is mostly secured by (a) taxation, (b) borrowing, (c) resources transferred from the the centre. As development expenditure grows and income stream swells, it is only through high direct taxes, that the surplus is mobilised for further capital formation. According to Lewis, "in less developed countries the marginal rate of taxation should always be considerably greater than the average rate, so that the surplus generated can be ploughed back for further growth and development".(2) But the existence of a non-monetised sector,weak sense of responsibility of tax-payers and imperfect administration machinery limit the scope of direct taxes and call for reliance on indirect taxes like excise, sales tax, etc. for large scale resource mobilisation. Commodity taxes restrict consumption and help to release resources for capital formation. They check inflation and also restrict the consumption of scarce raw materials required for development efforts.

Borrowing from external or internal sources can be resorted to in order to supplement the earning from taxation but it requires a proper financial environment. Unauthorised over drafts from the Reserve Bank of India as resorted to by the state governments to-day, whenever they want to finance their increasing expenditure, have adverse effects on the inflationary situation and ultimately result in financial bankruptcy and refusal of loans. Moreover in a poor state like Orissa, when most of the additional income generated is spent on consumption, it is futile to assume that there is a lot of hoarded wealth which will be attracted by the government, whenever loans are floated in the market. Rising prices have reduced the capacity and desire to save mostly of the people of middle class income groups, who find it increasingly difficult to make both ends meet now. According to G. M. Meier in an under-developed region, 'an increase in voluntary saving through a self-imposed cut in current consumption is unlikely, when the average income is so low. At best, it can be hoped that when income rises the marginal rate of saving is greater than the average rate."(3) It is therefore, necessary that the government instead of relying on voluntary savings, will have to depend on forced savings through taxation and on some sort compulsory lending too. The case of forced borrowing has been emphasised by Heller and Nurkse. To quote Nurkse "Since individuals are interested not only in their consumption but also in their size of asset holdings, there is a case of forced loans as an alternative to taxation."(4) It is therefore, necessary that besides taxation measures to mop up additional resources, planned sale of government bonds should be undertaken, not only

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2. Lewis : Theory of Economic growth, page 414
3. G . M. Meier : Leading issues in Economic Development, page 187
4. Nurkse : Capital formation in under-developed countries, page 146.

among the government servants but also among the rural agriculturists. A compulsory amount should be fixed which the financial institutions and commercial banks must invest in government securities and bonds. It has also been suggested by the planning commission that "efforts could be made to mobilise additional resources in the rural sector by floating rural debentures or adopting similar devices for financing agro-industries, irrigation schemes, rural electrification, benefiting the rural population directly."

Taxation potential as a means of resource mobilisation depends upon a variety of conditions—the level of per capita real income, the degree of inequality in the distribution of income, the structure of the economy, the political leadership and administrative powers of the government. Gunnar Myrdal lays stress on institutional reforms necessary to bring about progressive change in the economy. His fear is that "In undeveloped countries, we abstract from attitudes, institutions and the productivity effects of levels of living, when these are very low,"(5) and unless we move towards an unbiased and truly institutional approach, policies and politics will not be more lasting and rational. It has been said that "Orissa's problem of resources is of such magnitude and its economy so backward and its powers to raise revenues so beset with limitations, that for a long time to come it will have to rely heavily on central assistance.(6) The economy of the State is so backward that it cannot be raised to the level of the rest of the country without liberal assistance from outside. The Techno-Economics Survey of Orissa conducted by the National Council of Applied Economic Research had pointed out in 1962, that an investment outlay of Rs. 1427 crores during the next decade (1961-1971) will be necessary if the State is to catch up with the rest of the country. With this magnitude of investment, the State income was expected to grow at the rate of 14% per annum and per capita income was expected to double from Rs. 212|- to Rs. 420|- i.e., at an annual rate of 9.8 per cent reaching the All India level in 1971. The share of agriculture in State income would have fallen from 50.5 to 30.3 per cent and that of industry would have risen from 5.9 to 20.0 per cent.(7) This large investment was necessary for Orissa, taking into account not only population considerations but it was justified both by the vast and inadequately exploited resources and the relative economic backwardness of the State. The total resources to be raised from State's own efforts was put at Rs. 576 crores but that never materialised. Even the Draft Fourth

5. Gunnar Myrdal : The challenge of world poverty, page 258
6. Orissa Taxation Enquiry Committee Report, page 43
7. Techno Economic Survey of Orissa, page 190

Five Year Plan of Orissa indicated that an investment of Rs. 1220|- crores will be necessary in the State, central and private sectors during the Fourth Five Year Plan period, so that the per capita income of people of Orissa can be raised to the level of all India average.(8) But what we find is that while the per capita committed expenditure during the Third Plan period in Orissa has been Rs. 5.05, the per capita committed expenditure of the Annual Plans (1969-70) has been only Rs. 3.61, as pointed out by the Fifth Finance Commission Report.(9) Similarly, the draft Fourth Five Year Plan for Orissa has proposed an outlay of Rs. 321.48 crores only for which it was envisaged that Central assistance would be available to the extent of Rs. 210 crores. But actually in the Final Fourth Five Year Plan, it has been shown that the central assistance available would be Rs. 160 crores and State's total resources for the plan has been fixed at Rs. 62.60 crores out of which Rs. 34.60 crores would be the target for additional resource mobilisation by the State. Thus total planned outlay for the State has been fixed at Rs. 220.60 crores by the State. The resources of the State sector are to come mostly from contribution of autonomous public enterprises, State electricity Boards and Road Transport Corporation which have been tentatively fixed at Rs. 14.27 crores, Rs. 9.30 crores and Rs. 1|- crore respectively. Similarly loans from public shares, small savings and State Provident Funds are expected to contribute Rs. 20 crores, Rs. 16|- crores and Rs. 10|- crores respectively during the Fourth Plan period.(10) This, of course, assumes that the balance from current revenues at 1968-69 rate of taxation available for financing the plan would be nil and there would be a few additional tax and non-tax measures for additional resource mobilisation.

The State Government's tax revenue and non-tax revenue amounts during 1967-68 were Rs. 24.25 crores and Rs. 27.25 crores respectively, which shows that both tax and non-tax sources of revenue are equally important for a State like Orissa. Its per capita tax revenue in the year was Rs. 12.12, while the all India average per capita tax revenue was Rs. 21.92. Even though this is one of the lowest per capita tax revenues in India, it is nothing surprising as the per capita average income itself of Orissa during the previous year has been one of the lowest viz. Rs. 306, compared to the

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8. Draft Fourth Five Year Plan for Orissa, page 44
9. Report of the Fifth Finance Commission, page 176
10. Planning Commission—Fourth Five Year Plan, page 74

all India average of Rs. 369. The growth and pattern of State revenues and State revenue expenditure of Orissa have been as follows:[11]

TABLE I

GROWTH AND PATTERN OF STATE REVENUES

(Rupees in crores)

	1961-62	1965-66	1966-67	1967-68	1968-69
1. Land Revenue	2.42 (5.25)	2.86	2.51	1.61	1.75 (1.45)
2. Sales Taxes	4.02 (8.71)	9.93	10.97	12.56	12.82 (10.89)
3. Motor vehicle tax	1.03 (2.23)	1.71	1.87	2.17	2.28 (1.88)
4. Stamps and Registration	0.96 (2.08)	1.64	1.70	2.05	1.98 (1.64)
5. Other taxes & duties	0.19 (0.41)	1.30	1.61	2.91	3.57 (2.12)
6. Education	0.38 (0.82)	0.64	0.63	0.57	0.51 (0.33)
7. Medical and Public Health	0.23 (0.50)	0.23	0.28	0.36	0.40 (0.33)
8. Administrative	0.13 (0.28)	0.30	0.84	0.88	0.63 (0.52)
9. Forests	3.10 (6.72)	4.70	4.59	4.79	5.66 (4.68)
10. Total revenue receipts	46.13 (100.00)	80.39	101.80	109.03	121.03 (100.00)

Figures in brackets indicate percentage to the total revenue

11. Report of the Fifth Finance Commission, pages 132 & 170

TABLE II

GROWTH AND PATTERN OF STATE'S REVENUE EXPENDITURE

(Rupees in crores)

	1961-62	1965-66	1966-67	1967-68	1968-69
A. Non-developmental					
1. Tax collection charges	3.11 (5.07)	4.11	4.31	4.50	5.05 (3.77)
2. Debt services	11.3	16.74	20.33	23.06	25.97
3. General Administration	3.09 (5.04)	3.09	3.02	3.82	4.21 (3.15)
4. Police	2.33	5.46	5.64	6.39	6.06
5. Others	0.69	1.41	1.63	1.86	2.04
B. Developmental					
6. Education	6.73 (10.97)	10.52	12.62	15.98	19.54 (14.61)
7. Medical	1.68 (2.74)	2.96	3.41	3.96 ..	4.33 (3.24)
8. Public Health	1.02 (1.66)	3.97	3.16	3.67	3.94 (2.95)
9. Agriculture & Animal Husbandry.	2.92 (4.76)	5.79	7.93	7.53	9.52 (7.12)
10. Others	28.75	37.26	42.47	42.43	53.10 (39.70)
C. Total Revenue Expenditure	61.35	91.31	104.42	113.20	133.76 (100.00)

Figures in brackets indicate percentage

We find from the above figures that land revenue has become a losing source of revenue because of abolitition of land revenue by the State Government from 1st April, 1967. The total estimated loss during the year from 1969-70 to 1973-74 would be Rs. 9.80 crores. Sales Tax, Motor vehicle tax and stamp duty etc. have been quite elastic sources of tax but the rates of these taxes have been quite high in Orissa and there may not be much scope to increase the rates.(12) Of course the total revenue from these sources can be increased by better administration of the taxes and plugging the tax loopholes, by wider coverage and rationalization of the tax structure. But this will not be adequate to the needs.

Among the non-tax resources, forests, electricity undertakings, public irrigation works offer good avenues for resource mobilisation. In fact the Fourth Five Year Plan has suggested that the recommendation of Venkataraman Committee that the rate of return on capital employed in electricity undertakings should be progressively raised to 11 per cent per annum be followed by the States. Similarly it has suggested to implement the recommendation of the Nijalingappa Committee that irrigation rates should be fixed at 25--40% of the additional net benefit to farmer or at 5 to 12 per cent of the gross income from irrigated crops, so that more resources could be mobilised from the agricultural sector. In Orissa, the recommendations of the above committees are necessary to be implemented.

The Fourth Five Year Plan has furtherr suggested that efforts should be directed by States to raise the rate of return on capital employed to 15 per cent on industrial and commercial undertakings other than public utilities. At present, in Orissa, the rate of return on total capital outlay of Electricity Board is hardly 5.5 per cent, the rate of dividends on State investments has been hardly 0.33 percent. It has been estimated by the Draft Fourth Five Year Plan that resources available from the operation of Orissa Industrial Development Corporation, Orissa Mining Corporation, Orissa Commercial Transport Corporation and Orissa State Electricity Board for financing the Fourth Five Year Plan will be of the order of Rs. 9.35 crores. There is no reason why the surplus cannot be increased to about Rs. 14 to 15 crores by judicious working of the enterprises. In the draft Fourth Five Year Plan, the State Government proposed to mobilise additional Rs. 21.95 crores as detailed below during the Fourth Five

12. Refer for example, the comparative rates in other states—Fifth Finance Commision Report, pages 149, 159, 161.

Year Plan period[13] :—

	(Rupees in crores)
1. Land revenue	
(a) Increase in rate of cess	3.00
(b) Increased realisation of cess due to settlement operation.	0.50
(c) Salami for leasing Govt. land	0.50
2. Stamp duties	0.50
3. State excise	3.50
4. Sales tax and Motor spirit tax	3.00
5. Tax on passenger fare	1.40
6. Motor vehicle tax	1.00
7. Forest revenue	0.50
8. Electricity duty	3.30
9. Toll on express way	1.25
10. Mining Royalty	3.50
Total ..	21.95

Even though detailed figures are not available as to how the present additional requirement of Rs. 31.60 crores would be mobilised, it is expected that more or less, the same pattern will be followed, with some additions and alterations here and there. This is not a satisfactory position because we cannot rely on half-hearted measures like these for resource mobilisation. That would never help the resources to grow.

It is, therefore, necessary first, that in any scheme of resource mobilisation, care has to be taken to determine the pattern of outlay in such a manner that a part of the resource potential is built into the growth of the economy. We should see that relation between expenditure and resources develop to one of mutual advantage. Viewed in this context, the level of prices acts as a lever to balance the co-relations between the financial outlay and physical targets. If there is a rise in prices, there will be shortfalls in the achievements of physical targets. The prices of food and other essential consumer goods command a strategic position in our economy and therefore, there is necessity of larger outlays for agricultural production and also for the production of commodities of common consumption. The concept of financial resources therefore, cannot be divorced from the pattern

13. Government of Orissa, Draft Fourth Five Year Plan, page 49

of outlay and physical achievements. It is only by building up the resource potential, whether in agriculture or industries, that resource mobilisation would be easy and elastic.

Now wherefrom these resources for further development in agriculture will arise? Agriculture is the largest sector of the economy of Orissa, both in terms of labour force employed and the national output produced. The agricultural sector being the largest segment of the economy, must therefore, bear a substantial portion of the cost of economic development. But direct taxation of agriculture has almost remained static at a level of below 2% of the income from agriculture, even though it forms about 4% of non-agricultural sector. The Reserve Bank of India has estimated that in spite of the low income of the agriculturists, they do save nearly 3% of their disposable income. Further, according to the National sample survey, 10.36 per cent of consumption expenditure of the rural households go for non-subsistence expenditure as those on ceremonies, intoxicants, amusements etc. Therefore, the argument that per capita income is so low in rural sector that there cannot be further taxation of agriculture loses much of its force. Any implementation of land reforms is not likely to alter the present pattern of distribution of land ownership to any substantial extent.

The heavy investment made in the agriculture sector has increased agricultural output in the hands of individual producers but it has not resulted in a proportional rise in their savings and investment. It is but equitable that a portion of it must be ploughed back in the best interests of the development of rural economy itself.

The uneconomic nature of the land revenue because of its increased cost of collection, its regressive character and its fiscal inadequacy call for correction and reform of the land revenue rather than its abolition. For a poor agricultural State like Orissa, its abolition is inexpedient and unwise, economically however soothing it may be because of political reasons. In an agricultural economy wanting in many agricultural facilities like irrigation, good seeds, manures, implements and tools, rural electrification, etc., the State can provide these facilities at a 'price', not at a 'cost' thereby mobilising financial resources from the agricultural sector. The Uttar Pradesh Taxation Enquiry Committee has mentioned that none of the farmers giving evidence before it, had demanded abolition of land revenue, evidently because the farmer regards land revenue receipts as evidence in his possession of his title to land.

It is, therefore, necessary to evolve an integrated agricultural tax policy for mobilisation of additional resources in Orissa. The agriculture tax system must be incentive oriented, while at the same time, it should penalise the poor utilisation of land and other agricultural resources. It should encourage investment in agriculture and it should be able to direct the surplus resulting from increased productivity towards further development rather than consumption or hoarding in gold or ornaments. Further, the agriculture tax system should be responsive to change in production and income in the agricultural sector. Such a system should be necessarily progressive with exemption limits for very small and uneconomics holdings. The Taxation Enquiry Commission (1953-54) has rightly urged that eventual aim should be to merge the agricultural income with non-agricultural income and levy one income tax. But until constitutional limitations in this direction are removed, some other kind of re-orientation is necessary to evolve an integrated and development oriented agriculture tax system. To conclude, it is enough to say that land taxation which has not played any role in the mobilisation of developmental finance in the earlier Five Year Plans should now play an important role in increasing farm production and stepping up investments in the agricultural sector.

Secondly, there should be fundamental change in the approach to the transference of financial resources in the form of grants and loans from the centre. The increasingly large transfers from the centre to State, sometimes creates disincentive effectson the States, in their efforts for maximum resource mobilisation. Instead of adopting the requisite fiscal discipline, they are readily willing to pass on the burden to the central government. Pattern of assistance to States, therefore, should be development oriented, with the result that the States become, active and enthusiastic partners in the development process. The present procedure of planning and plan financing does not make it easy for States to try out schemes of development on their own. Planning from below has become difficult. This should be avoided. The decentralized set up should be backed by adequate finances, so that they become active partners in development.

Thirdly, it will be necessary for the centre to see that by devolution and suitable grants-in-aid, the disparities in economic development of different regions are rounded off and some sort of balance is maintained between different regions economically. Of course, sense of priorities is found to differ from State to State in spending the allotted amounts and the pattern of development is also found to differ depending upon the natural resources, state of infrastructure development, etc. in a region. But inherent regional imbalances should be sought to be removed by centre by provision of special grants in aid for infrastructure development and by suitable location of central projects and award of rebates and concessions to nationalised industries. Such schemes of development help build the resource potential from which further mobilisation becomes possible. The policy of the State should be not to run, the nationalised undertakings as public utility concerns but to generate from them, substantial surpluses in course of time by improving their operational efficiency and reduction of costs as well as suitable adjustment in their prices.

Lastly, a substantial increase in resources by State Government is dependent upon improvement of local finances and exploitation of their resource potential by local bodies to the maximum. A large source of unearned increment in income and wealth is the increase in land values in and around developing urban areas. This should be tapped by local bodies which might provide them with some resources for financing programmes of urban development including low income housing, slum clearance and improvements in transport, water supply and drainage.

Summary and conclusions:—

Mobilisation of additional resources ultimately depends on creation of physical resources or assets which can provide stable source of income and employment to the economy. Agriculture, forests, mines and minerals and other natural resources which are abundant in Orissa will have to be profitably exploited, so that they become income-yielding assets. Within the framework of broader objectives, care has, therefore, to be taken to determine the pattern of outlay in Orissa in such a manner, that a part of the resource potential is built into the growth of the economy itself. This necessitates larger outlays on agricultural production and on production of commodities of common consumption. There is no dichotomy between expenditure and resources and their relations can be developed to one of mutual advantage. If we are spending more on agriculture, we must try to get more resources from agriculture.

More and more financial resources are necessary for building up the physical resources but the avenues are extremely limited. Tax-revenue and non-tax revenue are equally important for a State like Orissa. Even though such increase in revenue may not be expected from the traditional sources of revenue like sales tax, excise, stamp duties for registration, entertainment tax, etc., which have already been exploited to the full in Orissa, yet better administration and rationalization of the taxes will bring in some revenue. All said and done, agriculture remains under-taxed and there is necessity of introduction of an integrated, incentive oriented agricultural tax system, which should not only tap the rural sector savings but which should also encourage more and more investment in agriculture. The land revenue system, therefore, needs reorientation and rationalization, rather the abolition, keeping in the system a built-in-incentive for higher production and penalty for under-utilisation of land. Let us remember that "taxation of agriculture by one meaning or another, has a critical role to play in the acceleration of economic development." Efforts should also be made to mobilise additional resources in the rural sector by floating rural debentures or adopting similar devices for financing agro-industries, for rural electrification, housing and provision of drinking water. This will also help bring out the hoarded savings.

Non-tax revenue sources in Orissa like state electricity undertakings, irrigation projects, nationalised undertakings are not profit-making concerns at present. Efforts could be directed to raise the rate of return on capital employed to at least 10% per annum as has been recommended by various commissions. Rationalisation of the price structure of irrigation and electricity undertakings is necessary for (i) fuller utilisation of the existing potential and (ii) to provide incentives for productive use. It is desirable to adopt a 10% shadow or accounting rate of interest for purpose of judging the efficiency of the nationalised undertakings. The State Government might also consider starting, on the public sector, a few processing and mining industries which may prove to be revenue-yielding assets.

No efforts should be spared to reduce waste and minimise cost, not only in the working of nationalised undertakings but in the entire machinery of government. "There has to be a systematic, consistent and ruthless examination of all existing items of expenditure and such of those as are found to be unnecessary will have to give way to worthier schemes awaiting implementation".

Borrowing patterns should change and every effort should be made to utilise the borrowed funds for productive use. In fact, all capital expenditure of the State should be made productive. In this connection, it is essential to emphasize that there is every necessity of institutionalization of savings to enlarge the capital resources of the State Government and in this context the State Government must widely extend banking and co-operation credit facilities and must formulate more attractive small savings and social insurance schemes.

Lastly, transfer of resources from the centre to the State, by way of devolution or grants-in-aid should be reviewed in the light of comparative backwardness of the region and keeping in view, the special needs of the region. The location of central projects should be done with a view to minimising the variations in regional development. It has to be remembered that the basic problem in planning and development is not so much one of more grants-in-aid or less patterns. The problem is the real one of making the states active and enthusiastic partners in development. Once a position of mutual help, reliance and confidence is established between the centre and the states, resources mobilisation will be easy on either part.

MOBILISATION OF RESOURCES WITH REFERENCE TO ORISSA'S FOURTH FIVE YEAR PLAN

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Orissa occupies a very low position in the Indian economic ladder judged from the indicators pointed out in her draft Fourth Five Year Plan. It is therefore natural on her part to aspire to raise the per capita income of the people of the State to the all-India average. In a modest way the plan assumes a minimum income of twenty rupees per capita per month for her people. For balanced economic development disparities between the backward and relatively advanced districts have to be removed. In the Theory of Economic Growth, Arthur Lewis rightly points out that 'the climate of our day is hostile to income differentials in general to foreign differentials in particular and to handsome profits in the extreme.' The infra-structure so essential as a pre-condition of economic development has to be well laid. The technological abilities of the 'Third factor' have to be improved and their entreprenurial qualities explored. For all these mobilisation of resources in a greater scale is necessary. Orissa has rich potential of a variety of natural resources but these become effective for growth process when converted as economic resources, not in their dormant stage. Harnessing the resources for economic use requires a heavy dose of investment of financial resources. Hence in this paper the focus will be on mobilisation of financial resources.

The Techno Economic survey of Orissa has recommended investment of Rs. 1427 crores in the decade 1961-71 and Rs. 140 crores per annum for the development of the State. Materialisation of this order of investment will depend on raising the required financial resources. It is therefore visualised that with the high rate of investment the economy will be raised to a higher level of production and more income will accrue at different sources such as agriculture, industry, commerce, etc. The saving rate will therefore increase out of higher incomes and meet the demand for a rise in investment rate. The Financial outlays estimated for the Third and Fourth Five Year plans for the State during this decade indicate that the efforts for raising financial resources are far short of the Techno Economic Survey target. The draft Fourth Five Year Plan outlay is estimated at Rs. 321.48 crores, which is to be financed by states' own resources amounting to Rs. 111.50 crores and central assistance of Rs. 209.98 crores. The plan report further indicates that the resources which the State Government can mobilise are very much limited because of heavy repayment liabilities for loans incurred from the centre. The net liability of the State for repayment of such loans is to the tune of Rs. 123.35 crores during this period.

The recognised sources such as taxation, borrowing and contribution from public enterprises may now be examined for mobilisation of additional resourccs. The major sources of tax revenue for the State are sales tax, state excise, Land Revenue, stamps and registration, tax on motor vehicles etc. The relative shares of some of these to states' own tax revenue in 1970-71 are as follows:

Budget estimate 1970-71 at 1969-70 rates of taxation

(In Lakhs of rupees)

	Sales tax	State excise	Land revenue	Stamps and Regis-tration	Motor Vehicles
Amount ...	1515	427	108	230	267
Percent to states' own tax revenue	54·7	15·4	3·9	8·3	9·6

State's own tax revenue as a percent of total revenue in 1970-71 budget estimates comes to 25.7. It is commented that the ratio of State taxes to State income is low when compared to other states. The low ratio may indicate a relatively low tax effort by the State.

We shall now examine this comment by first considering the measures proposed by the State in this regard. The resource effort of the State for raising resources for the Fourth Five Year Plan is as follows:

Balance from current revenue: Nil

Proceeds of additional tax and non-tax measures Rs. 21.95 crores.

	(In lakhs of rupees)
(a) Land revenue:	
(1) Increase in rate of cess:	300
(2) Increase in realisation of cess.	50
(3) Salami for leasing Government land.	50
(b) Stamps	50
(c) State excise	350
(d) Sales tax and motor spirit tax.	300
(e) Tax on passenger fares.	140
(f) Motor Vehicles tax	100
(g) Forest revenue	50
(h) Electricity duty	330
(i) Tax on express way	125
(j) Mining royalty	350
	21.95 crores

It will be seen from the above measures that the State Government have raised or revised the taxes or duties in most cases. We may further suggest some more measures.

According to NCAER, agriculture accounts for more than 50% of the State income of Orissa. Land Revenue should constitute an important field of taxation for the State, though it is now abolished due to political consideration. We recommend reimposition of land revenue and its increase. The rise in land revenue is justified because price of agricultural produce has risen and improvement of transport and communication has helped the agricultural producers to reap a better price for their produce. The incidence of land revenue even at increased rate will be a small percentage of the value of gross produce of land. The element of progression in land revenue may be provided by the imposition of agricultural income tax. The increase in Salami for lease of Government lands is desirable. With these measures the resources from this source may increase. A question may be posed here, whether these measures along with irrigation rates and betterment levy will demand from the agriculturists a greater measure of sacrifice and whether these will affect incentive to production. With the flow of greater resources to this sector and facilities for the supply of variables like fertiliser, better seeds, credit, etc. it is naturally to be expected that more resource effort will be on this sector. It will not be unreasonable to expect that a break through in the traditional methods of farming will be soon made. IAAP in 132 Blocks during the Fourth Plan period will be adopted. For attaining quickly better results from agriculture, more concentrated efforts will be on districts having better facilities in this regard. These districts will be relatively the economically advanced districts. Hence a little more contribution is justified from the agricultural sector.

The proposal that rural debentures may be floated for raising resources for financing irrigation, agro-industries, housing and electrification schemes gains ground with the spread of banking facilities in the rural areas.

Regarding better financial returns from Irrigation projects, the Nijalingappa Committee have recommended for varying the irrigation rates from 25 per cent to 40 per cent of the net additional benefit to farmers from irrigated crops or 5 per cent to 12 per cent of the gross income from irrigated crops. The benefit which cultivators will get from irrigation facilities will depend on other variables such as availability of high-yielding varieties of seeds, fertilisers, pesticides, credit on easy terms and proper extension method. The possibility of increasing the basic irrigation rate will depend upon the supply of above facilities to the farmers along with the size of their holdings.

The question of imposing a betterment levy also arises in connection with irrigation projects. It is contended that to cultivators of small holdings the increase in capital value of land which forms the basis for imposition of betterment levy will be of little consequence. Moreover imposition of betterment levy in case of minor irrigation projects may not be considered seriously as the cost of a minor irrigation project will not be much. Accepting these views we propose that betterment levies may be imposed on holdings above twenty standard acres benefited by medium and major projects. The development period during which the levy may not be imposed may be a plan period covering five years. The levy may be a fair percentage of the rise in the capital value of the holding.

Proceeds from the Sales tax, an important source of revenue for the State, have increased from year to year. The argument that the trend of conspicuous consumption among the people in the society is to be checked hence a rise in the rate of the tax is justified holds good in case of commodities of the luxury variety. When the tax has a very wide coverage of commodities entering into common consumption an increase in the rate even for inter-state uniformity has a different effect. Among other measures suggested for mobilising additional resources are increasing rate of return from electricity undertakings and having more returns from industrial and commercial undertakings. The Venkataraman Committee on the working of the State Electricity Boards has suggested an increase in the rate of return from electrical undertakings to at least 11%. In our State an additional electrical duty has already been imposed. Further increase of the duty or rate will take into consideration two factors i.e. rural electrification and supply of cheap power for starting new industries.

The performance of the public enterprises in the State in the matter of financial returns has not been satisfactory. The two major lines of improvement regarding better financial returns from these undertakings as recommended for the country also hold true in the case of our State. These two are improvement of operational efficiency and suitable price policy. We may cite here the example of forest revenue proposed to be raised during the Fourth Five Year Plan as this constitutes one of the important sources of non-tax revenue for the State. Much cannot be raised as revenue from forest resources, because social considerations demand that people's need for forest products must be met. Lack of capital investment and lack of communication facilities prevent the forest resources to be better harnessed for revenue purposes.

Revenue from minor forest products may not show an increase in the immediate present because the agency through which the revenue is proposed to be raised, namely the co-operatives, will require better organisation. Regarding Kendu Leaves, an important forest product for purposes of revenue, the means of collection will be through agents or contractors. The licence of the agents or contractors may be raised taking into account the economic factors. The same argument may also hold good in case of revision of royalty rate of forest products used as industrial raw materials. The departmental working for augmenting revenue from forest produce such as timber and industrial raw materials will have to adjust the price policy taking into account social and economic factors and improve its operational efficiency.

Regarding minerals, the next important source of income, after forests, the Taxation Enquiry Commission observes 'with royalty rates under central control and the mining cess under a constitutional cloud the scope for increase appears to be rather limited.'

The contribution of the Mining Corporation to non-tax revenue will depend on the policy for extraction and utilisation of more mineral wealth depending on larger investible funds and requisite personnel.

Regarding other proposals for augmenting financial resources, tax on urban land value or imposition of cess on annual rental value of property and buildings, may be considered. The increase in demand for urban land for ownership investment and the increase in the value of urban land justifies the imposition of this tax or cess. The revision of excise rates and the increase of show tax or entertainment tax may be effected. So far as the state lottery scheme is concerned the reduction of working expenses and variation of the nature of prize may auger well for finding some resources for the State. The scheme is to be made more popular. In spite of these proposals, the hard fact remains that the state's attempt to raise resources both in the tax and non-tax fields is hedged in with restrictions.

In the conditions of Orissa reliance has to be placed to a large extent on loans for mobilisation of resources. The previous three plans indicate this trend.

(In lakhs of rupees)

Plans	Total borrowings	Percentage of borrowing to total plan outlay.
First Plan	5,925	79.90
Second Plan	8,249	82.50
Third Plan	13,247	82.79

For the Fourth Plan provision for borrowing along with contribution of undertakings is as follows:

	(In crores of rupees)
Loans from Public by State Government	30.00
Loans from public by public enterprises	15.00
Share of small savings	15.00
Unfunded debt	7.00
Contribution of public enterprises.	9.35
Miscellaneous capital receipts.	13.17
	89.52

Loans are only deferred taxation, hence there is a limit to borrowing. The efforts of the State in raising real resources by utilising the loans are to be taken into consideration while going for loans. After all, taxation or loans must come from the savings of the people, hence it will not be out of place to examine the saving profile of the community, such as, the major saver groups in the society, the main forms of saving, the structure and destination of saving, etc.

We may follow the trend of the survey conducted by the NCAER in this regard. Saving emanates from two sectors, public (Government and Corporate bodies) and private (the households). The main sources of public saving are surplus on current account (excess of government revenues over Government expenditure) and surplus of Government enterprises on corporate undertakings. In the case of Orissa we do not find a surplus on current account, rather it leans towards deficit. Government revenues are not buoyant, besides these are subject to restrictions. In spite of government's declarations to find additional resources for plan financing, there seems to be a gap between promise and performance. The surplus from public enterprises depends upon suitable price policy and improvement of operational efficiency. At the present stage both these are required in our State, hence it can be said that contribution from public enterprise is not much. Then we have to depend on private saving for capital formation. Here borrowings by State Government and public enterprises, small savings and contractual saving, viz. contribution to G.P.F. L.I.C. Unit trusts, etc. are important. We have to turn to private saving because resources can be transferred from private to public sector through provident fund, L.I.C. contribution, floatation of Government securities, sale of small saving instruments, etc. If more is to be drawn from this source it is to be encouraged. Saving is motivated by the desire to hold assets. In case of private saving, generally the assets preferred are in the form of gold, buildings, land, farm assets and financial assets such as bank deposits, small saving certificates, etc. Encouragement of financial assets such as bank deposits, currency, small saving instruments, investment in securities are important for development because these can be transferred to desired sectors for productive investment. Hence efforts are necessary through appropriate institutional frame work to effect changes in the preference between different types of assets in the minds of the savers. By these efforts resources from 'self' use can be converted into productive use. Other factors that will influence the saving rate are the distribution of income among the different classes of people, the disposable income with them, the nature of occupation or profession of the people, their education level, etc. The saving picture in the State has to be visualised with the background of half-starved dissaving population as many are below the poverty line. 35.4 per cent of the population of the state has an income of less than Rs. 10|- per month per head. The lowincome of the people is responsible for a low saving rate. A socially better distribution of income has greater force for our State because this will check the dissaving rate.

Mobilising resources for a plan also depends how the plan is going to be executed. After all resources needed for a plan are for production of goods and services and the most important thing is how these produced goods and services are distributed among the people. In other words how purchasing power is distributed among the people so that they can have the goods and services. It is claimed in the objective of the plan that the low per capita income will be increased rather doubled, but we know that it does not mean everybody will be better off to that extent. The national income and its distribution are changed by the plans. Hence if some area, some section will be better off, some also will be worse off. We have already referred to the disparity in the problem of raising financial resources.

We have said earlier that financial resources can be mobilised from the people in the state either by taxation or by borrowing. Generally we can divide the people in the state to three classes, the upper income class, the middle income class and the lower income class. This may be the pattern both in the urban and rural areas. If taxes are confined to the upper income group for raising finance for the Plan because the upper class is the better off class we have little to say. But such a system of taxation will be inadequate for any state. Hence we find a number of indirect taxes in our list, the important one being the sales tax. With a wide coverage of articles of common consumption whose elasticity of demand is low, the lower and middle class people will be more affected. It may be also in case of land revenue, a direct tax, that the impact of the tax will be more on the cultivators belonging to the latter two groups. The land reform measures will reduce the land owning upper class to the middle one. Similarly the other tax measures will affect the middle and lower classes more than the upper one. If the income of these classes increases more or in equal measure the burden of taxation can be mitigated to that extent, but the benefits in the shape of increase in income as we see are more for the upper class where as the sacrifice borne by the middle and lower classes are more. We may also point out here whether the lower and middle class people do not gain anything from the development works. They gain to some extent, but relatively less when compared to the other class i.e. the upper class.

Now we may consider the problem of raising resources through borrowing. Whatever the Government takes from the people by loans is from the savings of the people. As is very well known the saving rate is low in the state because most of the people belong to the middle and lower income groups. Many live below the poverty line. The scheduled caste and scheduled tribe population having a very meagre income constitute 40% of Orissa's Population. A larger proportion of the population belong to the non-working group. 35·4% of the population has an income of less than Rs.10/- per month per head. The rising cost of living due to rise in price of commodities has diminished the real income of the people specially of the lower and middle class. Hence efforts to raise loans or force small savings drive will not evoke a wide response from these classes of people i.e. the lower and middle class with less elastic income.

Whether it may be for formulation of the plan, mobilisation of resources or implementation of it, an integrated approach for these is emphasised and people's participation in greater measure invoked. It is said the mood of the times is for a 'revolution of rising aspirations. In the economic sense it means a claim for equality in material things. People's participation synchronising with this mood may result in greater efforts for economic development. This is a distant possibility with us with the disintegrating tendencies. The reading of the plan reveals that growth points will not be evenly spread throughout the area of the state. The share of sacrifice will not be evenly borne by the different classes in the society. Lack of efficient and economic use of public money may prevent the people from contributing more for development purposes. The feeling of inequality may further drift away people's participation. These will limit the resource effort of the state.

The resource effort of the state being limited due to the above factors, it presents the picture of an under-developed economy, where the classical version of economic stagnation holds good in a vicious circle, namely, low saving, less capital formation and investment, low output per capita, poor standard of living, hence lack of more resource mobilisation. This holds the justification for a larger amount of central assistance as indicated in the plan.

In the words of the Orissa Taxation Enquiry Commission, Orissa's problem of resources is of such magnitude and its economic structure so backward and its power to raise revenue so beset with limitations, that for a long time to come, it will have to rely heavily on central assistance.

To sum up, the objectives of the Fourth Five year plan of Orissa spell out the resource need for their implementation. Hence exploration of the resource base or source. The three sources indicated are taxation, borrowing and contribution from public enterprises. Measures for increasing resources from these sources constitute the resources effort of the state. The resource effort is restricted due to low income and low saving in the state. Disparity in steps to increase the savings rate are indicated in the disparity in economic development among the districts and unequal burden of the proposed resource measures among the different classes of the people in the Society. These spread the feeling of inequality and hamper people's full participation in Plan efforts. Thus there seems to be a gap between possibility and performance of resource mobilisation measures. To fill this gap more of central assistance is invoked.

MOBILISATION OF RESOURCES FOR THE ECONOMIC DEVELOPMENT OF ORISSA

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Orissa is one of the backward states in the country. Judged by any standard-state income, per capita income, per capita consumption expenditure on different important items (necesaries of life) or productivity—the state economy presents a very disappointing and dismal picture. It would not be enough to say that the standard of living enjoyed by the people of the state is low when a good percentage of the population is living below the poverty line. The 19th round of N.S.S. (State sector), data (1964-65) shows that 64·2 per cent of the total population (66·2 per cent of the rural population and 35·3 per cent of the urban population) in Orissa spend less than Rs.20/- per month. This apparently shows the abject poverty of the large mass of population in Orissa even after the implementation of three five year plans. This calls for substantial investment during the fourth plan period and during the subsequent plan periods to raise the level of income of this 64 per cent of the population who are living below the poverty line i.e. who are spending less than Rs.20/- per month. In view of the prevailing economic situation all-out efforts must be made for the rapid economic development of the state.

A rapid economic development requires a progressive increase in resource mobilisation. An analysis of the revenue structure of the state would clearly show that the dependence of the state on the centre is gradually on the rise and both the tax and non-tax revenue at the state level are playing a subordinate role in the state finance. This has reduced the state to the position of a dependant and because of the paucity of resources the state cannot independently think of adequate investment for its balanced economic development. This is a sad feature of the state economy and this calls for an all-out effort to mobilise internal resources for the economic development of the state.

The total revenue of the state during the first three plan periods has increased almost five times. But while the increase in state non-tax revenue is more than six times, the shared taxes four times and the state taxes less than three times during the Third Plan period over the receipt during the First Plan, the corresponding increase in revenue from central grants is more than eight times. This remarkable trend shows that Orissa's share from central devolution has not only increased but it has increased at a faster rate than the growth of revenue mobilised by the state out of its own resources. Of course, the growth of all important items of revenue appears to be faster during the Third Plan period than the preceding two plans. This is mainly due to the greater use of state machinery for mobilising revenue from both tax and non-tax sources. To add to this, there was a large devolution of central revenue to the state both in the form of a share in the divisible taxes and grants, to enable the state to meet its larger requirements arising out of the necessity of implementing a bigger Third Five Year Plan. The relative variations of the revenue components at current prices during the first three plan periods shows that state taxes which contributed 41 per cent of the total revenue of the state during the first plan declined to 27 per cent and 24 per cent during the second and third plan periods respectively. On the otherhand, central grants which accounted for only 18 per cent during the first plan emerged as a significant factor of state revenue with 31 per cent as its share during the Third Plan period. The share of the state non-tax revenue increased from 22 per cent to 29 per cent thereby indicating its prospects in the field of resource mobilisation. Revenue from shared taxes declined from 19 per cent during the first two plans to 16 per cent during the Third Plan period.

The combined contribution of tax revenue declined from 60 per cent during the first plan to 46 per cent and 40 per cent during the Second and Third Plans respectively. However, the contribution of non-tax revenue increased from 40 per cent in the First Plan to 54 per cent and 60 per cent during the Second and Third Plan periods respectively. It indicates a shift of emphasis from tax to non-tax sources in the field of resource mobilisation. Shared taxes from the centre and central grants have increasingly influenced the shaping of the revenue budget of the state. It has increased from 37 per cent in the First Plan to 49 per cent in the Second Plan and 47 per cent in the Third Plan period. Revenue from state origin has decreaed from 63 per cent to 53 per cent during the same period. This analysis indicates that Orissa looks at the centre for meeting half of its revenue requirements. This signifies low level of mobilisation of revenue in Orissa (i.e. from its own tax and non-tax sources) and greater dependence on the centre in comparison with most of the other states.

An analysis of the state taxes would show that the importance of state excise has significantly declined and land revenue has been abolished. On the otherhand, sales tax and motor vehicles tax have emerged as important sources of revenue. This means that the rural sector has lost its importance in the scheme of resource mobilisation and the urban sector is now exploited more and more for the purpose of revenue through greater use of sales tax. Among the state non-tax revenue administrative receipts have declined but the importance of revenue from social and developement services, civil works, multipurpose river schemes and interest receipts has increased. Forest revenue also shows a steady trend of increase. In addition to this, transport, electricity, mining and other non-tax receipts have the necessary potentiality of growth. These facts are to be borne in mind while suggesting resource mobilisation for the development of the economy of the state.

The state excise duty is restrictive in its nature and depends very much on the prohibition policy of the state. Therefore the yield depends on the policy the Government would adopt from time to time and as such the revenue from this source is uncertain.

Sales tax is an important source of revenue of the Government of Orissa. But the burden of the sales tax in Orissa is among the highest in the country and as such any upward revision or widening the tax net would be resented and there is very little scope for augmenting revenue from this source. Greater urbanisation and higher level of consumption of the people of the state would increase the yield from this source. The process will be time-taking and would also depend on so many other factors.

Motor vehicles tax has been an important source of tax-revenue during the third plan period. Although its rates are also among the highest in the country, it has not checked the development of road transport. With an upward revision of laden weight of the goods vehicles, tightening the administrative machinery to check large-scale evasion, abolition of the payment of the tax during the off season, there is scope to increase revenue from this source.

Minor taxes like stamps, registration, entertainment tax and electricity duty are insignificant from the fiscal point of view. Their future prospect is dependent on the progress of economic development in the state. So nothing certain can be said about their future yield.

It has been pointed out above, that in the scheme of resource mobilisation urban sector has been exploited more and more and the rural sector has not played its part properly. Since agricultural sector in Orissa has not yet borne its due share of the development cost of the state, the agricultural tax policy of the state needs a bold reorientation. Land revenue, being the most important of agricultural taxes, has been abolished. With the implementation of the delta irrigation scheme the coastal districts (especially a large area of the Puri district) are provided with better irrigation facilities. In the present plan schemes Government are also giving top priority to irrigation projects and agriculture will get a better deal hence forward. Agricultural income tax has proved to be an insignificant source of income. It must be reviewed and an integrated agricultural income with non-agricultural income under a single income tax law may be examined. The irrigation rates of the State Government also need orientation. On the whole, the agricultural sector should now come forward to share in this gigantic task of building the state through economic development. Proper ways and means must be devised for this purpose to mobilise resources from the rural sector for the economic development of the state.

It should be pointed out that the non-tax revenue of the state on an average accounted for 22 per cent, 24 per cent and 29 per cent of the total revenue during the first, second and third plan period respectively. This clearly shows that non-tax revenue is playing an ever increasing role in the scheme of resource mobilisation. Non-tax revenue consists mainly of (*a*) administative receipts (*b*) income from property and (*c*) income from public undertakings. A detailed discussion on the potentialities of this source of revenue and its future prospect has not been made in this paper. But the figures quoted sufficiently indicate that by tightening the administrative and operational aspects, its share in the resource mobilisation scheme can be considerably augmented.

The state depends on the centre for half of its revenue requirements and it further expects an increased shares from divisible taxes and an increased grants-in-aid from the centre. The recommendations of the three Finance Commissions show that the per capita divisible taxes and grants-in-aid to Orissa have improved in 1965-66 over that of 1955-56 and 1960-61. In spite of this improvement, the central devolution of revenue has been little effective in improving the relative position of revenue of Orissa among the states.

SUMMARY

Orissa is one of the backward states of the Indian federation and has not taken much of the advantages of the five year plans. The backwardness of the state calls for a rapid economic development which in its turn demands greater mobilisation of resources.

1. The urban sector's capacity to contribute more for the economic development of the state cannot be exploited any more at this stage because it has already reached a high peak.

2. The rural sector has not been properly tapped so far to play its role in the economic development of the state. Due attention must be given to devise ways and means to exploit the potentialities of the agricultural sector so that it contributes its share to the development of the economy.

3. Non-tax revenue source must be duly organised to yield a much better share.

4. It must be impressed upon the centre to release more funds in shape of grants-in-aid etc. to enable this backward partner of the federation to achieve some tangible economic progress. (a)

(a) All the figures in this paper have been collected from "State Finances of Orissa" by Dr. S. C. Patnaik.

A PLEA FOR HIGHER LAND TAXATION IN ORISSA

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'The central problem in the theory of economic development is to understand the process by which a community which was previously saving and investing 4 to 5 per cent of its national income or less, converts itself to an economy where voluntary saving is running at 12 to 15 per cent of its national income or more.[1] The cardinal principle of economic development is rapid capital accumulation through high saving-investment ratio. But with the operation of the 'vicious circle of poverty' this ratio may not be raised in the underdeveloped economics. Particularly in a State like Orissa, the voluntary saving is much lower than that in any other neighbourings state due to the lower level of per capita income which stood at Rs. 279·55 in 1966-67 at constant prices (1960-61), while it was Rs. 354 in Andhra Pradesh, Rs. 361 in West Bengal and Rs. 350 in M.P.[2] Besides this, the illiteracy of the majority of the people and socio-eonomic and political bottlenecks impede the process of growth.

The State cannot rely much on the central assistance in view of the changing centre-state financial relations, divergent principles of grant and the increasing number of claimants for the central resources. It is imperative for the state to put great stress on the mobilization of internal resources through effective tax and non-tax measures. Among the various taxes levied by the state, land tax forms a lucrative source for the income.

The Orissa taxation Enquiry Committee Report says that land revenue constitutes by far the largest single item in the state taxes......from the point of view of the state's own powers land revenue is the prime source.[3] The tax that assumes such great significance in augmenting the resources of the state was abolished in 1967 and it was contemplated to replace the tax by higher rates of agricultural income tax. The purpose of this paper is to make a relative assessment and examine the efficacy of these two taxes in the context of mobilisation of resources for the development of the state.

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1. A. Lewis : 'Economic Development with Unlimited supplies of Labour,' Economics of Undevelopment Ed. by Agrawala and Singh, P-416.
2. The Economic Base for Orissa for the Fourth Five Year Plan, P-40
3. Chap-VI, P-108

The importance of land revenue as a source of state's income can be recognised from the table below :

(*Rupees in Thousands*)

Taxes on Income			Taxes on property and capital transaction				Taxes on commodities and services		
Year	Income Tax	Agricultural Income Tax	Estate Duty	Land Revenue	Stamps	Registration	Taxes on Vehicles	On Railway fare	Total
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
1957-58 ...	2,73,43	2,66	6,62	1,99,14	53,49	14,14	65,64	5,86	6,20,92
1958-59 ...	2,82,68	2,86	6,49	2,15,32	54,88	14,99	76,66	19,39	6,73,26
1959-60 ...	2,95,86	2,79	7,55	2,23,67	63,55	16,65	26,23	23,27	7,09,57
1960-61 ...	3,24,44	3,65	11,17	2,05,79	53,28	17,96	82,45	24,55	7,33,29
1961-62 ...	3,47,90	4,91	15,04	2,41,74	73,60	21,92	1,02,77	...	8,07,88
1962-63 ...	3,27,66	10,73	14,82	2,78,62	82,28	27,66	1,28,97	...	8,70,74
1963-64 ...	4,13,10	5,70	16,39	3,01,07	1,06,93	32,11	1,50,47	...	10,25,77
1964-65 ...	4,25,15	6,43	26,33	2,98,91	1,13,95	34,60	1,64,74	...	10,70,11
1965-66 (B.E.) ...	4,23,67	4,60	27,85	2,83,38	1,21,29	37,80	1,81,63	...	10,80,22
1966-67 (B.E.) ...	4,43,53	3,70	27,85	3,19,81	1,22,00	37,00	2,10,00	...	11,63,86

Source : Some Facts and Charts on Orissa Budget, 1966-67. P. 8

The table depicts a consistent and proportionate rise in land revenue (Col. 5) to the total tax revenue of the state. The agricultural income tax (Col. 3) shows a fluctuating trend. In 1961-62, the revenue earned from this tax was to the tune of Rs. 491,000 which increased to Rs. 10,73,000 in 1962-63 and fell considerably (about 50%) in the following year. With the abolition of land revenue the state has lost a stable source of income. The stability in the nature of land revenue can also be examined from Table-III and Table-IV given in the Appendix. It is found that from 1949-50, land revenue has been increasing steadily and reached the maximum in 1966-67. The resources of the state have been reduced by about Rs. 3 crores per annum. The agricultural income tax will be highly burden some for the people if equal amount of revenue will be raised through this tax.

Case against Land Revenue :

The abolition of land revenue is sometimes justified on the ground of the rising cost of collection. The following table gives the details of the cost of collection of land revenue and agricultural income tax.

(*Rupees in Thousands*)

Year	Agricultural Income Tax (cost of collection)	Total collection of agri. income tax	Land revenue collected	Cost of collection	Total cost including other taxes	% of land revenue to total cost
1	2	3	4	5	6	7
1957-58	4,73	2,66	1,99,14	1,33,31	1,71,21	77·9
1958-59	5,14	2,86	2,15,32	1,10,63	1,49,21	74·1
1959-60	5,57	2,79	2,23,67	1,14,02	1,52,47	74·8
1960-61	6,05	13,65	2,05,79	1,29,27	1,68,51	76·7
1961-62	...	4,91	2,41,74	1,51,35	2,00,45	75·5
1962-63	39	10,73	2,78,62	1,90,88	2,50,56	76·18
1963-64	46	5,70	3,01,07	2,09,78	2,73,74	76·63
1964-65	54	6,43	2,98,91	2,69,87	3,43,69	78·5
1965-66	66	4,60	2,83,38	3,38,15	4,24,41	79·7
1966-67	72	3,70	3,19,81	3,38,29	4,71,81	81·0

Source : Some Facts and Charts on Orissa Budget, 1966-67, Page-16

The principle of economy is tested by comparing the additional cost of collection with the additional revenue gained. A cost-benefit analysis would show that land revenue leaves a tangible surplus in the hands of the state after meeting the cost of collection. The marginal revenue from the tax is much higher than the marginal cost of collection. So it is not the relative increase but the absolute increase in cost that matters. It is also observed from the table that agricultural income tax provides a meagre surplus after paying for the expenditure on collection. The cost of collection of land revenue appears to be the highest in the year 1966-67 . This is due to the collection of large accumulated arrears that required appointment of more staff. Again, the collector of land revenue is also in charge of maintaining law and order in the state. Thus, the combination of the responsibilities in a single authority involves more administrative expenses. The administrative lapses, short comings of the bureaucratic machinery used and the problem of accentuated arrears may be mitigated to evolve an improved system of land revenue administration.

The second argument against land revenue is based on the problem of equity. It is indicated that land revenue is an inequitable levy because the tax is imposed at a flat rate on acreage. But the argument is not true from the stand point of absolute rate of tax. The rate of tax varies with the difference in the quality of land, productivity, input-output ratio and the capital investment on land. Thus, there is a divergence in the inter-regional and intra-regional rate structure.

Again, a tax is considered to be inequitable or regressive when the incidence of the tax is very high for the tax payer. The—taxation Enquiry commission remarks that the issue of equity is important only if, land revenue, at the present levels of assessment, can be regarded as an unduly heavy burden on the majority of the farmers.[4] According to the opinion of the Orissa Taxation Enquiry Committee, the per capita land tax is very low in the state. It was Rs.1·67, in 1960-61 where as it was Rs. 3·07 in M.P., Rs. 2·50 in Andhra Pradesh and Rs. 2·54 in Bihar in the same year[5]. Moreover, the tax may not be burdensome for the tax paying peasants as the prices of agricultural products are rising.

Accepting that the system of land tax is regressive, the tax being an elastic one, can be made progressive, so as to conform to the canon of equity. Land upto a certain a point may be fully exempted fromthe purview of taxation or a nominal rate of tax may be imposed. The tax may be levied at a flat rate upto a second limit beyond the first slab; and the rate

4. Vol-III, Chap-IV, P-207

5. Chap-IV, P-48

of tax may be made highly progressive beyond the second slab. The progressive rates on land revenue may be supplemented by special charges on more profitable garden crops which are grown generally by cultivators of substantial holdings. The rates thus fixed can be revised from time to time on the—basis of the available indices of yields and prices.[6]

But while making the tax more progressive the productivity factor should not be lostsight of. Productivity, to a large extent, is a function of the access to the capital market of the cultivators. Since the tax is imposed on the potential productivity it can be equitable provided the farmers have equal access to capital market. But usually the capital market is imperfect by nature and is largely dominated by influential farmers having big holdings. In such cases the progressive culivator may fail to realize the full productivity of land for want of adequate inputs and the tax becomes an oppressive one.[7]. However, the principal objective of land tax policy in the context of under-development being to raise adequate resources for the state and to reduce disparities in income in rural areas, the policy to conform to these twin objectives—revenuea nd equity—should lay particular emphasis on rising revenues through increased taxation of the higher income groups.

Thirdly, it is alleged that payment of land revenue inflicts much hardship and inconvenience on the tax payer and hence does not satisfy the Smithian canon of convenience. But the difficulties involved in the payment are ascribed to certain lacunae in the sphere of collection. There is also a large scale disparity in the rates of lands of same type and uniform rates for the lands of varying quality. In view of such anomalies, it is required to have periodic settlements and reassessment of rates through the process of survey classification, settlement and resettlement so that it can ensure a lower burden on the payer in the event of prices going down and larger revenue when the prices go up. It is equally important to provide an incentive-rebate beyond a certain level, for tax payers paying a substantial amount. For people with small holdings it may also be necessary to charge a penalty in case of delay in payment. This will remove the problem of accumulated arrears that leads to excessive cost of collection. It is, therefore, necesary to improve the system of land revenue administration so as to be conducive to the taxpayers' convenience rather than to abolish it.

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6. C. H. Hanumanth Rao : 'Taxation of Agricultural Land in Andhra Pradesh', Chap-VIII, P-146.
7. I. S. Gulati & V. N. Kothari : 'Taxation of Agriculture : Some Basic Issues, Economic & Political Weekly, Special Number, July, 1968, P-1063.

Case for Agricultural Income Tax :

The Fourth Five Year Plan (Draft), on resource mobilization, states that there is need for raising more resouices from the agricultural sector for financing its development by imposing an additional burden on the well-to-do farmers. This can be done by developing the agricultural income-tax in states where it is in force and introducing the tax where it has not been imposed.[8]

(1) Agriculture contributes more than 50% of the national income. The agrarian sector also claims a greater share of the total investment outlay in the Five Year Plans. The major source of income of 70% of the people in India is agriculture. A tax system that exempts about 70% of the people is a clearly discriminatory one.

(2) It is also felt that the brunt of the tax buiden falls more heavily on the non-agricultural sector i.e., on salaried and business class. 'The agricultural sector is greatly under taxed today. Though it accounts for nearly 48% of the national income, it contributes to the exchequer by way of income only 0·13 per cent of its earnings. In contrast to this the burden of income tax on the non-agricultural sector amounts to 2·5 per cent of its earnings in 1961, the per capita incidence of all taxes including the special charges, cess and levies was Rs. 14 for the agricultural sector and Rs. 75 for the non-agricultural sector.[9] Agricultural income tax is necessary to attain a bi-sectoral parity.

(3) 'Taxation of agricultural income would avoid unnecessary burdening of the non-agricultural sector with heavy and unbearable doses of taxation leading inevitably to rise in wages, high cost of production, inability to face foreign competition, inability to export on the one hand, and reduction in the profit margin resulting in the arrested capital formation and consequently slower economic development on the other.'[10] The Taxation Enquiry Commission also views that the extension of agricultural income tax will make the land revenue system in India moie equitable and also help to reduce the anomaly that the higher incomes from agriculture do not contribute to the exchequer to the same extent as the corresponding non-agricultural income.[11]

In the rural sector, quite a laige number of farmers earn substantial income with the rise in the prices of the agricultural produce. Exemption

8. Chap-IV, P-88
9. Ashok Tnapper; 'Taxing Farm Incomes', Times of India, dt. 6-4-71, P. 6.
10. V. B. Mohan Das & G. Subramanyam ; 'Why exempt Agricultural Income from Taxation', Finance & Commerce, September, 70. P. 710
11. Cf. P-223.

of the surplus income from taxation will aggravate inequality in the rural areas and help unproductive consumption. The Taxation Enquiry Commission feels that the real significance of the agricultural income tax lies in the consideration of that larger contribution will be secured from the higher incomes from land and to that extent burden of land taxation rendered more equitable than at present.[12]

All the foregoing arguments, no doubt, provide a solid ground for levying agricultural income tax. But the crux of the problem is whether the tax will prove as a better substitute for land revenue. Mainly, the problem can be considered from two different angles. (*i*) Incentive or Productivity and (*ii*) Equity.

Land revenue being a fixed charge for a longer period on the potential production, the increment in production during this period accrues entirely to the taxpayer. This makes the marginal rate of tax zero or negligible, and leaves unimpaired the incentives to undertake improvements of land. It may provide greater impulse for the inefficient farmers to exert greater effort because the tax will be burdensome for them. The agricultural income tax, on the other hand, is based on the net or actual produce and thus the marginal rate of tax will be more and positive.[13] The producer knows that he has to pay more if he produces more. The tax will, therefore, be disincentive and induce the farmers to divert land from more productive use to less productive use.

It is sometimes argued that the higher tax will not strike at the root of the development process since there is an urge for progress which cannot be reversed This may be true for a few big farm enterprises but a large number of small farmers having a desire to adopt new means for raising the productivity will be disheartened.

Secondly, it is argued that the higher tax on agricultural income will make the tax system equitable. Since the tax in the non-agricultural sector is highly progressive it is desirable to have the same in the agricultural sector. But highly progressive tax on non-agricultural income exists only on paper. Through devious ways of avoidance and evasion, persons in the high income groups are able to keep their effective rates of income tax quite low. In such condition the extent of equity that might appear to exist in the tax treatment

12. Op. cit., P. 222

13. I. S. Gulati & V. N. Kothari, Op. cit, P. 1063

of the high income non-agriculturists as against the high income agcriulturists may not actualy exist not in that large a measure.[14] Again, as C.H. Rao remarks " taxes to be sufficiently revenue yielding need not necessarily be progressive. On the contrary, an excessive emphasis on revenue tends to make the tax system more regressive. On the otherhand, taxes to be effective as instruments of reducing disparities in incomes wil have to be sufficiently revenue-yielding".[15]

Apart from the above main considerations, certain other factors make the tax an inferior alternative to the long prevailing land revenue.

(*a*) Tax on farm incomes becomes a powerful source of earning in that economy where agriculture has been commercialised. In Orissa, many of the farmers produce for their subsitence and few big cultivators earn a surplus by producing cash crops, which can be mobilised by institutional machineries. Farmers having a desire to produce cash crops would be disappointed when they feel that they have to pay a major part of their produce to the government. This will also adversely affect the production of high yielding crops and impede the pace of green revolution. The performance of the agricultural sector is crucial for the overall growth of the economy. 'Any deliberate policy measure which may frustrate the rapid commercialisation of the agricultural sector needs to be avoided. If anything, every incentive should be provided so that modern methods of cultivation become pervasive and penetrate deep into the agricultural sector.'[16]

(*b*) Despite modern techniques of cultivation, use of developed inputs and heavy capital investment, agriculture still depends on the vagaries of nature. In a State where nature in form of flood and drought causes heavy damage to agriculture, revenue earned from the tax will not be stable.

(*c*) The tax presents some difficulties in regard to its assessment. (*i*) It is held that the tax is to be assessed on the net produce from land. The Orissa Taxation Enquiry Committee is of the opinion that the main difficulty in the assessment of the agricultural income tax is in regard to the determination of the net income.[17] The big farmers by fraudulent means may hide their actual produce and thus escape the burden of the tax. The majority of the farmers being illiterate, cannot maintain proper account of their income and expenditure and will bear the heavier burden of the tax. In such condition, as C. H. Rao believes, 'agricultural income tax will not serve as a

14. Ibid. p. 1064
15. Op. cit, p-145
16. P. D. Ojha, 'Mobilisation of Saving', Economic & Political Weekly, Annual Number, 1969 p-47
17. Op. cit., Chap-VI, p-125

better alternative in view of the difficulty on the part of the cultivators to maintain accounts of their farm incomes and expenses and the possibility of tax evasion by the more influential cultivators and the harassment of the less influential at the hands of the petty officials'.[18] (*ii*) It is again argued that the tax may be imposed on the acreage of land exempting a certain minimum acres and levying the tax at a graded rate beyond this limit. But this kind of assessment will lead to transfer of land from one hand to the other in the same family to escape the payment of the tax.

(*d*) It is also at times suggested to integrate the income from the agricultural and non-agricultural sector for purposes of taxation. The Taxation Enquiry Commission remarks that the eventual object of policy should be to eliminate the distinction between the agricultural and non-agricultural income.[19] But such integration does not appear to be feasible because agricultural income tax is a state subject. The Orissa Taxation Enquiry Committee Report says that there may be serious administrative difficulties in actual working and in the conditions of Orissa much would not be gained.[20] It is further argued that integration may lead to inequity against the agricultural part of one's income because the effective rates of tax are likely to be higher on agricultural income than on non-agricultural income. 'To talk of integration is only to chase a shadow'.[21]

All these arguments lead to the conclusion that to subserve the growth objectives of the State land revenue appears to be inescapable. To obtain additional resources for the development of the state, it is desirable to make it progressive after a certain limit. This does not reduce the significance of the agricultural income tax. To make a fine blending of the two conflicting objectives—equity and incentive and to make the system of land tax more progressive agricultural income tax should work as a necessary supplement to land revenue. Land revenue having the sanctity of tradition and being convenient to millions of peasants for its simplicity should be used as an effective instrument in augmenting the material resources for rapid economic development of the state. The Taxation Enquiry Commission remarks 'non of the alternatives can be an effective substitute for land revenue from the point of view of the finance of the State Governments though agricultural income tax may indeed be extremely appropriate as features supplementary to land revenue itself. Agricultural income tax will undoubtedly be significant as making

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18. Op. cit., p-146
19. Op. cit., p-223
20. Cf., p-125
21. I. S. Gulati & V. N. Kothari, Op. cit., p-1064

for the greater equitability of land taxation as a whole inclusive of land revenue ; it obviously can not replace land revenue in the sense of constituting a roughly equivalent source of income for State Government.[22]

Appendix

Collection of Land Revenue and Agricultural Income Tax
(in lakhs)

Year	Land Revenue	Agricultural Income Tax
1949-50	98·08	5·41
1950-51	103·15	9·93
1951-52	103·37	12·91
1952-53	113·79	6·58
1953-54	148·47	5·27
1954-55	126·37	3·00
1955-56	123·94	2·4
1956-57	158·75	1·96
1957-58	199·14	2·66
1958-59	215·32	2·86
1959-60	223·67	2·79
1960-61	205·79	3·65
1961 62	241·74	4·91
1962-63	278·62	10·73
1963-64	301·07	5·70
1964-65	298·91	6·43
1965-66	283·38	4·60
1966-67	319·81	3·70

*Orissa Taxation Enquiry Committee Report. P 27

**Some Facts and Charts on Orissa Budget, 1966-67

22. Cf. Page—208,

SALES TAX : AN ELASTIC INSTRUMENT OF AUGMENTING RESOURCES IN THE STATE

(A case Study of Orissa)

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Introduction

The State Governments in the country always need additional resources to meet their commitments for the Fourth Plan. The Plan grants from the centre which constituted near about 80% to 90% in the Third Plan will not be available to them while executing the Fourth Plan. The Experts in the Yojana Bhaban have realised that the irresponsibility of the State Governments have increased in spending the plan grants available to them from the centre. To make the states more responsible and to ensure fair and just spending of the plan grants the Planning Commission insists that the states must mobilise near about 40% of their plan expenditure by their own efforts at the minimum. This a imposes a heavy responsibility on the states to mobilis their own resources.

Importance of tax efforts

" To meet the additional obligations on revenue account the main burden will fall on their own taxes as the contribution of their non-tax revenue or by economy in public expenditure will be only marginal".[1] So far as Orissa is concerned the contribution of non-tax revenue by no account is marginal. But except forest, electricity, irrigation and transport other source of non-tax revenue does not yield substantial result. When we examine economy in the non-plan-expenditure we find they are increasing because of the increase in plan maintenance expenditure and at the same time increase in—revenue expenditure arising out of the charges of debt servicing and the failure of the capital assets invested during the plan periods to yield the desired rate of revenue. Therefore in the present context much reliance has to be placed on the tax efforts of the States.

Sales Tax as a Potential source of revenue

The largest chunk of the additional tax revenue from the states is contributed by the Sales Tax. In the year 1967-68 Sales tax as percentage of total revenue in the state budgets was 33.72% in Maharastra, 28.15% in Gujurat and 27.67%

1. Joshi M. D.—Mobilisation of State Resources. p-201

in West Bengal and 14% in Orissa and for all the States together 22.29%. In 1960-61 Sales Tax as a percentage of total revenue of all the states together was 15.69%. Hence a 6.6% increase over eight years from the Sales Tax to the total revenue of all states together is by all accounts phenomenal.

If we consider the percentage of Sales Tax to the total tax revenue the results are still more interesting. In the year 67-68 in case of all the states it was 35.18% and in case of Orissa it was 31.14% and in case of states like Maharastra and West-Bengal it was 45.91% and 36.39% respectively.[2] This rapid increase in the amount of the Sales Tax revenue has created the impression that Sales Tax is the most important instrument in the tax structure of the states to mobilise resources. That is why many people feel that there is considerable scope for increasing the yield of the Sales Tax through rationalisation and simplification of the tax-structure, by substituting single point Sales Tax for multi-point Sales Tax system, by revising the rates, by providing effective measures for checking evasion and lastly by lowering the turn over at which an assessee becomes liable to pay the tax. Let us examine the Sales Tax structure of Orissa keeping in view the above suggestions to find out whetner it is an elastic source of revenue or not ?

Description of the Sales Tax system in Orissa

Under the Constitution of India the states are empowered to levy. " Taxes on the sale and purchase of goods other than newspapers".[3] On the recommendation of the Taxation Enquiery Committee the constitution was amended in the year 1956 and the taxation of inter state sale and purchase was placed in the Union List. As per the Central Sales Tax Act of 1956 Sales Tax on the sale and purchase of goods in the inter state trade and commerce is levied by the Central Government. The tax is administered by the Central Government and the proceeds are retained by the collectings states.

The Orissa Sales Tax Act was first passed in October 1947. Since then the Act has been amended on several occasions in 1949 and 1956 respectively. The tax is a single point tax as against multi point tax in the states like Madras and West-Bengal and double point like Maharastra and Gujurat. " From 1st April 1949 all the goods have been brought back to the last point levy".[4]

The rate of the tax ranges from 1% to 10% with basic rate as 5% on the majority of goods. The highest rate is being imposed on luxury goods like radio, camera films, refrigerators and the like.

According to the provisions of the tax the registered dealers collect taxes from the unregistered dealers and consumers. In 1947 Act the provision

2. Incidence of Taxation in Gujurat. P. 87-88 Table 36—An N. C. A. E. R. Publications.
3. The constitution of India, Government of India publications. P-247.
4. Orissa Taxation Enquiry Committee Report. P-80.

was that a dealer with an annual turn over of Rs. 5000 was brought under the purview of the tax. Since those petty dealers with small income and less education were incapable of maintaining proper accounts the limit of the annual turnover was raised to Rs.10,000. In 1958 the Govt. of the state has introduced a compounding system. Under this system according to the provision the dealers are required to keep simple accounts of purchase and sale without going to the detailed procedure of assessment. The amount of the tax per quarter has been fixed at Rs. 100, Rs. 150 and Rs. 185 respectively for turn over of Rs. 10,000; Rs.15,000 to Rs.20,000 and Rs.20,000 to Rs. 25,000 respectively.

Lastly in the early years of the operation of the tax the list of exempted goods contained 29 items. It largely comprised of articles of food, other necessaries and items which were already subject to tax in some other form. But gradually the number of exempted goods increased to 33. Among the important commodities which were added to the list of exemptions were sugar, cotton textile, tobacco and tobacco product because these goods came under the levy of additional excise duties in lieu of Sales Tax by the State.

Yield from Sales Tax

The Orissa Taxation Enquiery Committee observed that Sales Tax though of recent origin emerged as a settled tax without any effective resistance by the tax payers. And it is increasingly playing an important role in the scheme of the state finances. This is evident from the table given below.

Table—1

Growth of Sales Tax in Orissa

(Rupees in Lakhs)

Year	Budget Estimates for Sales Tax	Total Tax Revenue	Sales Tax as a percentage of Total Tax Revenue
1	2	3	4
54-55	151·49	824·40	18·33
55-56	145·98	819·17	16·5
56-57	153·20	819·60	18·19
57-58	199·36	1093·10	18·1
58-59	213·29	1271·36	16·74
59-60	215·54	1360·49	16·1
60-61	257·29	1377·88	18·9
61-62	356·59	1685·45	21·4
62-63	497·36	2369·82	21

1	2	3	4
63-64	679·26	2873·81	23·6
64-65	826·82	3079·65	27·3
65-66	930·12	3274·05	28·71
66-67	1023·9	3635·90	28·1
67-68	1159·99	4076·14	28·2
68-69	1205·65	4603·70	27·1
69-70	1305·00	5254·90	25·4
70-71	1473·00	6036·22	26·9

* Compiled from "Orissa Budgets—Some facts and charts" 1960-61 and 1970-71, issued by the Bureau of Statistics and Economics of Orissa.

A brief analysis of the table would indicate that though in 1954-55 it yielded roughly 1½ crores of rupees it now yields more than 14½ crores of rupees. As the percentage of the total tax revenue roughly it approximates 30% of the total tax revenue of the state.

Our analysis would be incomplete if we do not analyse the share of the Sales Tax in the state taxes. The table below indicates that about 52.75% of the state taxes is contributed by the sales tax in the year 1967-68. It is the Fourth highest percentage in the country after Maharastra, Gujurat and Bihar respectively. Maharastra and Gujurat are having both double point and multi point Sales Tax system. Among the single point Sales Tax, Orissa ranks the second highest next to Bihar. The table below indicates this point.

Table 2

(Share of Sales Tax Revenue in State Taxes in the year 67-68)

Name of the State	Revenue from State Taxes (In crores)	Sales Tax Revenue (In crores)	Percentage of Sales Tax to Revenue from State Taxes.
1	2	3	4
Andhra ...	78·00	34·76	44·56
Assam ...	24·18	10·21	42·22
Bihar ...	63·65	34·74	54·58
Gujurat ...	69·02	39·22	56·82
Haryana ...	26·53	9·54	35·96
Jammu & Kashmir	4·78	1·31	27·41
Kerala ...	53·61	26·28	49·02
M. P. ...	63·55	28·28	44·50

1		2	3	4
Tamil Nadu	...	104·35	56·48	54·13
Maharastra	...	168·17	98·85	58·78
Mysore	...	61·89	28·25	45·65
Orissa	...	23·81	12·56	52·75
Punjab	...	50·19	18·06	35·98
Rajasthan	...	46·10	19·76	42·86
U. P.	...	122·84	47·58	38·73
W. Bengal	...	104·95	52·30	49·83
All States	...	1065·52	518·18	48·63

* Quoted from Table No. 37 from "Incidence of Taxation in Gujurat, An N.C.A.E.R. Publications. R. B. I. Bulletin June, 1969.

Thirdly when we analyse the percapita sales tax revenue from different states we find in Orissa the percapita Sales Tax is the third lowest in the country being only Rs.6.22 paisa in the year 1967-68 after Jammu & Kashmir where it is Rs.3.38 paisa and Rs.5.60 paisa in U. P. In Maharastra we find– the highest percapita Sales Tax being Rs.21.27 paisa and the all India average is Rs.10.37. All these figures are evident from the table given below.

Table 3

(1967-68) Per capita Sales Tax in different States of India.

State	Sales Tax Revenue of States. (In crores)	Per capita Sales Tax Revenue (In Rs.)
Andhra	34·76	8·54
Assam	10·21	7·14
Bihar	34·74	6·46
Gujurat	39·22	16·00
Haryana	9·54	10·36
J. & K.	1·31	3·38
Kerala	26·28	13·28
M. P.	28·28	7·47
Tamilnadu	56·48	15·06
Maharastra	98·85	21·27
Mysore	28·25	10·34
Orissa	12·56	6·22
Punjab	18·06	13·37
Rajasthan	19·76	8·17
U. P.	47·58	5·60
W. Bengal	52·30	12·62
All States	518·18	10·37

* Quoted from Table No.40 of "Incidence of Taxation in Gujurat" prepared by N. C. A. E. R.

Lastly if we measure the income elasticity of the Sales Tax in Orissa, that is the relative change in the yield of the tax divided by relative change in income; we also find the Sales Tax has a greater income elasticity. (Since the state income data is only available up to 1963 from the State income of Orissa issued by the "Bureau of Economics and Statistics of Orissa". I have taken the estimate given by the finance minister in his budget speech for the year 1970-71).

Year	Income (In crores)	Percentage change in income	Sales Tax (In crores)	Percentage change in Sales Tax
1967-68	474	6·7	11·6	8·5
1968-69	506	...	12·05	...

According to the finance minister this year the "Increase in the state income of Orissa is more than the double the increase registered in the national income in the same period". We find that the annual percentage growth of the Sales Tax is more than the annual percentage of growth of the state income.

From all the above analysis it is clear that (*i*) Sales Tax has increased during the plan period from 16% to 30% of the total tax revenue of the state. (*ii*) Sales Tax in Orissa as a percentage of the states taxes is 52·75 % and the second highest among the single point sales tax states. (*iii*) The per capita Sales Tax revenue is the third lowest in the country. (*iv*) However incomplete and inadequate it may be the annual percentage growth of the Sales Tax is higher than the annual percentage growth of the state income. From this one concludes that Sales Tax can be made to augment the state resources considerably in the future years.

We now analyse the various suggestions for enhancing the revenue from Sales Tax.

Examination of the suggestions :

(a) *Coverage of the Tax* : It was suggested by Orissa Taxation Enquiry Committee report that a multi point tax with low rate and first stage levy on selected commodities may yield greater surplus because there will be no temptations to evade. In a multi point tax the rate of tax being lower a large number of the people would come under the purview of the tax which will increase revenue. Similar suggestions has also been made by Prof. Ojha and Prof. Lent, that "A high rate multi point Sales Tax with broad coverage has got the greatest inherent revenue potential"[5].

There are others who also believe that sales tax is a function of many a variables like rate of urbanisation, industrialisation, size and distribution of income and the price level. So far as the rate of urbanisation and industrialisation is concerned the state is ahead of many states in India. "Between 1951—61 the urban population has increased at the rate of 8·7% per annum as against 2·74% in the country as a whole"[6]. If we analyse the census figure 1971 the rate of Growth of urban population is a notable feature. "While Cuttack was the only city in 1961 now there are four".[7]

From this one concludes that a multi point levy would bring an increasing volume of Sales Tax. But this is not correct because the state being predominantly agricultural with only 6 to 7% people living in the urban areas few commodities pass through several points of transaction. And hence introduction of multi point Sales Tax with low rate would result in the lower yield. Secondly the multi point system is discriminatory because it discriminates among goods according to the number of stages through which they pass on their way to the consumer. Experience all the world over has shown that as legitimate grievances come from different trades and industries exceptions have to be made. Gradually the system loses its chief merit of simplicity based on uniform levy. The ratio of urban per capita tax to rural per capita tax is so wide that it is not worth while even to experiment with a multi point levy. Hence rapid increase of Sales Tax revenue on this score is next to impossibility.

Rate structure :

A question is asked can we not increase the rate of the Sales Tax ? The rates in Orissa va-y from 1% to 10% depending on the nature of the Commodities. If we compare the basic rates of Sales Tax in Orissa which is 5% with that of basic rates of Sales Tax in different single point Sales Tax of India we find it is 5% in Orissa where as it is 6% in Haryana and Punjab. In Rajasthan, it is 7% and in every state they vary from 1% to 10% with the exception of Rajasthan where it varies from 1% to 15% and in M.P. it varies from 1% to 11%. They give us sufficient hope that the rate can be increased

5. OJHA. P. D. & Lent George. E. "Sales Tax in the countries of far East". I.M.F. Staff papers Nov., 1969.
6. "Living conditions in Urban Orissa". Applied Economic studies Vo. II, Bureau of Statistics & Economics.
7. The Statesman April, 20, 1971.

by 1% or 2% like M.P. or J & K, where the per capita income is not very much higher than that of Orissa. One limitation to be noted here is that both the states have larger urban population than the State of Orissa.

Limits of turn over :

The limits of the turn over of Sales Tax varies from one State to another. In Orissa when the Sales Tax Act was first put into operation it was Rs. 5000 per annum on sale price. There are few States in India where the taxable turn over is Rs. 5000 sale price per annum. Though lower taxable turn over will give a broad coverage and as such may yield more revenue, it is becoming increasingly difficult on the part of the small producers to maintain proper accounts of sale. The mounting arrears of the Sales Tax in different States clearly indicate that lowering down the turn over is not justified. In 1958 in Orissa compounding tax rate was put into operation. This system has not become very popular since it was made entirely optional to the dealers. Many of the dealers were paying taxes less than the rate fixed by the compounding system due to the prolonged enquiries made by the tax officials to fix up the compounding amount and the ignorance of the dealers about the system. One can expect to increase Sales Tax yield by a limited amount by popularising this system.

Replacement by additional excise-duties :

The Orissa Taxation Enquiry Committees held the view that the states while having Sales Tax as an independent source of revenue, additional excise duties must be levied on goods like coffee, tea, match box, cement and vegetable products. It is argued that additional excise duties are administratively efficient, give relief to trade and industry and will bring inter-state uniformity in the rates of the tax. But all the other states have opposed it on the ground that yield from excise duties would be less than the yield from the Sales Tax because where as excise tax is selective, Sales Tax is general in character. Surrender of such important source of revenue to the centre means virtual eclipse of the Federal Financial system. O.T.E.C. observed that the centre should guarantee the revenue which the state was getting from those commodities by the way of sales tax, and the extra proceeds after this minimum should be distributed among states by a proper criterion. Since no such proper criterion is available the substitution is undesirable.

Tax administration in the State :

The O.T.E.C. observed the problem of Sales Tax administration is the problem of leakage which amounted to as much as 20% of the amount of the proceeds of the tax. The measures they prescribed were, popularising the compounding system, early disposal of the tax cases, informing the dealers about the latest rules and regulations, standardisation of accounts, decentralisation of the administrative unit and constituting a Sales Tax Advisory Committee. The expansion of the purchase tax and tightening of the loopholes in the administration may go a long way to raise up the amount of the tax proceeds. But evasion and malpractice is an all-India problem. It is necessary that attempt must be made to practise those measures but it will also increase the cost of collection. It is very difficult to find out a correlation between additional proceeds of the taxes and the expenditure on anti-evasion-measures. So to augment the Sales Tax proceeds sizably, administrative reforms is not immediately possible.

CONCLUSION

In conclusions it can be said that though Sales Tax has progressively become the most important source of revenues of the state, any spectacular increase in its yield in future cannot be expected. Though it has not reached its saturation point yet a study of its coverage rate, taxable turnover, administration and its replacement by excise duties reveal that state resources by this method can be increased by limited amount.

MOBILIZATION OF RESOURCES FROM THE AGRICULTURAL SECTOR FOR THE ECONOMIC DEVELOPMENT OF ORISSA.

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Agriculture continues to be the predominant sector of Orissa's economy. It provides employment to nearly 73% of the population and contributes about 68% to the State's income .[1] It is of greater importance to the economy of the State than to the economy of the country as a whole (Agriculture contributes about 47% to the national income of India)[2]. Therefore the rural sector has to make a substantial contribution to the process of economic development of the State.

Prof. Kaldor has remarked that "the taxation of agriculture has a critical role to play in accelerating economic development since it is only the imposition of compulsory levy in the agricultural sector itself which enlarges the supply of savings for economic development".[3] In the process of industrialisation, the surplus labour from the rural sector moves to the urban sector. In the beginning stages, it is also only agriculture which can maintain this surplus labour with subsistence living.

"In developing countries the adequate taxation of the farming sector is more important than it is in advanced countries, since it has a special contribution to make to the smooth process of development".[4] Russia and Japan provide the classical examples of exploitation of agriculture through heavy taxation to finance economic development. During the early years of Japanese economic development, there prevailed a high rate of agricultural tax, whereas the other sectors were subjected to a very low rate. This can be noted from Table 1. In recent times China also appropriates the rural savings to a great extent through heaviour taxation of agriculture which constitutes about 60% of the total Chinese tax revenue.[5]

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1 & 2. Dr. B. D. Mishra; Presidential address in the Third All-Orissa Economics Conference; Orissa Economic Journal, Vol. III, No-1.

3. N. Kaldor in a paper submitted to the International Congress on Economic Development, quoted in "State Finances of Orissa," the thesis of Dr. S. C. Pattanayak.

4. U. K. Hicks; Development from Below.

5. Agriculture in Economic Development, edited by C. K. Eicher and L. W. Witt.

Table 1

Composition of Main Central Government Taxation Revenue in Japan

Year	Income Tax (%)	Land Tax (%)	Business Tax (%)	Customs Duty (%)
1888-92 ...	2·4	85·6	1·6	10·4
1893-97 ...	3·3	80·4	2·8	13·5
1898-1902 ...	7·8	63·2	8·6	20·4
1903-07 ...	15·5	55·8	12·3	26·4
1908-12 ...	18·3	42·9	13·5	25·3
1913-17 ...	26·0	37·6	12·9	23·5
1918-22 ...	47·4	18·3	14·2	21·1
1923-27 ...	45·0	15·5	12·3	26·7
1928-32 ...	42·9	15·8	11·7	29·6
1933-37 ...	49·4	10·7	11·5	28·4

Note : Agricultural land tax accounted for 80 or 90 per cent of the general land tax.

Source : Agriculture in Economic Development, Edited by Eicher and Witt.

Greater resource mobilisation for economic development thus calls for a substantial tax on agriculture in Orissa. It is, however, not the only consideration. If we look to the budget, it is seen that the bulk of expenditure is directed to benefit the agricultural sector. The major share of economic development was allotted to Irrigation and Multipurpose River Schemes till 1968-69. Thereafter its position declined and the emphasis shifted to agriculture. In 1961-62, the expenditure for agriculture and allied subjects was Rs.2·83 crores which went up to Rs. 11·72 crores in 1970-71 (B.E) registering an increase of more than 400 per cent over a period of ten years. In the capital account also, the share of agriculture in the total outlay was substantial. For example, according to the Budget Estimate in 1970-71 there was an expenditure of about 15·14 crores of rupees for schemes relating to Agricultural Improvement and Research, Irrigation, Multipurpose River Schemes etc. out of a total expenditure of about Rs. 24·98 crores.[6] As a result of such large investments, agricultualr productivity has increased substantially. The rising prices of agricultural products have further increased the tax-paying capacity of this sector.[7] Yet there has not been a commensurate rise in the contributions to the public exchequer.

Table 2

Expenditure on Economic Development (Revenue Account)
(*Rs. in lakhs*)

Year		Agriculture	Irrigation and Multipurpose river scheme	Total Developmental expenditure
1961-62	...	283·28	846·31	2,425·91
1962-63	...	479·84	549·06	2,601·46
1963-64	...	532·85	578·47	2,858·72
1964-65	...	684·25	638·43	2,954·66
1965-66	...	709·92	845·15	3,566·71
1966-67	...	792·83	886·55	3,566·64
1967-68	...	752·58	992·10	3,717·43
1968-69	...	787·68	1,154·27	4,269·98
1969-70 (R.E)	...	9 94·32	802·22	4,128·48
1970-71 (B.E)	...	1,172·24	839·01	4,475·39

Source—Orissa Budget, 1970-71.

As regards the incidence of taxation there exists a great disparity among the urban and the rural sectors, the tax incidence being more on the former. According to the estimates of the Orissa Taxation Enquiry Committee, the incidence of direct taxes per head per year was Rs. 1·56 in the rural seotor as against Rs. 8·64 in the urban sector, the ratio thus being 1 :5·5[8]. Taxation as percentage of income and consumption expenditure is also greater for the urban sector than for the rural sector.

6. Orissa Budget, 1970-71.
7. According to the Statistical Abstract of Orissa, 1963, the index number of agricultural prices increased from 100 in 1939 to 498·47 in 1959.
8. Orissa Taxation Enquiry Committee Report.

Table 3

Taxes on Consumption Expenditure and Income in Orissa

Expenditure group		Tax as % of consumption Expenditure		Average propensity to save		Tax as percentage of income	
		R	U	R	U	R	U
1-50	...	1·9	3·6	...	...	1·9	3·6
51-100	...	2·2	4·1	...	...	2·2	4·1
101-150	...	2·7	4·3	...	...	2·7	4·3
151-300	...	3·3	4·7	7	7	3·1	4·3
301-500	...	3·0	5·7	12	10	2·7	3·2
501-1,000	...	2·8	8·2	25	20	2·3	6·8
1,000 & above	...	2·6	14·6	35	25	1·9	11·7
All groups	...	2·6	5·8	5	11	2·5	5·2

Source—Orissa Taxation Enquiry Committee Report, 1961.

Thus the urban sector shoulders the greater burden, whereas the rural sector enjoys greater average propensity to save.

The urban people are subjected to a heavy burden of direct taxes like the income tax and the wealth tax from which the agriculturists are exempted to a great extent. The rural sector is characterised by the presence of a non-monetised economy and thus these people are not much affected by commodity taxation. Due to the absence of any adequate effort to mobilise the surplus that arises in the agricultural sector, a large portion of it ts is wasted in unproductive consumption, hoarding and in investment in precious metals. Therefore it is necessary that a substantial part of such additional income from agriculture should be taxed away to be utilised for economic development of the state as a whole. "If this predominant sector is under-taxed, either the other sectors will have to bear an unreasonably heavy tax burden or the development process will be slowed down for want of adequate finance".[9]

9. U. K. Hicks, Development from below.

Among the various components of agricultural taxes, Land Revenue was the most ancient in Orissa. All the backward economics are confronted with the problem of the existence of large non-monetised sectors and a very low level of literacy among the people in the rural sector which makes it rather difficult to mobilise resources from that sector through indirect tax or personal in-come tax. Hence it is generally only land revenue on which the governments depend upon for the purpose of resource mobilisation from that sector. We have seen the classical example of Japan in this respect. However in Orissa we find a different picture. The Orissa Budget reveals the dwindling condition of land revenue. In 1961-62 it constituted 23·38% of the total state tax revenue. Thereafter it registered a steady downward trend and was finally abolished from April, 1967. This has reduced its share of the total state tax revenue to a mere 7·14% in 1970-71. (B.E.)[10]

Table 4

Land Revenue in Orissa

(*Rs lakhs*)

Year		Land Rev.	Total state-taxes	% of (2) to (3)	Expdt. on colln.	Net gain or loss
(1)		(2)	(3)	(4)	(5)	(6)
1961-62	...	241·74	1,033·78	23·38	151·35	+90·89
1962-63	...	278·62	1,313·62	24·57	190·88	+87·74
1963-64	...	301·07	1,659·51	18·14	209·78	+91·29
1964-65	...	298·91	1,898·50	15·74	269·87	+29·04
1965-66	...	286·58	2,074·75	13·88	323·94	—37·36
1966-67	...	251·35	2,130·07	11·33	338·90	—87·55
1967-68	...	161·12	2,423·47	6·64	343·89	—182·77
1968-69	...	157·77	2,605·42	6·05	358·30	—200·53
(R.E.)1969-70	...	168·57	2,727·67	6·18	390·00	—221·43
(B.E.)1970-71	...	230·15	32,22·05	7·14	365·11	—134·96

Source—Orissa Budget 1970-71.

10. What is now included in the Budget under the broad heading Land Revenue consists of a little amount of cess. Sale proceeds of waste lands, rents, etc. of fisheries, sale of cadastral maps, receipts of survey and settlement depts payments for management of private estates, payments for verification & measurement of land and the like.

Prior to its abolition, land revenue in Orissa was beset with many shortcomings. Its incidence per acre in 1965-66 was only Rs. 2·30 in comparison to the all India incidence of Rs. 3·55.[11] It constituted only 1·27% of the net value of agricultural output, the proportion of all states being 2·21.[12] The index number of agricultural prices in Orissa increased from 100 in 1939 to 498·47 in 1959.[13] None the less almost the same rate of land revenue continued without any change. Thus the then rate of land revenue could be justified on the consideration neither of equity nor of productivity, leaving aside the major consideration of adequate resource mobilisation for the development of the economy. So there was ample justification for an upward revision in the rate. On the other hand land revenue was completely abolished, on considerations other than economic.

Land revenue was done away with mainly on the ground of giving relief to the farmers and encouraging them to produce more. The relief actually has gone to these few persons who are in possession of the bulk of land-holdings, thus leading to greater inequality among the rural community even. Land revenue actually put pressure on the agriculturists to produce more so as to retain a surplus after paying the tax. Its absence can promote the tendency of the people for subsistence farming. Moreover supply of agricultural output is not to a great extent land revenue elastic. Production is rather a function of inputs like irrigation, fertilisers, better seeds, machines credit etc., and aboliton of land revenue in Orissa cannot be linked with any significant move for providing these incentives.

Along with a decline in land revenue, there has been a steady increase in the expenditure on its collection (Ref. Table-4). The net gain from land revenue after the deduction of the expenditure in the year 1961-62 was 90·39 lakhs of rupees. It declined and in 1965-66 there was a 13·07% loss, i.e. a loss of 37·36 lakhs of rupees. The loss further increased in the next year. In such a situation land revenue was abolished from April 1967, the result being a greater loss. It continued in its growth and has increased to 58·63% i.e. 134·96 lakhs of rupees, in 1970-71 (B.E.). Land revenue has, thus, become a negative asset to the state's finance. It was claimed that with abolition of land revenue the cost of administration would fall. However the statistics show a completely different picture.

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11 & 12. Dr. S. C. Pattanaik ; State Finance of Orissa (Thesis paper).

13. Statistical Abstract of Orissa, 1963, Bureau of Statistics and Economics.

Hence there is a strong case on economic grounds for the reimposition of land revenue. However a number of reforms have to be carried out in this connection to make it an effective fiscal instrument for resource mobilisation.

The greatest defect of land revenue in Orissa was its inelasticity. A more or less stable tax lease and a flat rate had resulted in a built-in-revenue inflexibility. Thus remedy lies in two factors : a progressive rate structure and an increasing tax base. Introduction of elements of progression in the incidence of land revenue on holdings of different sizes will secure not only additional resources but also greater social justice. In this rate structure the poorest farmer possessing holdings up to a certain limit should be completely relieved of tax. Land above this exempted limit should be classified into a number of land brackets on which a graduated tax rate has to be imposed. The highest marginal rate on the last bracket should be such "as to make it very unattractive to hold so much land but which would not be so high as to make it impossible to show profit even on the last acre".[14] As a rule of thumb Prof. I. M. D. Little suggests Rs. 30/- per acre as the maximum rate.[15] A progressive land tax would thus help the movement of ceiling on land holdings and would ensure better use of land as its side effects.

More crucial than the rate structure is the base itself, to the elasticity of a tax. If the base be constant, a progressive rate structure alone cannot yield much revenue. On the other hand even though the tax rate be a flat one, if the base goes on expanding the tax return will also be in an increasing rate. Hence the base on which the land revenue is imposed has to be an increasing one. The physical expansion of the land base can be possible through extensive cultivation by bringing under cultivation hitherto uncultivated land through reclamation, provision of irrigation, transport, credit, and such other means. The other alternative—and the most effective one—is to levy tax on productivity. In fact a possitive relation has been marked between land tax based on agricultural output and high revenue yields. This can be seen from Table—5.

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14 & 15. I. M. D. Little "Tax policy and the third plan" in "Pricing and fiscal Policies:" A study in Method, edited by P. N. Rosenstein Rodan.

Table 5

Land Taxes in selected countries Expressed as Percentage of Total Tax Revenue

Country	Type of land Tax.	Fiscal year	Percentage of Total tax receipt.
China	Gross produce (in kind)	1953	24
Korea	Gross produce (in kind)	1954	24
Iraq	Marketed produce	1952	20a
Syria	Marketed produce	1951	15a
Paraguay	Capital value & Area	1948	12
Egypt	Annual rental value	1952	11
India	Annual rental value	1954	9b
Panama	Capital value	1951	8
Burma	Annual rental value	1952	5
Mexico	Capital value	1947	5b
Pakistan	Annual rental value	1952	5b
Cuba	Annual rental value	1950	4
Nicaragua	Capital value	1951	3
Guatemala	Capital value	1949	2
Brazil	Capital value	1950	1

(*a*) Estimate is for the "istihalak"—The marketing tax collected in lieu of a land tax.

(*b*) Percentage applied to combined receipts of central govt. and states or provinces.

Source—H. P. Wald; Taxation of Agricultural land in Underdeveloped Economics, 1959, quoted in G. S. Sahata's Indian Tax structure and Economic Development.

Productivity of agriculture in the state is increasing. Hence by making the tax base reflect productivity, the revenue yield will undoubtedly increase. Moreover in such a case the owners of waste lands or uneconomic holdings will not be penalised as the incidence of tax on such lands will be very small, In addition, according to the World Bank Mission to Columbia, such a tax "would also operate to depress inflated land value i.e. those not justified by the productive capacity of the land in question and so put better land within the reach of the poorer farmers".[16]

Orissa has witnessed an increase not only in agricultural production but also in agricultural prices......For example, the index number of agricultural prices in the state increased from 100 in 1939 to 498.47 in 1959.[17] The extra gain of the rural sector due to increased prices can and should be brought under the tax purview by adjusting land revenue with price changes. Of course it may not be justified to raise (or reduce) revenue in proportion to the price rise (or fall) at its full face value. Among other things, the cost of production of the cultivator may rise along with price rise and deductions have to be made on this account. However it is not easy to calculate the cost of production of the Indian cultivator. So as the taxation Enquiry Commission, 1953-54 has suggested "a practicable method would be to base the adjustment on a function of the price change".[18]

The commission in its Report has suggested a scheme of changes in land revenue in adjustment to price changes. This can be put into action in Orissa. The commission gives the following scale :

Table 6

A. Increase in Prices.	Increase in land revenue
up to 25%	Nil
25% to 31-1/4%	3-1/8%
31-1/4% to 37-1/2%	6-1/4%
37-1/2% to 43-3/4%	9-3/8%
Above 43-3/4%	12-1/2%
B. Fall in prices.	Reduction in land revenue
up to 25%	Nil
25% to 31-1/4%	6-1/4%
31-1/4% to 37-1/2%	12-1/2%
37-1/2% to 43-3/4%	18-3/4%
Above 43-3/4%	25 %

Source : Report of the Taxation Enquiry commission, 1953-54.

16. The World Bank Mission to columbia: "A graduated land tax", Readings on Taxation in Developing countries, published by the Harvard Law School under the International Tax Programme .
17. Statistical Abstract of Orissa, 1963, Bureau of statistics and Economics.
18. Report of the Taxation Enquiry Commission, 1953-54.

It is a paradox that on the one hand the state needs more and more agricultural output for her development, whereas on the other hand vast areas of land masses in the state lie idle as cultivable waste. In some Latin American countries, penalty is being imposed for improper use of land. This, in the short run, increases the yield from agricultural tax. However in the long run it leads to an increase in agricultural productivity and thereby in land revenue. Introduction of such penalty provision in the scheme of reform of land revenue is also called for in Orissa.

Another component of agriculture tax in Orissa is the Agricultural Income Tax. Agricultural income was made liable to be assessed from 1st April, 1948 under the Orissa Agricultural Income Tax Act, 1947. According to this act any agricultural income which exceeded Rs. 5000/- after making certain deduction like land revenue. irrigation rates maintenance expenses of irrigation works. Expenses for the repair and maintenance of capital assets etc. could be assessed. The exemption limit was reduced to Rs.3000/ from 15th May, 1964.

The yield from the tax after following an erratic path for some time has shown an increasing trend of late. However the contribution made by it to the state exchequer is negligible and it has existed for name sake.

Table 7

The yield of agricultural income tax in Orissa

Year		Agricultural Income Tax in rupees in lakhs
1961-62	...	4·91
1962-63	...	10·73
1963-64	...	5·70
1964-65	...	6·43
1965-66	...	7·20
1966-67	...	6·96
1967-68	...	4·70
1968-69	...	6·53
1969-70 (R.E.)	...	7·76
1970-71 (B.E.)	...	18·00

Source :—Orissa Budget 1970-71.

A suggestion can be made here for the merger of agricultural income tax with general income tax bringing them under One Income Tax Act. This has been strongly recommended by the Taxation Enquiry Commission of the Government of India, 1953-54 and the Orissa Taxation Enquiry Commission as well. Indeed certain anomalies remain if the two taxes are treated separately and only an integration between the two can remove them.

Till very recently the agricultural sector was free from the burden of the wealth Tax. It was only in 1969 that agriculture was brought under the range of this tax. Even then in treatment agriculture enjoys some partiality over non-agricultural wealth. The wealth tax does not include agricultural land subject to a maximum of one hundred and fifty thousand rupees in value, whereas in case of non-agricultural wealth the exemption limit is one hundred thousand rupees. There is no justification in being lenient towards agriculture. Moreover the same anomalies as in case of Income tax will arise by dividing wealth into agricultural and non-agricultural and treating them separately.

It is a fact that the rural people keep the bulk of their savings in non-productive assets or in currency. There is a great scope for the commercial Banks to mobilise the rural resources through expansion of branches and other appropriate measures.

The ultimate success in mobilisation of resources from the agricultural sector will depend upon a sustained increase in agricultural production. However in view of the present trends of agricultural taxation in the state there is a strong case in garnering a part of the huge incomes that the rural sector accumulates for investment for the development of the economy of the state.

MOBILISATION OF FOREST RESOURCES FOR THE ECONOMIC DEVELOPMENT OF ORISSA

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Mobilisation of financial resources, especially in an under-developed region, is one of the important tasks of the planners in a country. In a state like Orissa, one of the backward states of India, under the federal set up of our constitution, mobilisation of resources to finance the plan for the rapid growth of the state's economy is extremely difficult. Orissa remained behind in its economic development due to natural, historical and especially political grounds. Apart from these factors large percentage of hill-tribes population is another special feature of Orissa's composition of population which cannot be ignored while one prepares a blue-print of economic development for the state. Assuming the poverty line at the level of expenditure below Rs. 50 per month per household according to the estimates in 1962, in Orissa 35·4 per cent of people are below the poverty line. Fifty per cent of the rural households depend upon monthly income of rupees between 50 to 100, and 90 per cent of the people reside in the rural areas.

This shows that the taxable capacity of the state is very low. About 2·19 crores (according to the provisional estimates of 1971 census) people of Orissa paid taxes about Rs. 26·93 crores in 1969-70 (Table 3) i.e per capita payment of taxes in Orissa is 13 rupees. This is certainly a high figure for the state which has highest percentage of people under poverty line in India.

Table 1

Revenue and Expenditure of Government of Orissa
(*In crores of rupees*)

Particulars	1961-62	1965-66	1969-70
1. *Revenue Account* :			
(*a*) Receipts ...	37·15	80·39	121·38
(*b*) Expenditure ...	52·36	91·31	130·91
(*c*) Deficit ...	—15·21	—10·92	—9·53

Particulars	1961-62	1965-66	1969-70
2. *Capital Account* :			
(*a*) Receipts ...	118·20	242·63	195·40
(*b*) Disbursements	120·52	240·68	218·58
3. *Overall Deficit/surplus*	—2·32	+1·95	—23·18

Source : Orissa Budget 1969-70, some facts and charts.

Accepting the increase of national income to Rs. 25,000 crores by 1971 as estimated by the National Council of Applied Economic Research which expected 5·64 per cent increase during the period of 1966-71, the Indian per capita income will rise to Rs. 458 at the end of 1970-71. Taking Orissa's per capita income as 83 out of all India index as 100, state's per capita income reaches the mark of only Rs. 339, which is again the lowest in India except Rajasthan and Bihar.

Table 2

Growth Rate of National and per capita income 1961-81

	1955-56	60-61	65-66	70-71	75-76	80-81
1. National Income (crores) ...	12130	1456	19000	25000	34000	52540
2. Growth Rate (each plan) ...	3·45	3·63	5·55	5·64	6·34	9·01
3. Population (crores) ...	39·3	43·8	48·9	54·6	60·3	66·3
4. Per capita Income (Rs.) ...	309	331	388	458	564	792
5. Growth rete of per capita income per cent per annum	1·77	1·38	3·23	3·37	4·25	7·00

Source—Looking ahead : prospects of India's Economy and Trend in 1981.

It is clear now that with the per capita income less than one rupee per day any more increase in the present rate of tax and change in tax-structure will not yield huge amount of revenues for the state to finance the plan. Even though there is more than fourfold increase in the revenue receipts of the state between 1961-70, the deficit in the revenue account continues and there is no contribution to the capital outlay of the state (Table 1). The capital outlay is mainly met from public debt which is gradually mounting. Disbursement in the capital account almost remained constant over the sixties, eventhough the deficit in the revenue account which was Rs.15.21 crores in 1961-62 come down to Rs.9.53 crores in the year 1969-70 and the overall deficit in 1969-70 reached all time high amount of Rs.23.18 crores.

Table 3

Revenue Receipt of Government of Orissa
(*In crores of Rupees*)

	1961-62	1965-66	1969-70	Index Base year 1961-62
1. Tax Revenue	10·34 22%	19·74 25%	26·93 22%	270
2. Non-Tax Revenue	20·34 44%	27·07 34%	31·52 26%	160
3. Contribution and grants from the Central Government	15·46 34%	33·59 41%	62·87 52%	420
Total	46·14 100	80·39 100	121·32 100	263

Source—Audit Report 1966 and Orissa Budget 1969-70—some facts and charts.

It is interesting to note that the tax revenue increased 170 per cent over the decade as against only 60 per cent in the non-tax revenue. The total revenue receipts of Orissa more than doubled in ten years and main reason for this increase, is increase in the resources received from the Central Government under the state's share of divisible central taxes, grants-in-aid under Article 275 of the Constitution and other grants which shows an increase of320 per cent over the central resources of 1961-62 of Rs.46.14 crores (Table 3). The table clearly shows how the state Government is depending more and more on the central grants. The central resources which was 34 per cent of the total revenue receipts of 1961-62 increased to 52 per cent in 1969-70. The percentage of tax revenue to the total revenue receipt almost remained constant throughout the sixties. The tax revenue which was 22 per cent in 1961-62 increased a little in 1965-66 but again came down to same position in 1969-70. But the non-tax revenue declined in percentages during the period of 1961-70. The non-tax revenue which was 20.34 crores, 44 per cent of the total revenue, reduced to 34 per cent in 1965-66 and came down to 26 per cent in 1969-70 with Rs.31.52 crores. The Government has to note this factor and try to increase the non-tax revenue of the states as the mobilisation of tax revenue has limted scope in the State of Orissa.

The Forest Department contributes the highest amount of non-tax revenue to the Government Treasury, even though the forest resources are not properly developed in Orissa. Outturn of forest products per acre of forest area in rupees is the lowest in India.

Table 4

Area and Outturn of Forets in the different states of India

Name of the State	Total forest area (in lakhs of acres)	outturn of forest product (Rs.in lakh)	outturn per acre (in rupees)
1. Assam ...	110·56	82·20	0·74
2. Madhya Pradesh	358·28	507·25	1·42
3. Orissa ...	155·27	121·25	0·78
4. Rajasthan ...	96·00	40·92	0·43
5. Uttar Pradesh ...	96·21	448·62	4·66
6. West-Bengal ...	31·53	89·80	2·85
7. Punjab ...	33·77	80·27	2·38
8. Mysore ...	33·29	122·37	3·67

Source—Orissa Taxation Enquiry Committee Report. 1961

Among—the three States, Assam, Madhya Pradesh and Orissa, which have the highest acreage of forests, Orissa's outturn per acre of forest is only Rs.0.78 which is little higher than that of Assam. Assam has the third position in order of acreage in India, first and second being Madhya Pradesh and

Orissa. The States with smaller acreage of forests like Mysore and Punjab (now Punjab and Haryana) get the highest out turn. Mysore with only 33.29 lakhs acres of forest area, about 1/5th of Orissa's forest gives the highest outturn in India with Rs.3.67 per acre. If Orissa's forest resources which almost remain untapped so far properly are, developed in the lines of Mysore State in a decade's time the present Forest revenue of Orissa of Rs.5.62 crores will increase to the tune of two times according to the standard acreage of revenue of the Mysore forests. Even though this seems to be a very high expectation, if proper attention is paid to the State's forest resources, Orissa can get Rs.25 crores alone from the forests by the turn of the Seventies. This is a very moderate expectation.

In India the forests cover 274,000 square miles, which is about 22% of the total geographical area of the country. About 10% of the Indian forests are in Orissa, which cover 42% of the total geographical area of the State. So Orissa is really a forest State of India. (2) The State with 10% of the country's forests contribute only 4 percent of the total forest revenue of India. Therefore on the average, if the Government of Orissa concentrate in the development of State's forest resources, the forest revenue can be increased to Rs.14 crores by end of 1979-80.

Table 5

Statement of non-tax revenue
(*In lakhs of rupees*)

	1961-62	1965-66	1966-67	1967-68	1968-69	1969-70
1. Forest ...	310·07	470·14	459·25	478·99	566·00	562·00
2. Interest ...	783·77	961·28	992·83	1148·27	1440·91	1438·44
3. Transport ...	142·34	217·89	227·87	238·74	259·60	264·35
4. Multipurpose River scheme Electricity duty	264·52	438·42	266·75	207·82	367·72	198·29
5. Administrative services ...	13·90	30·14	84·16	87·88	63·41	28·73
6. Social services ...	296·28	407·27	527·29	385·25	398·39	437·87
7. Others ...	222·22	171·94	180·41	178·44	203·35	222·14

Source—Orissa Budget 1969-70—some facts and charts.

Out of the three Departments, Forests, Transport & Multipurpose River Vally Schemes, Forest Department provides the highest amount of non-tax revenue to the Government treasury. The forest revenue, which was Rs.73.11 lakhs in 1949-50 increased to Rs.310.07 lakhs in 1961-62, which further increased to Rs.562.00 lakhs in 1969-70. The forest revenue increased 87 percent in 1969-70 in comparison to 1961-62. In this period Transport Department's revenue increased 88 per cent, but the revenue contribution by the Multipurpose River Valley Scheme and Electricity Duty declined by 25 per cent.

Even though both Forest & Transport Departments have shown an increase of revenue almost in the same percentages, the net contribution of the Forest Department is much higher than the Transport Department.

Table 6

Revenue and expenditure of the Forest Department
(*Rupees in lakhs*)

Year		Revenue	Expenditure	Net contribution
1. 1960-61	...	252·94	106·58	146·36
2. 1965-66	...	470·14	151·28	318·86
3. 1969-70	...	562·00	216·11	345·89

Source—Finance Accounts 1960-61, 1965-66 and Orissa Budget—some facts and charts 1969-70.

The net revenue contribution of the Forest Department in 1960-61 was Rs.146.36 lakhs, it was doubled in 1965-66 to Rs.318.86 lakhs and reached Rs.345.89 lakhs by the end of 1969-70. But the Transport Department contributed very meagre amount to the State Treasury. In 1965-66 the Transport Department spent Rs.180.37 lakhs out of its revenue of Rs.217.89 lakhs and contributed only Rs.37.52 lakhs. In 1969-70 the Forest Department. contributed 5 per cent of the total revenue of the Government while spent only 2 per cent of the State's expenses. But the Transport Department's net contribution was virtually nil in this year as its gross revenue contribution was only 2 per cent which was entirly spent by the Department.

It is clearly evident from the above Table that the Forest Department is the only Department, which contributes subtantial non-tax revenue to the State Government. But unfortunately, this paying Department has been neglected and this Department is not regarded as one of the important Departments in the Orissa Secretariat. This Department has been linked to Co-operative Department. It is now high time that Government should have a separate Forest Department instead of keeping it under Miscellaneous Departments.

The Taxation Enquiry Committee appointed in 1958 under the Chairmanship of Dr. P. S. Lokanathan, in the final report submitted to the Government of Orissa in 1961 clearly pointed out the importance of forest resources to increase the non-tax revenue of the State. And again in the Techno-Economic Survey of Orissa published by the National Council of Applied Economic Research, New Delhi of which Dr. P. S. Lokanathan was the Chairman stressed the importance of forest resources.

During the Third Five Year Plan period two important decisions have been taken by the Government to increase the revenue from forests. (1) State Monopoly of Trade in Kendu Leaf was created by Orissa Kendu Leave (Control & Trade) Act, 1961. (2) Incorporation of the Orissa Forest Corporation Limited in 1962.

The revenue of the Forest Department mainly depends on the four of its important forest produces.

1. Timber :—This is a major forest produce of Orissa which contributes about 57 per cent of the forest revenue according to the 1960-61 estimates and till to-day it remained as major source of forest revenue of the State.

2. Firewood & Charcoal :—This contributes 14 per cent of the forest revenues which is mainly consumed inside the State.

3. Kendu Leaves :—It is another major revenue-yielding product of the Orissa Forest. It contributes about 25 per cent of the forest revenue.

4. Grass and other Forest Products :—Grass is one of the high revenue yielding minor forest products, which is mainly used as raw material in the Cottage Industries of Orissa.

Kendu Leaves & Timber, two important forest products of Orissa require special discussion. In case of Kendu Leaves, the Taxation Enquiry Committee Report clearly said "the Committee after considering all aspects of the question are strongly of the view that the system of monopoly purchase be immediately revived." According to this recommendation, Government passed the Kendu Leaf Act in 1961 and undertook Kendu Leaf Trading from May, 1963. According to the provisions of the Act, the Government appoints agents to purchase leaves from the registered growers. The Government fixes the price of the Kendu Leaves, which eliminates the exploitation of the growers by the Kendu Leaf Purchasers which was there before the passing of the Act. The entire expenditure on processing, storage, transport, bagging and handling and purchase of leaves is borne by the Government. The agents get remuneration according to the prescribed Government rate.

Introduction of this Scheme no doubt increased the income from the Kendu Leaves to a considerable extent, but if Government wants to get further benefits from the Kendu Leaves the agent system should be abolished. Instead of purchasing the leaves through the agents, Government should purchase it directly from the private growers and should collect leaves from the Government forests by fixing the remuneration to the leaves collectors. The middle man organisation of agents and registered growers should be abolished and a separate section should be opened under the Forest Department to deal with the kendu leaves exclusively.

Orissa Forest Corporation:

The Corporation was registered as a Public Limited Company under the Companies Act of 1956 in September 1962 and commenced its business one year after in 1963. The main object of the formation of the Corporation is to exploit the forest coupes for the maximum utilisation of the forest resources of the State. The Corporation mainly deals with Timber and Firewood. It supplies the timber to Railways, Director General of Supplies & Disposal, State Government Departments and undertakings. In later years in 1965-66 it took also Kendu Leaves units.

Table 7
Orissa Forest Corporation
(*Rupees in lakhs*)

		Share capital	Loans	Total	Net profit
1. 1962-63	...	25·00	...	25·00	1·09
2. 1963-64	...	35·00	2·50	37·50	3·95
3. 1964-65	...	63·00	9·75	72·75	3·16
4. 1965-66	...	79·90	9·25	89·15	—10·61

Source—Audit Reports 1966 to 1969.

The Corporation got normal profit during its initial stages upto 1964-65. But in 1965-66 there was a heavy loss of Rs.10.61 lakhs, which wiped out all the previous profits. In 1963-64, the Corporation was running 7 Saw Mills and 15 Timber and Firewood Depots. By 1965-66 the number of Saw Mills increased to 13 and that of Timber and Firewood Depots to 17, but from this year the Corporation is sustaining loss even though the sales increased to a considerable extent.

Table-8

Orissa Forest Corporation Income & Expenditure Statement
(*Rupees in lakhs*)

	1962-63	1963-64	1964-65	1965-66
1. Sales ...	15·35	76·90	129·78	178·67
2. Cost of sales :				
(*a*) Raw materials & manufacturing expenses	10·29	45·14	75·44	115·03
(*b*) Salaries and Wages	2·13	3·85	6·32	6·89
(*c*) Opening Stock	6·99	26·07	71·47	116·93
(*d*) Closing Stock	—26·07	—71·47	—116·93	—116·93
(*e*) Depreciation	0·37	2·50	1·88	2·36
(*f*) Other Expenses	20·75	63·85	82·14	108·28
3. Gross Profit	0·89	6·86	9·46	9·29
4. Net Profit	1·09	3·95	3·16	...

Source :— Report of the Evaluation Committee on Public Sector Undertakings, 1967.

The sales of the Corporation, which was Rs. 15·35 lakhs in the first year increased to Rs. 178·67 lakhs in 1965-66, but it could not get any net profit in the latter year, even the gross profit was less than the previous years.

The Taxation Enquiry Committee in its report recommended for the direct management of forest coupes departmentally instead of leasing out to the private contractors, both on the grounds of destruction of forest wealth of the State and revenue.

In the words of the Committee "working of forests through Contractors results in loss of revenue as well as destruction of valuable forests. This system should be replaced as quickly as possible by departmental working. The aim should be to bring under departmental operation an area covering at least 50 per cent of the total annual auction value by about the middle of the Fourth Plan".[4]

Instead of Departmental undertakings, the Government has created a fully owned Government Comapny in 1962 against the recommendation of the Committee. In 1967 Government of Orissa once again invited Dr. P. S. Lokanathan to enquire about the working of the Public Sector Undertakings in the State, and under his Chairmanship a Three Men Committee submitted its report, which is known as Report of the Evaluation Committee on Public Sector Undertakings in Orissa, in June, 1968.

The Evaluation Committee recommended to wind up the Forest Corporation and to manage the sale of timber products departmentally. The Committee recommended the closure of the Corporation mainly on the following grounds :

1. The activities of the Corporation is duplicated by the activities of the Forest Department and there is no proper demarcation of the activities between the Department and the Corporation.

2. The management of the Corporation consists of Forest Officers on deputation from the Forest Department.

3. The Corporation's idea of hoping for the large amount of profit in timber trading and process of elimination of Forest Contractors was not achieved.

Apart from these factors, since the Corporation mainly supplies the timber to the Government Departments by taking contracts from the Department of Forests, it actually acts as an agent in the inter-Departmental business of the Government Departments. After publication of the Evaluation Committee Report there was some agitation mainly by the employees of the Corporation not to liquidate the Corporation on the fear of loosing the employment. But there would not be any difficulty if the employees are absorbed in the Forest Department and coupes operated by the Corporation handled by the Department directly. Therefore, the Government should try to operate directly the timber trade, at least 50 per cent of the coupes of the state as recommended by the Taxation Enquiry Committee in order to increase the revenues from the Forest resources.

Along with the above two suggestions i.e. Nationalisation of Kendu Leaf Trade and Departmental operation of timber coupes after the liquidation of Orissa Forest Corporation, the Government of Orissa should also consider the following suggestions to increase the non-tax revenue of the State by proper utilisation of forest resources.

1. The State Government has no forest policy of its own and has been following generally the National Forest Policy laid down by the Government of India. But as the Taxation Enquiry Committee was of the opinion that a national policy is little too general to guide particular regional problems, Government should consider to form a Forest Board to give advice on the forest policy to be executed by the State.

2. Industries based on forest products should be developed in the State nearer the sources of the raw materials. One of the main forest products of Orissa is bamboo, which is used as raw material in Paper Mills. If the bamboo forest is properly developed, Orissa can establish two more Paper Mills. This should be in the Public Sector under the Forest Department. These industries not only increase the forest revenue of the State, but also promote employment in the rural sector and help the development of economic conditions of Tribal people, who mainly reside near the forest.

3. Proper development of natural parks to preserve the forest animals and development of games sanctuaries will attract foreign tourists to Orissa and thereby not only the country will earn foreign exchange, but also Orissa can increase the revenue of the Forest Department.

RESOURCE MOBILISATION AND RESOURCE DISSIPATION IN ORISSA DURING 1961—71

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The need for mobilisation of resources in a developing State like Orissa is more urgent to-day than ever before for meeting its gigantic task of economic and social development. This problem has attracted serious attention of planners and experts in the field to recommend possible sources of revenue which might yield substantially to augment the resources already available in the State. Many suggestion evolved and implemented in past have added additional wealth to the existing resources of the State. The search for resources still continues and it has to continue with greater effort for the survival of a people and a State.

The efforts made and resources collected in the past did not bear much fruit and much of them were utilised for purposes other than development. In other words, wealth thus created by this additional effort to cause development and to bring prosperity to the State was diverted and utilised for some other non-development activities of the State. The additional resources mobilisation increased to the total receipt of the State Government and the simultaneous inclusion of few unexpected and abrupt non-development expenditures during the last 10 years have swelled the total State Expenditure. Both receipt and expenditure of the State have increased from Rs. 46·13 crores (1961-62) to Rs. 132·30 crores (1970-71) and Rs. 61·35 crores to Rs. 143·46 crores respectively. In spite of this manifold increase in State receipt and expenditure, the development work failed to move on the expected lines due to the reasons described above which squeezed the resources of the State and put the State into a very tight position. This left very little resources to undertake massive development work. These additional expenditures have taken almost every thing which were raised through additional effort during the last 10 years from 1961-62 to 1970-71.

The following table shows the quantum of additional resources raised in the State durinơ the last 10 years from 1961-62 to 1970-71.

TABLE 1

Mobilisation of Additional Resources in Orissa from State's own sources.

(*Rupees in lakhs*)

Period	Additional increase	Annual turnover	Total turnover
(1)	(2)	(3)	(4)
1961-62 to 1965-66	3225	3225	19350
1966-67	151	3376	755
1967-68	267	3643	1068
1968-69 (Provisional)	413	4056	1239
1969-70 (do)	275	4331	550
1970-71 (do)	602	4933	602
Total ...	4933	4933	23564

This reveals that annually Rs. 49·33 crores of new resources have been added during the last 10 years to the existing resources. The cumulative additional turnover was of the order of Rs. 235·64 crores during these years raised by the State from its own sources. Additional resources came through shared taxes. Central grants, etc., have not been taken into consideration here due to its external origin. It goes to the credit of the State Government to earn roughly 50 crores of additional resources per annum from its internal sources. This could have certainly helped this backward State in a big way to undertake massive development work. The aim of developing the State was completely shattered due to certain factors which have been discussed in the following paragraphs.

One such factor was the rising of prices. This has made the cost of living dearer. Price rise affected very much the salaried employees who are mostly Government servants. Abnormal price rise of essential commodities put the Government servants in a very pitiable condition. The All India consumer price Index showed a rise of 88 points during 1961-62 to 1969-70 over 1961-62 prices. This abnormal situation demanded immediate action to neutralise the effects of this price rise. Government rose to the occasion and granted increased dearness allowance to its roughly 3 lakhs employees at different point of time. The cumulative effect of this abrupt, unexpected and huge expenditure affected the State Budget very much. The magnitude of this effect has been calculated from the State budget and presented in the table 2.

Table-2

Financial burden due to increase in Pay, Dearness allowance in Orissa from 1961-62 to 1970-71

(*Rupees in lakhs*)

Period		Net measures	Annual extra burden	Total burden
(1)		(2)	(3)	(4)
1961-62	...	275	275	2750
1962-63	...	12	287	108
1964-65	...	54	341	378
1965-66	...	210	551	1260
1966-67	...	247	798	1235
1967-68	...	938	1736	3752
1968-69	...	126	1862	378
1969-70	...	650 (Provisional)	2512	1300
1970-71	...	460 (do)	2972	460
Total	...	2972	2972	11621

The cumulative annual burden has come to Rs. 29·72 crores annually in a budget of Rs. 143·46 crores and forms 20·7 per cent of the total expenditure in the budget of 1970-71. The total liability came to Rs. 116·21 crores during a period of 10 years. This unexpected expenditure crept into the State budget and took almost half of the additional resources mobilised during the period under discussion. Money raised for undertaking development work was spent for paying dearness allowance to its employees to neutralise the rising cost of living. The State has no control over price rise. As a result the hard earned resources were spent for unproductive purposes. The solution of the problem arising out of price rise could cost the State Government Rs. 116·21 crores in a period of 10 years and this also inflated the pay rolls of the Government servants to Rs. 48·75 crores annually in a budget of Rs. 143·46 crores.

Similarly debt servicing became another cause of anxiety. It cost the State much. Debt servicing was very small in the First and Second Plan periods. In 1951-52 annual burden was of the order of Rs. 0·5 crores and it became 3·12 crores in the beginning of the Second Plan period. This swelled to Rs. 8·82 crores by the beginning of the Third Plan. Thereafter it became massive and the annual burden has reached Rs. 22·90 crores in 1970-71. Table 3 indicates the annual and total burden of debt servicing during a period of 10 years.

Table 3

Burden of debt servicing in Orissa from 1961-62 to 1970-71
(*In lakhs of rupees*)

Period		Extra burden	Annual burden	Total burden
(1)		(2)	(3)	(4)
1961-62	...	...	882	8820
1966-67	...	602	1484	3010
1967-68	...	289	1773	1156
1968-69	...	122	1895	366
1969-70	...	156	2051	312
1970-71	...	239	2290	239
Total	...	1408	2290	13903

Its effect on the Revenue budget of the State was tremendous. A burden of Rs. 22·90 crores annually and Rs. 139·03 crores in a period of 10 years was too heavy for a small revenue budget. There exists hardly any clear picture about the benefits accrued to the State from the public debt.

It would have been beneficial had there been a clear picture on the utilisation and outcome of vast public debt raised and utilised in the State. This could have helped for a comparable study between its outcome and debt servicing. In this connection an extract from the Memorandum of the State Government to the Fifth Finance commission is quoted here. It says "Normally, all revenue expenditure should be met out of current receipts and Loans should be utilised only for financing capital investments. It has, however, not been possible to follow this basic principle of sound financial management as a result of which finances of the State have been considerably weakened. The cumulative Revenue deficit which was estimated at Rs.16·51 crores at the beginning of the Third Plan period, has increased to Rs.50·41 crores by the end of 1966-67, and is excepted to go up to Rs. 65·25 crores at the commencement of the Fourth Plan period. The mounting deficits are met with the help of borrowed funds, return on which is nil".[1]

Another factor which impairs the finances of the State is unproductive expenditure even in Capital Account. According to present practice, all expenditure which tends to increase assets is treated as capital expenditure irrespective of whether the assets yield any return or not. Capital outlays on roads, irrigation projects, drainage, water supply and flood control do not yield any significant return. Money spent on industrial development takes considerable time to nature. Agricultural investments are found to be unremunarative because of the emphasis on research and exteneion aspect of the programmes. State's memorandum to the Finance Commission admits......"major portion of the capital outlay of the State is not remunerative and, therefore, the debt incurred for its financing imposes a heavy burden on the State which finds it extremely difficult to discharge the debt servicing liabilities out of its revenues". The memorandum further admits"......over a period of 15 years, the burden of the debt has increased by as much as 2575 per cent and it can be easily visualised that dept burde will increase more sharply in the next few years when heavy repayments will be due". It has become already a practice to repay loans out of fresh borrowings and this vicious circle has weakened the finances of the State more and more. A substantial part of the Public debt has been givenin shape of advances to farmers, local bodies, displaced persons, co-operatives and State undertakings etc. and its recovery is difficult and in many cases amounts would be irrecoverable. All this has put the State finances into a very difficult situation and has led the State to regular ovrdrafts. This leads us to the conclusion that both the repayment of public debt and interest charges have become a very big burden on the State. Interest charges amouting Rs. 23 crores annually take about 17 per cent from the State's Revenue

1. Govt. of Orissa Memrandum to the Fifth Finance Commission

budget. It would take more and the burden would be heavier in the coming years.

Another major cause of worry is the additional expenditure required for Plan maintenance. The increasing volume of Plan maintenance is not unexpected as the asstus and institutions built up during plans have to be maintained. It has been etimated that Rs. 59·62 crores of rupees extra will be required for plan maintanence expenditure during the Fourth Plan period. This amount will have to be taken into consideration and resources of this order will have to be found out to maintain the staff created during plan perids and working expenses on operational maintenance of assets created by plan.

All these problems together have shattered the State finance and created an unusual condition for the State. Among these problems, increasing interest payment and rise in dearness allowance have come out as two important dangers to the State finance. The total effect of these dangers, may be noticed from Table 4.

Table 4

Total burden of debt servicing—and Dearness allowance from 1961-62 to 1970-71.

(*Rupees in lakhs*)

Items	Extra burden	Annual burden	Total burden
(1)	(2)	(3)	(4)
1. Interest charges	1408	2290	13903
2. Dearness Increase	2972	2972	11621
3. Total (1 + 2)	4380	5262	25524
4. Resources mobilised	4933	4933	23564
5. Resources available for development work	(+) 553	(—) 329	(—) 1960

This combined table indicated the extra annual burden of the order of Rs. 43·8 crores which was added to the existing burden during this decade. Interest charges rose from Rs. 8·82 crores to Rs. 22·90 crores and Dearness allowance increased by Rs. 29·72 crores annually. In absence of data on expenditure regarding total Dearness allowance, this has been accepted as the total expenditure on the item. This annual burden would rise after the data is available. The cumulative effect of this was Rs. 255·24 crores from 1961-62 to 1970-71 which is Rs. 19·6 crores more than what the additional resources gave to the State budget during this peiord .

It would not be out of the place here to present another table which indicates the tight position of the State finance.

TABLE 5

Pattern of expenditure of the State Government

(Rupees in crores)

Sl. No.	Items of expenditure	1968-69 (Accounts)	1969-70 (R. E.)	1970-71 (B. E.)
(1)	(2)	(3)	(4)	(5)
1.	Wages and salaries	36·90	41·34	48·75
2.	Commodities and Services	20·24	22·69	20·85
3.	Interest	19·45	20·64	22·90
4.	Grants	17·54	19·67	20·26
5.	Subsidies, Pensions, Stipends. scholarship, privy purses, Relief, etc., including Depreciation provision	5·73	6·49	7·67
6.	Total (Items 1+2+3+4+5)	99·86	110·83	120·43
7.	Total Revenue Budget (Receipt)	116·62	130·40	132·38
8.	Surplus Revenue (Col. 7—6)	16·76	19·57	11·95

These expenditures are unavoidable and its gradual rise from year to year has narrowed gap between these unavoidable expenditure and total receipt of the State. These expenditures from 86,85 and 91 per cent respectively in the total Revenue of the State. It left a very little resource even to maintain existing activities such as roads, buildings, institutions and the like. In many cases, maintenance part is neglected and the little resources whatever are available are utilised for new work. It prevents to undertake massive development work. This leads to the conclusion that certain categories of expenditures are unavoidable and their increase from year to year depletes the resources which could have been utilised for economic development. Secondly, in a federal structure as in India, a State Government is incapable of arresting the price rise, which is an all-India phenomenon, yet it has to bear the adverse consequences arising out of it, over which it has almost no control. In view of this position both tax and non-tax efforts of the State Government in augmenting the resources have proved only of marginal value.

To implement development work vast resources are necessary and the search for resources is genuine. Hard earned Resources collected would be dissipated if the following measures are not taken: (1) Price rise needs to be controlled immediately to save resources which were diverted for neutralising rising cost of living. (2) Control over non-plan committed expenditure, particularly of the Category of non-development is absolutely essential. This should be keept within reasonable limit and should not be allowed to consume resources meant for undertaking development work. (3) Public debt should be effectively utilised. Loans raised in the State should be utilised for revenue yielding assets rather than on items of revenue expenditure. Otherwise debt servicing and loan repayment will complicate further the State finance which has already become complicated.

Therefore the need has become greater to-day for checking these dangers which eat all available resources of the State. Unless these are checked their will be greater erosion of resources and the purpose for mobilisation of resources would remain unfulfilled. Serious efforts are needed urgently to control the forces of erosion and save what we have achieved already and what we are going to achieve in the future.

SMALL SAVING AND THE ECONOMIC DEVELOPMENT OF ORISSA

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Economic development entails three processes—creation, mobilisation and utilisation of surplus. These processes do not take place smoothly in a backward economy lacking in appropriate institutional set up, psychological motivation and entrepreneurial skill. The importance of augmenting small savings for capital formation in a predominantly rural economy of ours cannot be overstressed. The paper attempts to analyse factors influencing saving, small saving in particular and suggest measures to step it up.

Departments of Saving :—

The vicious circle of low income, low demand on investment and low rate of saving needs no repetition. What needs particular attention is that the meagre saving which poor economy can eke out often does not flow into domestic Capital market because of the following reasons :—

(i) Demand for goods of industrial origin being slender autonomous industrial expansion is too weak to tap the saving.

(ii) The small number of enterprising people invest their meagre saving in speculative trade giving high profit margin. This does not create real capital.

(iii) Often the saving is dissipated by purchase of luxury goods.[1]

Capital can be formed by three ways such as (*i*) the slum process-poverty, misery, long hours of work and unemployment—the method of capitalist exploitation, (*ii*) the Siberian process—the ruthless using of men by the Government and (*iii*) the democratic process of seeking co-operation of the people. Voluntary Saving can be promoted by a number of ways. Prof. Duesenberry pointed out that aggregate saving ratio depends on (a) interest rate, (b) relation between current and expected future income, (c) distribution of income, (d) age distribution of population and (*e*) rate of growth of income. Because of the discontinuity in preference functions

1. Brahmanand Prasad "Planned Capital Formation in India" Vora and Co, 1965,

the aggregate savings ratio will be rather insensitive to changes in interest rate, expectation and preference parameters. Propensity to save however is a rising function of his percentile position in economic distribution.[2] The committee on Fair Wage was aware that unequal distribution of income will promote saving but it did not justify it as such inequality will offend against social conscience. Prof. Lewis was of the view that capital formation depends not on level of per capita income but on the distribution of income between the capitalist and subsistence sector.[3]

Prof. Houthakar also noted that the propensity to save out of entrepreneur's income is higher than that out of wage income as the entrepreneurs have direct access to investment opportunity.[4] This view finds corroboration in the N C A E R study of Urban Income and Saving where self-employed as a class in urban area save $1\frac{1}{2}$ to 2 times as much a portion of their income as the employees.

Further Capital formation depends on the rate of profit on capital. Rate of profit of depends on the relation between real wage, productivity and capital labour ratio :

Thus the growth of saving is influenced by (*a*) growth of income, (*b*) profit expectations, (*c*) Change in productivity, (*d*) wage, (*e*) Composition of economic classes, (*f*) fiscal and monentary policy influencing current expenditure, price level and interest rates.

The constraints of saving discussed above are prominently present in our state. In the following sections we propose to analyse the need and growth of Small Savings in Orissa in relation to various economic variables.

Meaning and importance of Small Savings :

The fundamental aim of small Saving Scheme is to inspire and encourage people to take part in the National Development Programme on—the home front and in Defence programmes on the National Front by contributing their mite in the shape of deposits in various forms of savings securities. Small savings are of great significance for a backward state like Orissa which is rightly called a land of poverty amidst plenty.

2. Quoted in Democratic Socialism by Asoka Mehta—Bhartiya Vidya Bhawan 1963, P. 132.
3. W. A. Lewis—Economic Development with unlimited Supplies of Labour—Manchester School of Economic and Social Studies May, 1954.
4. H. S. Houthakar "An International comparison of personal Saving" Bulletin of International Statistical Institute-38.

Small Saving constitutes an important component of the savings of the household sector. Household sector saving may be held in form of (*a*) liquid asset-currency, bank deposit and gold, (*b*) financial assets-securities, insurance policy and (*c*) physical asset-houses, agricultural implements.

Household sector saving constitutes a very large portion of the total saving in the country. If small saving is an important component of household sector saving, it is bound to have a place of pride in the scheme of total saving. The rural household sector saving however is a relatively small portion of the total saving (Vide Table 3).

These indicate that urban households play important role in total saving.

Since estimation of the value of assets and other financial assets is not available we fall back upon small saving, the data of which are systematically available, to reflect the trend of change in the saving in the State.

The target for the collection of Small Savings in the 4th Plan of India is Rs.800 crores or Rs.160 crores per year. The Fourth Five Year Plan of Orissa states that an investment of Rs.454 crores will be necessary to absorb the 11.35 lakh job seekers during the Plan. To raise the per capita income of the State from Rs.274 to Rs.455 (Indian level in 1971) an additional income of Rs.420 crores is needed. This additional income will necessitate investment of Rs.697 crores on the basis of investment ratio of 1 : 66.[5] Such a huge investment cannot materialise unless sufficient internal resource is created.

Growth of Small Savings in Orissa :

It is found in the Table 1 that Small Saving in the State increased by 40.8 per cent during 1958-59 to 1968-69 and 124.8% between 1958-59 and 1967-68. The rates of growth in different districts are not only fluctuating over the years, but also uneven. The greatest rate of growth has occurred in the district Sundergarh followed by Koraput, Mayurbhanj, Keonjhar, Cuttack and Puri. As to the percentage of saving shared by different districts, Sundergarh occupies 1st. position in 1967-68 followed by Cuttack, Mayurbhanj Keonjhar and Puri. The order in 1958-59 is Cuttack, Sundergarh, Balasore, Sambalpur Mayurbhanj, Balangir and Keonjhar. Balangir retains its rank. Change in rank of Sundergarh and Keonjhar may be attributed to the growth of industrialisation that occurred in the decade.

5. Fourth Five Year Plan Draft, 1968—1973-74.

What factors then account for the differential rate of growth in small saving in the districts or the differing volume of total saving in the districts ?

The rate of increase in small saving may be understandably influenced by (1) level of per capita income, (2) income originating from factories, (3) per capita gross value of agricultural output, (4) number of workers per lakh of population in factories, (5) percentage of literacy, (6) rate of total development and (7) population.

Comparing the ranking of total Saving of 1958-59 with per capita income in 1956-57 given by NCAER study in the Table 2-A we find no signficant correlation. Sambalpur occupies the first position in respect of per capita income but is 4th in term of total saving. While Cuttack and Puri occupied 2nd place in term of per capita income, Cuttack held 1st. position and Puri the 8th position in Saving in 1958-59. Balasore having 10th position in per capita income held 3rd position in saving. Thus per capita income could not influence total saving perhaps because of difference in population and the time lag between the 2 periods.

Comparison between ranking of income originating from factories and saving in 1958-59 similarly shows inconsistent relation. Sundargarh being 1st. in respect of factory income held second position in saving. Keonjhar having 2nd position in factory income held 7th place in saving. Cuttack having 6th position in factory income held 1st. position in saving. The correlation is vitiated by differential population size. Considering the smaller area and population of Sundargarh and Keonjhar, the position in saving 2nd and 7th respectively is probably accounted for by their greater share in factory income in the State.

Comparing the ranking of savings to per capita gross value of Agricultural output in 1967-68 and 66-67 respectively we find that in respect of gross value of Agricultural output Sambalpur is first followed by Cuttack, Puri, Balasore, Balangir and Keonjhar (Table 2A). Ranking of saving in 1967-68 is Sundargarh, Cuttack, Mayurbhanj, Keonjhar, Puri, Balangir and Sambalpur.

Thus though there is no direct cent percent correlation excepting Sundergarh, the first 7 districts in respect of saving also are the 1st. seven in per capita gross agricultural output. Sundergarh is an exception because of its heavy dependence on mines and factories.

As to the ranking of workers in factories per lakh of population Sundergarh, Sambalpur, Cuttack, Balasore, Mayurbhanj, Keonjhar are in order. These are the districts having first 6 places in saving.

Ranking in literacy gives the following order Cuttack, Balasore Puri, Dhenkanal, Ganjam. Sambalpur. Ganjam, in spite of its high place in literacy, does ont find respectable position in saving . Sundergarh's lower position literacy does not hamper its saving.

Ranking in order of total development puts the districts in following order :—Vide Table 2B (3)

Cuttack, Sundergarh, Sambalpur, Balasore, Puri, Ganjam, Balangir, Dhenkanal and Keonjhar.

Except for Cuttack, Sundergarh, Sambalpur, Balasore and Puri correlation between total development and saving does not appear to be close.

All these point out that no single factor accounts for the rate or volume of saving in the districts. The most important factors that influence small saving in various districts appear to be (1) per capita income, (2) proportion of factory income, (3) Number of workers in factory per lakh of population, (4) per capita gross value of agricultural output, (5) total development. Lack in one may be compensated by the other as low agricultural produce in Sundergarh is compensated by high factory employment.

In terms of per capita saving in 1967-68 the ranks are Sundergarh, Keonjhar, Mayurbhanj, Cuttack, Sambalpur, Balangir (Table 6).

Ranking in factory employment is — Sundergarh, Sambalpur, Cuttack, Balasore, Mayurbhanj and Keonjhar. (Table 6).

The districts in order of total saving are Sundergarh, Cuttack Puri, Mayurbhanj, Keonjhar.

This shows, wherever per capita saving is high total saving is also high.

There is some connection between index of food production and total saving in the State. From 1958-59 to 1964-65 index of food production rose from 95.3 to 133.9 with base 1956-57-100. During this period small saving rose from 100 to 169·8. In the subsequent year index of food production tell to 100 so also index of saving. Rise in index of food production in 1966-67 augmented further rise in saving index (vide Tables 6 and 1). Similarly with the rise of per capita income from 1958-59 to 1962-63 (from index 91.6 to 138.8 with base 1951-52=100). Saving rose from 100 to 160.5 upto

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1963-64 (vide Tables 1 & 5). Fall in per capita income next year however did not lead to fall in Saving. Thus there is no consistent correlation between saving and per capita income though with index of agricultural production increase in saving has some link with marketable surplus of rice. Increase in marketable surplus upto 1964-65 was associated with increased saving. And fall in surplus in 1965-66 led to fall in saving.

The data suggest that increase in small saving is positively linked with increase in food production and marketable surplus of rice and partly but inconsistently associated with the rise in per capita income. It has also no direct relation with the rise in food price. Despite heavy rise in food price and price of rice in 1965-66 there was relative decline in small saving.

The magnitude of Small Saving in the State is extremely meagre in relation to the need. This is inevitable when the income of the people in the State is low and consumption Standard disappointing. The 17th round N.S. Survey in respect of State samples shows the average per capita rural expenditure to be Rs. 21.13 and that of urban area to be Rs. 30.39. The inter-state Enget's Ratio for 1959-60 shows that expenditure on food items as percentage of total expenditure is higher in Orissa than the all-India average, being 73.11 and 70·76—for rural and urban areas respectively, against corresponding all-India figures of 70.14 and 61.40.[6]

Prof. Dandekar and Nilakantha Rath think that a per capita monthly expenditure of Rs. 15.00 in rural area and Rs. 22.5 in urban area were the desirable minimum in 1960-61. On this basis 40 per cent of rural population and 50 per cent of urban population live below the desirable level in the country.[7] The corresponding percentages for Orissa are still larger. The 17th Round N. S. Survey further reveals that percentage of rural population in Orissa coming under the monthly expenditure of Rs.10-00, Rs.11.20, Rs.21.30, Rs.31.40 were 13.71, 51.97, 23.00 and 5.43 respectively. These figures suggest that 90 per cent of the population and 83 per cent of households in rural Orissa spend not more than Re.1.00 per day.[8] Since Orissa is a predominantly rural State and its income and consumption levels are miserably low, generation of adequate saving is extremely difficult.

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6. Applied Economic Studies—Bureau of Statistics & Economics, Government of Orissa Vol. II., August, 1967. P. 163.
7. Prof. Dandekar & Nilakantha Rath—Poverty in India—Dimension and Trends—Economic and Political weekly—January 2, 1971.
8. Applied Economic Studies P. 142.

Conclusion :

The preceding discourse suggests that promotion of voluntary saving in the State necessitate the following :

(*i*) Over-all economic growth and increase in per capita income.

(*ii*) Rise in food production—aggregate and per capita.

(*iii*) Rise in marketable surplus of food and other agricultural products along with the increase in per capita gross agricultural product.

(*iv*) Structural change in favour of factory employment.

(*v*) Expansion of literacy.

(*vi*) Expansion of the coverage of population under small saving scheme.

Table 1

Achievement in Small Saving Collection from 1958-59 to 1969-70
in Orissa, Districtwise

(*Rupees in Lakhs*)

Year	Cuttack		Puri		Balasore		Mayurbhanj		Sambalpur		Sundergarh		Balangir	
1958-59	24·76	100	7·87	100	18·34	100	10·07	100	10·59	100	21·20	100	8·80	100
1959-60	33·90		12·53		7·40		10·09		10·31		17·64		4·15	
1960-61	38·32	155·0	24·59		5·55		11·03		38·91		24·17		6·52	
1961-62	44·94		17·99		11·40		10·67		18·89		331·01		13·84	
1962-63	51·58		17·58		17·51		17·25		19·25		60·30		26·86	
1963-64	42·10		19·52		12·42		8·98		27·76		73·12		7·93	
1964-65	46·96		14·03		17·06		13·44		11·99		101·18		4·64	
1965-66	54·93	221·8	15·49		22·52		16·66		17·41		117·63		(—)15·57	
1966-67	36·71		15·66		16·05		17·16		12·16		135·98		(—)4·76	
1967-68	55·61	224·5	17·01	216·1	14·17		24·86	246·8	14·90	140·7	147·12	694·0	15·39	174·8
1968-69	38·56		26·76		6·22		2·99		32·39		165·14		23·04	
1969-70	21·12	85·3	11·71		8·83		0·18		45·80		65·54		(—)1·72	
P. C. Increase between 1958-59 to 1968-69				124·5										

Source : Continued.

Table I—*Continued*.

Achievement in Small saving Collection
(Rupees in lakhs)

Year		Keonjhar		Dhenkanal	Ganjam		Phulbani	Koraput		Kalahandi	Total	
1958-59	...	8·65	100	6·44	3·92	100	2·94	4·57	100	1·70	152·30	100
1959-60	...	7·19		8·78	9·78		2·22	3·73		4·99	155·00	101·1
1960-61	...	8·16		4·02	10·67		1·57	3·26		5·61	190·58	125·1
1961-62	...	9·14		5·45	13·18		2·33	5·39		6·36	192·59	126·4
1962-63	...	13·35		4·79	9·12		1·63	7·50		6·54	253·35	166·3
1963-64	...	9·84		7·46	14·05		3·65	14·32		6·37	244·48	160·5
1964-65	...	10·14		11·04	4·57		4·38	3·17		25·89	258·68	169·8
1965-66	...	7·76		6·54	4·73		1·03	7·22		(—)14·05	242·30	159·0
1966-67	...	17·02		4·01	7·51		3·04	7·37		0·085	267·11	175·3
1967-68	...	20·98	242·5	7·68	3·85		3·60	13·71	300·00	3·46	342·38	224·8
1968-69*	...	3·45		11·70	14·72		4·18	16·53		2·04	347·74	228·3
1969-70*	...	5·99		10·65	19·86		7·85	12·87		5·49	214·49	140·8

Source : Annual Administration Report of the Small Saving Directorate for 1966-67 P=5-6 PP 50-53, 1967-68 P-4
*Courtesy of the Director of Small Savings & Secretary to Government, Finance Department, Orissa.

Table 2A

Small-saving Collection in districts as total in the State

Districts	1958-59	Rank	1967-68	Ranking according to percentage of Saving	Ranking according to per capita income	Ranking according to income originating in Factory as % of total
1	2	3	4	5	6	7
Cuttack	16·2	1	13·3	2	2	6
Puri	5·1	8	5·0	5	2	9
Balasore	12·0	3	4·1	...	10	10
Mayurbhanj	6·6	5	7·2	3	11	3
Sambalpur	6·9	4	4·3	7	1	4
Sundergarh	13·9	2	42·9	1	7	1
Balangir	5·7	6	4·5	6	8	5
Keonjhar	5·6	7	6·1	4	5	2
Dhenkanal	4·2	...	2·2	...	4	11
Ganjam	2·6	...	1·1	...	3	12
Phulbani	1·9	...	1·0	...	6	7
Koraput	3·0	...	4·0	...	9	13
Kalahandi	1·1	...	1·0	...	12	8

Note :—Cols. 2 and 4 Percentage calculated from Table 1.
Cols. 6 and 7 are based on NCAER both in "Interdistrict and Inter-State Income Differentials—1955-56 Occasional papers No. 6.

Table 2B

Ranking A/C—Indicators of Development 1966-67

District	Per capita Gross value of Agricultural Output.	Number of workers per lakh of people in factories.	Percentage of literacy	Rank beginning with least developed.
	(1)	(2)	(3)	(4)
Balasore	4	4	2	10
Balangir	5	7	...	7
Cuttack	2	3	1	13
Dhenkanal	9	11	3	6
Ganjam	7	7	4	8
Kalahandi	8	10	...	1
Keonjhar	6	6	7	5
Koraput	7	9	...	4
Mayurbhanj	8	5	8	3
Phulbani	11	12	...	2
Puri	3	8	2	9
Sambalpur	1	2	5	11
Sundergarh	10	1	6	12

Source : Collected Papers, pp. 17-18

Table 3

Volume and Pattern of Saving

	First plan Average	Second plan average	1962-63	1950-51 to 1962-63	% rise
Total saving Rs. Crs. at 1948-49 Prices	650·8	983·1	1256·5	860·4	...
Total saving as P.C. of N. Income	6·6	8·5	9·5	7.8	...
Household sector saving Rs. Crs.	495·7	767·4	833·9	641·5	72·5
H. Sector Saving As % of N. Income	5·0	6·6	6·3	5·8	...
Rural Household Sector Saving	163·7	185·2	199·1	176·1	21·5
R. H. Sector Saving as % of total saving	25·1	18·8	15·8	205	...
R. H. Sector as % of N. Income	1·6	1·6	1·5	1·6	...

Source : Estimate of Saving and Investment in the Indian Economy 1950. pp 62-63.

D. R. Khatkahte and K. L. Daspande, R. B. Bulletin March, 1965. P. 330.

Table 4

Index of Foodgrain Production
Consumer Price for food groups

Year	Index of food production	Consumers price for goodgrains	Retail Price of rice	Marketable rice Lakh tons.
1956-57 ...	100	100	...	...
1957-58 ...	75·7	101·9	...	...
1958-59 ...	95·3	107·5	100	...
1959-60 ...	109·3	108·4	119·05	...
1960-61 ...	108·8	117·8	104·76	...
1961-62 ...	109·5	118·7	119·05	11·46
1962-63 ...	117·3	128·0	140·48	11·25
1963-64 ...	131·1	140·2	183·34	13·16
1964-65 ...	133·9	167·3	238·10	13·52
1965-66 ...	100·9	181·3	250·00	9·88
1966-67 ...	117·7	194·5	...	10·96
				10·54

Price Incentive and Production Response in Agriculture
C. Misra and P. N. Das—Orissa Economic Journal
Vol. 1., No. 1 pp. 81—87.

Table 5

Index of per capita Income in the State 1958-59 Price.

		1951-52=100
1952-53	...	104·2
1953-54	...	104·0
1954-55	...	104·0
1955-56	...	103·2
1956-57	...	104·6
1957-58	...	91·6
1958-59	...	102·2
1959-60	...	110·4
1960-61	...	112·5
1961-62	...	114·0
1962-63	...	138·5
1963-64	...	116·2
1964-65	...	118·6
1965-66	...	108·8

Bureau of Statistics and Economics, 1966-67. Budget Speech of Chief Minister.

Table 6

Per capita Small Saving and Ranking—Districtwise, 1967-68

Name of the District		Per capita Saving Rs.	Rank
Kalahandi	...	0·34	11
Koraput	...	0·91	8
Sambalpur	...	1·65	5
Balangir	...	1·39	6
Ganjam	...	0·20	12
Sundargarh	...	19·6	1
Dhenkanal	...	0·77	10
Puri	...	0·81	9
Keonjhar	...	2·79	2
Cuttack	...	1·85	4
Mayurbhanj	...	2·07	3
Balasore	...	1·00	7

Note :—Per capita saving has been derived by dividing total Small Saving of districts by their respective total population as per 1961 Census.

Table 7

Percentage of Population which has joined the Saving Scheme. in 1967-68

Cuttack	...	$3\frac{1}{2}$ %
Puri	...	3 %
Balasore	...	$3\frac{1}{2}$ %
Mayurbhanj	...	2 %
Sambalpur	...	3 %
Sundargarh	...	5 %
Balangir	...	$1\frac{1}{2}$ %
Keonjhar	...	2 %
Dhenkanal	...	2 %
Ganjam	...	$1\frac{1}{2}$ %
Phulbani	...	$1\frac{1}{2}$ %
Kalahandi	...	1 %

Source :—Annual Administration Report of the Small Savings Directorate for 1966-67 Finance Department, Government of Orissa, pp. 34-35.

DISTRIBUTION OF CENTRAL ASSISTANCE TO STATES AND ITS IMPACT ON THE RESOURCES POSITION OF ORISSA

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India's pattern of Economic planning has been mainly resource-based rather than need-based. In the federal structure, as has evolved in India, most of the powers for raising resources are vested in the Central Government. Under this condition, state plans have mostly been, what may be termed as 'aid-based plans' as these are heavily dependent on the aid from the Centre available in the form of Central plan assistance.

2. The committee of National Development Council had formulated the following criteria for distribution of central assistance to the States during the Fourth Plan period.

(*i*) 60% on the basis of population,

(*ii*) 10% on the basis of per capita income,

(*iii*) 10% on the basis of per capita taxation in relation to per capita income.

(*iv*) 10% on the basis of spill-over on account of continuing major irrigation and power schemes.

(*v*) 10% on the basis of special problems of the states.

3. The total central assistance for the Fourth Plan period for the states has been fixed at Rs. 3500 crores. The National Development Council had decided that the requirements of the three states viz. Assam, Nagaland and Jammu and Kashmir should be first met out of divisible pool of central assistance in the following manner.

Assam	...	Rs. 220 crores
Nagaland	...	35 crores
Jammu & Kashmir		145 crores
Total	...	400 crores

4. The balance of Rs. 3100 crores was to be allocated to other states on the basis of the criteria outlined above.

5. In the statement 'A' in the Annexure the actual allocation to different states on the basis of the first three criteria has been worked out.

Population :

6. Projections of population made by the expert committee under the Registrar General of India for the year 1971, which is the mid-year of the Fourth Plan have been used for this purpose.

Per capita State Income :

7. Estimates of State income and per capita income furnished by the C.S.O. for the year 1964-65 have been utilised. The Planning Commission, in calculating the distribution under this criterion had adopted a deviation method under which each state would get the allocation depending upon the variation of its per capita income from the all-India average. According to this criterion, the allocation for a State was given by the formula

$$\frac{T}{p} \times \left(1 + \frac{X\text{-}X_i}{X}\right) p_i$$

$$\text{or } \frac{I}{p}\left(2 - \frac{X_i}{X}\right) p_i$$

Where Xi = Per capita income of the individual state,

X = Weighted average of per capita income of the States.

Pi =Population of the State

P = Population of all states

T = The total amount to be distributed from the divisible pool.

8. On the basis of this formula allocations of 10% of central assistance have been made by the Planning Commission, the distribution of which, is shown in col. 6 of the annexed statement 'A'.

9. In adopting this formula, greater weightage seems to have been given to population rather than the per capita income. The factor $\frac{X\text{-}Xi}{X}$ is a very small fraction and will reduce to zero in cases of state per capita

income being equal to the National per capita, in which case the formula becomes TPi. In other words, the mode of allocation reduces to population basis rather than taking into account the per capita income of the states. The states like U.P. and Bihar which have comparatively large population and low per capita income seem to be more benefitted by this formula. Since the intention of central assistance under this criterion is to remove regional imbalance and to help in raising the standards of the backward states to the all-India level, it would be more appropriate to distribute the assistance under this head only among the backward states whose per capita income is below the national average. It would be justified to distribute the total assistance among these states on the basis of inverse ratio of per capita income in order that a more backward state receives proportionately greater assistance.

10. Col. 4 of statement 'A' shows that six states viz. Bihar, Kerala, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh have per capita income below the national average. If it is decided to distribute 10% of the central asistance among the six states on the basis of inverse ratio of per capita income, Orissa would be entitled to Rs. 52·76 crores as against Rs. 15 crores on the basis of the formula adopted by the Planning Commission. The share of the different states on this criterion is shown in the col. 7 of the statement.

Taxation :

11. Tax receipts for the year 1964-65 of different states have been utilised for allocation on this criterion. Distribution among the states shown in col. 8 of the statement has been made in direct population to per capita taxation as percentage of per capita state income.

Spill-over Schemes :

12. The projects costing Rs. 20 crores or more are to be regarded as major projects and such schemes would be considered continuing if the total expenditure under these schemes by the end of 1968-69 was at least 10% of the total cost of the project. The 'Fourth Five Year Plan document gives a statement showing state-wise outlays for major and medium irrigation programmes. In the absence of any other suitable information regarding spill-over schemes at the state level, we have adopted the outlays for continuing major and medium irrigation schemes as the basis for allocation of the 10% of central assistance on spill-over schemes. Col. 9 of the annexed statement gives the allocation to different states in this head. It is thus presumed that Rs. 8/15 crores had been Orissa's share from 10% of the assistance under this head.

Special Problems :

13. From the total central assistance for a state, the corresponding figures in columns 5,6,8 and 9 were deduced for arriving at an estimate of allocation as regards special problems (Col. 10). Thus, Orissa presumably received about Rs. 44 crores on this head. The share of Rajasthan under this head appears to be of the order of Rs. 52 crores. In view of high concentration of tribal population, most undeveloped infra-structure facilities combined with abundance of untapped natural resources, recurrent damage to the economy of the state due to flood, drought and cyclone the state's claim for higher allocation of central assistance under this head deserves special consideration. Thus Orissa's share should not be less than 20% of the total allocation under this head and in any case it should not be less than the share of Rajasthan i.e. Rs. 52 crores.

14. To sum up, Orissa's share from the central divisible pool appears to have been distributed in the following manners.

Basis	Rs. (Crores)
Population ...	77·75
Per capita Income	14·79
Per capita Taxation	15·38
Spill-over schemes	8·15
Special Problems	43·93
Total ...	160·00

15. But Orissa's legitimate share under these heads may be as follows:

Basis	Rs. (Crores)
Population	77·75
Per capita Income (Inverse Ratio among backward states only)	52·76
Per capita Taxation	15·38
Spill-over Schemes	8·15
Special Problems	52·31
Total ...	206·35

16. As central assistance is the major source of plan finance, we have examined above the various criteria accepted by the National Development Council for distribution of Central assistance to states. On the basis of this examination, it would be clear that allocations of resources under three of the five criteria, namely population, per capita taxation and spill-over schemes are consistent with the agreed principles of distribution, but allocations under the other two criteria, namely per capita income and special problems, fall far short of Oriss's legitimate share, as Orissa would receive only Rs. 58 crores as against Rs. 105 crores as shown above.

In case central assistance to Orissa is augmented to Rs. 105 crores under these two heads, the total central assistance to Orissa would increase from the present level of Rs. 160 crores to Rs. 206 crores, thus raising the plan resources of the state by about 20% during the Fourth Plan.

ANNEXURE

STATEMENT 'A'

Estimated Distribution of central Assistance to States for Fourth Plan. (*Rs. 3100 Crores.*)

Sl. No.	States	Projected population as on 1st March 1971. In Lakhs	Per capita Income of the states 1964-65 (Rs.)	**Population** 60% on the basis of 1971 population (Rs. in crores)	State Income 10% on the basis of per-capita state income (formula) (Rs. in crores.)	**State Income** 10% on the basis of inverse ratio of per-capita income of backward state (Rs. in crores)	**Taxation** 10% on the basis of per-capita tax receipts as a % of per capita state income (Rs. in crores)	Spill-over scheme 10 % allocation (Rs. in crores)	Special problems 10% allocation (Rs. in crores)
1	2	3	4	5	6	7	8	9	10
1.	Andhra Pradesh ...	439·20	438	155·09	24·30	—	21·58	30·23	8·80
2.	Bihar ...	587·62	299	207·78	45·45	61·20	19·28	39·22	26·27
3.	Gujarat ...	270·93	523	95·80	11·95	—	22·94	27·31	...
4.	Haryana ...	103·02	504	36·66	4·60	—	18·91	7·68	10·65
5.	Kerala ...	217·01	393	76·63	13·70	46·54	27·72	10·60	46·35
6.	Madhya Pradesh ...	414·90	373	146·77	26·88	49·10	19·90	22·88	45·57
7.	Tamilnadu ...	400·34	434	140·82	23·82	—	26·78	8·22	2·36
8.	Maharastra ...	510·00	526	180·22	22·34	—	27·78	32·80	...
9.	Mysore ...	298·32	420	105·65	16·88	—	21·20	23·84	5·43
10.	Orissa ...	219·92	347	77·75	14·79	52·76	15·38	8·15	43·93
11.	Punjab ...	151·11	575	53·57	4·59	—	26·35	5·08	11·41
12.	Rajasthan ...	268·22	356	95·03	17·45	51·48	22·44	32·77	52·31
13.	Uttar Pradesh ...	923·78	374	326·24	61·30	48·92	15·19	34·44	88·83
14.	West Bengal ...	458·01	498	161·99	21·95	—	24·55	7·25	5·26
	TOTAL ...	5262·38	418	1860·00	310·00	310·00	310·00	310·00	310·00

RESOURCE MOBILISATION IN THE FOURTH FIVE YEAR PLAN OF ORISSA---CENTRAL ASSISTANCE AND CENTRAL INVESTMENT.

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The growth of the economy is a function of the over-all capital output ratio and the size of the plan. Having determined the desired level of growth (rate of growth), the development of the State will depend upon the size of its plan, outlay. The over-all plan outlay is however limited by constraints to mobilise needed resources. This paper limits itself to discussion of the mobilisation of financial resources only.

In the context of inadequate finances of a State and need for larger out-lays on developmental schemes central assistance has assumed a crucial role in the implementation of five year Plans in India. The past experience indicates that the States assumed that larger the gap between the approved plan out-lay and the expected resources that the State can mobilise, the larger would be the plan assistance. With this assumption the States put forward estimates of plan out-lay far in excess of what could be financed from their own resources. The size of the State Plans has perforce depended on the amount of the central assistance available to them. Particularly in Orissa the size of the plans has become dependent on the central assistance under different plans. The table below shows the State-wise Plan out-lay and Central Assistance under different plans.

During the Ist Five Year Plan Orissa received 90·59% of its total outlay as central assistance. This was gradually declining as it came to 77·64% during the Second Five Year Plan and nearly 61% during the Third Plan and Annual Plans. During the last 18 years from 1951-52 to 1968-69, Orissa had a total Plan outlay of Rs. 525·64 crores out of which Rs. 360·40 crores (68·56%) were financed by central assistance. Hither-to there were different patterns of central assistance specified for different plan-schemes and also there was no clear set of principles on the basis of which the central assistance was distributed among the States. Some of the advanced States having the financial strength to mobilise the States share of the scheme on matching basis were able to get relatively greater share from the Central Assistance pool than other poorer States, as they could adopt, in view of their favourable revenue position, such schemes as would attract large amount of grants. Many States had therefore expressed a view that the central Assistance for State Plans should be distributed on the basis of certain objective criteria.

PLAN OUT-LAY AND CENTRAL ASSISTANCE

Name of the State	First Plan			Second Plan			Third Plan			Annual Plan			Fourth Plan		
	Outlay	C.A.	P.C.	Outlay	C.A.	P.C.	Outlay	C.A.	P.C.	Outlay	C.A.	P.C.	Outlay	C.A.	P.C.
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16
Andhra Pradesh	108	61	56·40	175	96	54·83	344·78	220·50	63·95	232·02	161·60	69·64	420·50	240·00	57·07
Assam	28	22	78·57	51	31	60·78	132·24	99·90	74·45	87·11	85·80	98·52	261·75	220·00	84·05
Bihar	102	55	53·92	166	84	50·60	331·74	215·90	65·08	223·23	155·20	69·52	531·28	338·00	63·62
Gujurat	224	80	35·70	143	50	34·96	237·68	111·60	46·95	207·14	76·40	36·88	455·00	158·00	34·72
Haryana	...	...	...	...	...	...	...	...	...	72·82	46·40	63·72	225·50	78·50	34·81
J & K	13	10	76·92	25	20	80·00	61·24	61·50	100·42	62·09	60·00	96·63	158·40	145·00	91·54
Kerala	44	24	54·54	76	38	50·00	181·59	121·70	67·00	139·75	89·70	64·19	258·40	175·00	67·72
Madhya Pradesh	94	61	64·89	145	96	66·21	288·35	219·50	76·12	172·64	141·90	82·29	383·00	262·00	68·41
Maharastra	...	...	...	207	74	35·75	433·60	166·80	38·47	408·67	111·00	27·16	898·00	245·00	27·28
Mysore	94	47	50·00	122	67	54·92	250·69	156·50	62·42	179·77	109·20	60·14	350·00	173·00	49·43
Nagaland	...	...	...	...	...	...	10·80	10·80	100·00	16·70	16·70	100·00	40·00	35·00	87·50
Orissa	85	77	90·59	85	66	77·64	224·06	136·70	61·01	131·58	80·70	61·73	222·60	160·00	71·88
Punjab	163	141	86·50	148	88	59·46	254·23	134·40	52·86	112·77	51·80	45·93	293·56	101·00	34·40
Rajasthan	67	60	89·55	99	59	59·59	210·69	161·40	76·60	135·65	119·40	88·08	302·00	220·00	72·85
Tamil Nadu	85	42	49·41	167	95	56·89	342·33	186·80	54·57	249·95	121·00	48·41	519·36	202·00	38·89
Uttar Pradesh	166	87	52·40	227	121	53·30	560·25	356·20	63·58	456·03	259·40	56·88	965·00	526·00	54·51
West Bengal	154	113	73·38	145	73	50·34	300·48	151·10	50·32	163·83	112·70	68·79	322·50	221·00	68·53
Total	1427	880	61·67	1981	1058	53·41	4164·75	2515·30	60·39	3051·75	1798·90	58·98	6606·47	3500·00	52·98

Administrative Reforms Commission's study Team on the Machinery for planning recommended that the instruments of central assistance should be used for the purpose of ensuring adequate mobilisation of resources by the States, influencing the size and priorities of State Plans in such a manner that all the State Plans taken together satisfied the priorities and targets on the National Plan and also for reducing inter-state disparities". Accordingly the principles of allocation and pattern of central assistance were changed and the planning Commisson decided that block grants of central assistance would be made to the States. A total amount of Rs. 3500 crores would be distributed on the following basis. After meeting the requirements of the State of Assam, Nagaland and Jammu & Kashmir, 60% of the residual amount would be distributed to the remaining States on the basis of their population, 10% on the basis of their per-capita income if below national average, 10% on the basis of their tax-effort in relation to per capita income and 10% in proportion to the commitments in respect of major continuing irrigation and power projects. The remaining 10% would be distributed among the States so as to enable them to tackle special problems like those relating to metropolitan areas, floods, chronically drought affected areas and tribal areas.

According to the new procedure, the central assistance would not be directly related to schemes included in the plan. Thirty per cent of the Central Assistance would now be treated as grant and the balance as loan. For ensuring over-all Plan priorities, out-lays under certain heads or sub-heads of development would be earmarked and not be diverted to other heads of development.

Importance of Central Assistance in Orissa's Five Year Plan :

On the basis of the principles mentioned above Orissa will get a central assistance of Rs. 160 crores to finance her plan out-lay of Rs. 222·60 crores. The central assistance constitutes 71·88% of the plan outlay. During the Third Five Year Plan Orissa had an out-lay of Rs. 224·06 crores out of a total plan out-lay of Rs. 4165 crores for the States i.e. 5·13%. The Fourth Plan earmarks about 3·2% of the total outlay for the fourth plan of the States to Orissa. Although there has been an increase of roughly 58% in the Plan outlay for the States and all other States have obtained a higher plan outlay over the Third Five Year Plan outlay, Orissa is the single State to have her plan outlay fixed at a lower level.

The National Development Council while approving the new principles for distribution of central assistance anticipated that the States would show greater initiative now in the formulation and implementation of their plans. The Central Assistance having been pre-determined, the size of the State Plan would be dependent on the efforts of the State to mobilise its own resources for Plan programmes. Again linking of the assistance to population and per capita income would help reduce regional disparity. But on examination of the principles for distribution of central assistance, it has been argued below that principles would not help Orissa to attain a desired economic growth as its plan-size has been limited due to limited central assistance and inability to mobilise its own resources. The details of the principles have been examined below.

Population :

The Planning Commission, like that of the Finance Commission has taken population as the basic factor for distribution of Central assistance. It may be argued that population may not be taken as the best factor for distribution of central assistance as the size of the population of a State is not always indicative of its need and it does not secure always a good redistribution effect. Planning Commission's acceptance of the size of the population as a basic factor for distribution of central assistance should be viewed from the angle of its achievements. Whether a large part of the transfers is discretionary or statutory, and whether the logic behind them is well set out in a properly reasoned document, may not matter so such as what it achieves. The achievement of the principles of central asssistance should be considered against the objective of the distribution of central assistance. One is not sure of the objectives guiding the distribution of central assistance by the Planning Commission. The overlapping functions of the Finance Commission and Planning Commisssion probably indicate that while the Finance Commission looks after the maintenance requirements, the Planning Commission is to achieve optimum economic growth consistent with the social and welfare objectives. Obviously, therefore, the principles governing the distribution of central assistance by the Planning Commission should be different from the principles followed by the Finance Commission. For the Finance Commission the aim of transfer of resources has been to meet the budgetary needs and secure, to as large extent as possible, justice and equity in the distribution of resources between the centre and the States on the one hand and between the States on the other. The Planning Commission on the other hand should take into account the principles of equity and regional distributive justice so long as they do not conflict with the long term objective of economic growth. This objective of growth needs a different approach than to distribute the central assistance on the basis of population as population may not be the best indicator of the fiscal need of a State.

Per-Capita Income :

While recommending per-capita income as one of the factors determining the share of a State from the central Assistance, it was aimed that the States having lower per-capita income should get higher share from the central assistance. Keeping this in view the Planning Commission adopted a deviation method under which the share of each state will depend upon the variation of its per capita income from the all-India average. This will be determined according to the formula :

$$\frac{T}{P} x(I+ \frac{X\text{-}xi}{-X})Pi$$

Where T =total amount available for distribution among the States on the basis of this principle.

P = Population of all States.

Pi =Population of the i th State

X=Weighted average of per-capita income of the States

Xi=Per-capita income of the i th State.

On the basis of this formula Orissa is entitled to receive a central assistance of Rs. 14·79 crores. This formula appears to have attached more weightage to population than per-capita income of the States. In order that due importance is attached to the per-capita income of a State, it is pointed out that the States having a per-capita income above the national average should not get any share under this item. It is pointed out that the amount under this item should be distributed amongst backward states whose per capita incomes are below the national average on the basis of inverse ratio of per capita income. By this method Orissa is entitled to a share of Rs. 52·76 crores. But the principle appears to be defective as the relative backwardness of these six States from the all-India average has not been taken into account. It is therefore suggested that the share of each of these six States should be determined on the basis of the formula $\frac{T\,(X\text{-}xi)}{(X\text{-}xi)}$

Where T =Total amount available for distribution under this item.

X =National average of per-capita income.

Xi =Per-capita income of the i th State, Calculating on the basis of the above principle Oriss's share under this item comes around Rs. 60 crores. The above principle definitely secures some equity so far as these six states are concerned. The formula adopted by the Planning Commission by taking into account the relative backwardness or prosperity, has given an undue weightage to population. In case of the States whose per-capita income is nearer the national average the fraction $\frac{X-Xi}{X}$ becomes nearly zero and the share of the State is determined on the basis of its population. Moreover the aim of any distribution of central assistance should, as has been pointed out earlier, be to promote economic growth and reduce regional disparity.

Tax effort :

On the basis of this principle the per-capita tax receipts as a percentage of per capita State Income has been utilised to detremine the share of a State and Orissa has been allocated a sum of Rs. 15·38 crores. Determination of actual tax effort of each State in relation to average for all the States will lead to discrimination against the poorer States. The tax effort of the States will have to be taken in conjunction with their respective relative per-capita income (i.e. their respective per-capita incomes expressed as ratios of the weighted average of the per-capita income of all the States.)

Spill-over Schemes :

The Statement below indicates the estimated cost of the major irrigation schemes taken up by the States since the First Five Year Plan and anticipated expenditure up to March 1969. The balance amount (col 2-col. 4) is taken to be the comitmment of the State in respect of the major irrigation schemes. The share of Orissa in proportion to its commitments should be of the order of Rs. 23·00 crores.

Special Problems :

Orissa has been facing special problems like frequent occurrence of droughts and floods and it has a high concentration of tribal population. Orissa's claim for higher allocation of resources to tackle these special problems is undisputed. Since the National Development Council has not specifically mentioned the weightage to be given for each item of these special problems, the quantum of central assistance likely to be available to Orissa is not known.

To sum up, the realisation of the objective of faster economic growth along with balanced regional development and dispersal of economic activity necessitates a higher plan outlay and higher central assistance for Orissa. But the need of the State is so enormous (Rs. 1320 crores as recommended by the steering committee) that reallocation of Central assistance, taking into consideration the above reasons, will have only some marginal benefits for Orissa. It is therefore necessary to mobilise all other types of resources available for investment in the State and investment of central funds is one of the important sources for this as may be seen from the table below which shows the State-wise investment in central projects.

Investment in Central Industrial Projects

State-wise Investment in Central Industrial Projects (*In Crores*)

Name of States	Investment in Ist plan	Investment in IInd plan	Investment in IIIrd Plan	Total investment during 3 plans	Estimated investment in 1966-68	Total estimated investment 1951-68
Andhra Pradesh	8·3	1·7	52·5	62·5	24·8	87·3
Assam	...	...	32·8	32·8	7·4	40·2
Kerala	1·0	0·9	49·2	51·1	17·2	68·3
Maharastra	2·0	1·7	43·6	47·3	2·6	49·9
Bihar	8·2	4·2	184·7	214·1	142·4	356·5
Gujarat	...	...	45·0	45·0	2·5	47·5
Madhya Pradesh	...	221·8	192·6	414·4	44·7	459·1
Tamilnadu	5·8	33·4	141·4	180·6	65·2	245·8
Mysore	7·1	3·3	17·2	27·6	20·8	48·4
Punjab	...	28·0	4·2	32·2	...	32·2
Hariyana	...	...	7·0	7·0	1·5	8·5
Rajasthan	...	...	12·2	12·2	18·3	30·5
Uttar Pradesh	...	...	72·1	72·1	75·8	147·9
Orissa	76·5	199·3	154·7	360·5	57·6	418·1

Source : Employment Exchange.

The objective of raising the per-capita income of the people of Orissa to the All-India level requires an over-all outlay of Rs. 1320 crores. The National Council of Applied Economic Research estimated the share of the State Sector, Central Sector & Private Sector in the State Plan outlay during the period from 1950-61 to 1955-66 and from 1956-57 to 1960-61. The shares of the State Sector, Central Sector and Private Sector in the Plan outlay of Orissa during the period from 1956-57 to 1960-61 were 37·7%, 39·3% and 23% respectively. The Public Sector (State Sector and Central Sector) should therefore supply outlay of Rs. 1017 crores (Rs. 498 crores in the State Sector and Rs. 519 crores in the Central Sector) and leave the balance of Rs. 303 crores to be financed by the Private Sector. It is, however, doubtful if the Private Sector would come to finance this proportion (23%) of the total outlay during the Fourth Five Year Plan.

Major Irrigation Schemes in States
(Projects taken up so far since the 1st Plan)

Name of States	Estimated cost Rupees in crores	Ultimate Irrigation potential (Million acres gross)	Anticipate-Expenditure up to March	Balance Amount required
(1)	(2)	(3)	(4)	(5)
Andhra Pradesh ...	312·77	3·57	167·9	144·87
Bihar ...	200·51	5·94	102·1	98·41
Gujarat ...	199·64	2·74	87·0	112·64
Hariyana ...	133·36	2·53	49·9	83·46
Kerala ...	34·11	0·53	7·6	26·51
Madhya Pradesh ...	94·30	1·61	56·8	37·50
Madras ...	60·59	0·58	40·1	20·49
Maharastra ...	237·50	2·28	67·1	170·40
Mysore ...	178·47	2·43	120·0	58·47
Orissa ...	115·24	2·39	37·5	77·74
Punjab ...	38·44	3·74	...	38·44
Rajasthan ...	176·24	2·63	75·3	100·94
Uttar Pradesh ...	134·57	3·02	53·3	81·27
West Bengal ...	85·99	2·44	63·4	22·59

The outlay in the Public Sector in India generally constitutes the out-lays for the Central schemes, centrally sponsored schemes and outlays for the schemes of the States and Union territories. Orissa's Plan outlay has been fixed at Rs. 222·60 out of which Rs. 160 crores will be available as central asistance and Rs. 62·60 crores will be financed from the resources of the State. The scope of mobilising additional resources by the State Government of Orissa is very limited. As discussed earlier, there is however some scope to enhance the central assistance portion of the plan-outlay and thereby reach the total plan outlay fixed for the State (Rs. 222·60 crores).

The development of a State will depend upon its overall plan outlays. This over-all plan outlay constitutes the State Sector outlay (State Plan outlay, Central Sector outlay) (Central Schemes and Centrally sponsored schemes) and Private Sector. The possibility of enhancing the outlay in the Private Sector and State Sector—being limited or marginal, the only way of securing a larger outlay for the development of the State lies in attracting a greater outlay from the Central Sector. The outlay of Rs. 8870·69 crores (excluding Rs. 425 crores for Union territories) in the Central Sector is distributed among central schemes and centrally sponsored schemes as Rs. 8089·76 crores and Rs. 780·93 crores respectively. Orissa used to get some funds from the Centre for implementing the centrally sponsored schemes. But on the recommendation of the Administrative Reforms Commission, the National Development Council had reduced the number of centrally sponsored schemes to the barest minimum and Orissa might reasonably expect to get Rs. 3 to 4 crores annually during the Fourth Five Year Plan. The other component of the Central Sector i.e., the outlay for central schemes has been a major source of investment for Orissa during the last three Plans. Central Investment and expenditure as Railways, Ports Posts & Telegraphs, defence etc. will have their impacts as the development of the economic growth of the State. Out of a total investment requirement of Rs. 1017 crores in the Public Sector Rs. 222·60 crores being the State Plan outlay and the anticipated investment in centrally sponsored schemes being of the order Rs. 20 crores, there should be central investment to the extent of Rs. 774 crores in order to raise the per-capita income of Orissa to the All-India level.

RAPPORTEUR'S REPORT

MOBILISATION OF RESOURCES IN THE STATE

B. C. Parida

Mobilisation of resources is the crux of the problem of planned economic development in India. The task of financing planned development in a federal set-up, is a joint responsibility of both the Centre and the State. It is significant that most of the developmental items such as agriculture industry, forest, mineral, communication and education are included in the state list. In the scheme of financing the Fourth Plan Rs. 3500 crores have been earmarked for financing the state plans and a formula has been evolved to distribute the plan assistance among the states. So a stage has now been reached in India when the states have to increasingly rely on their own resources to finance their future developmental plans. But can they do so ? Are the States able to meet their financial needs from their internal resources ? What are the sources and possibilities from which they can explore their required finance ? These are the pertinent questions which warrant thorough investigations.

To discuss these problems in all eleven papers were received. These papers can be conveniently divided into three separate categories.

(*a*) The first category of papers deal with the strategy of development for the state of Orissa and draw conclusions from the given strategy to finance the planned development of the state.

(*b*) The second category of papers analyse specific sources of resource mobilisation and examine their effective capacity for augmenting the state resources.

(*c*) The last category of papers analyse the centre-state financial relationship in the context of distribution of plan assistance for states and indicate the suggestions keeping in view the needs of the state of Orissa.

SECTION—I

Of the three papers dealing with the general strategy of economic development, the paper of R. C. Patnaik sheds a great deal of light. He points out that "Mobilisation of additional resources ultimately depends on the creation of physical assets which will provide stable sources of income and employment to the of economy". Emphasis should be given to the pattern of the plan outlay of the state which will carefully exploit the abundant natural and human resources. This Planning of Plan Outlay ultimately depends on the tax and non-tax revenue of the state and the amount of central financial assistance it receives. He suggests that rationalisation and better administration of the taxes will bring some more revenue. He favours the introduction of an integrated and incentive oriented agricultural tax. For financing agro-industries and for tapping rural savings, rural debentures should be floated. For increasing the yield from the non-tax revenue, the rate or return from state undertakings should be raised at least 10% of the capital invested. All existing system of expenditure should be ruthlessly examined to minimise waste. The pattern of borrowed should change and efforts should be made to utilise the borrowing funds for productive use. The centre should make periodic review of the pattern of devolution of resources in order to minimise regional disparity in economic growth.

Sri N. Mohapatra in his paper analyses the resource need of the state as estimated by N.C.A.E.R. in the order of Rs. 1400 crores in a decade. To finance such need resource base must be expanded. He suggests that there are three resource bases such as taxation, borrowing and public enterprises. In the sphere of taxation he suggests higher agricultural tax and for the public sector enterprises he recommends improvement in their operational efficiency and price policy.

Sri D. D. Panigrahi thinks that the capacity of the urban sector to contribute any more for the economic development of the state cannot be exploited. For maintenance of the principle of equity due attention must be given to devise ways and means to exploit the potentialities of the agricultural sector, so that it contributes its share to the economic development. He pleads for increase in the non-tax revenue and higher central assistance for Orissa.

SECTION—II

Sri B. P. Dash in his paper "A Plea for Higher Land Taxation In Orissa" examines the problem of land tax in the context of the state finances of Orissa. He pleads for the imposition of land-revenue on a progressive rate for augmenting resources. "To make a fine blending of the two conflicting objectives—equity and incentive and to make the system of land tax more progressive, agricultural income tax should work as a supplement to land revenue".

Sri B. C. Parida while examining the thesis that Sales-tax is an elastic instrument of augmenting resources in the state comes to the conclusion that though in the past, sales-tax has progressively become the most important source of revenue, any spectacular increase in its yield in future cannot be expected. Though the tax has not reached its saturation point a thorough study of it reveals that the state resources by this tax can be increased by a limited amount.

Sri K. S. Roy, a post-graduate student of Ravenshaw College comes to the conclusion that to mop up the surpluses from the agricultural sector "it is necessary that a substantial part of such additional income from agricultural sector should be taxed away to be utilised for the economic development of the state". He favours reimposition of land-revenue with a progressive tax structure and increasing tax base.

Sri Raghunath Padhi Sharma in his paper "Mobilisation of Forest Resources for the Economic Development of Orissa" analyses : "The forests contribute the highest amount of non-tax revenue to the Government even though the forest resources are not properly developed in Orissa". He proposes the following measures for making the forest-revenue elastic: (*a*) total monopoly of Kendu leaf trade by the Government by setting up of a Kendu leaf Corporation, (*b*) Rationalisation of the management of Forest Corporation and (*c*) Establishing more of forest based Industries in the State.

Sri P. Pradhan points out that resource conservation like resource mobilisation should be given due importance. According to his calculation the State Government is raising additional resources to the extent of fifty crores of rupees per annum. But the resources so raised have been mostly dissipated by giving higher salaries and dearness-allowance to the employees of the state, to meet the increased debt burden and for the continuous increase in plan maintenance expenditure. He is of the opinion that stability in prices, quick recovery of loans and reduction in plan maintenance expenditure should form an integral part of the resource mobilisation in the state.

Sri B. Sahoo and Sri S. Mukherjee have explored a new line of approach by analysing the role of small saving for the economic development of Orissa. According to them the factors that influence small saving in any state are (*i*) Level of per capita income, (*ii*) Income orginating from factories, (*iii*) Per capita gross value of agricultural output, (*iv*) Number of workers per lakh of population in factories, (*v*) Percentage of literacy, (*vi*) Rate of total development and growth of population. They are of the opinion that the increase in saving in Orissa is positively linked with the increase in agricultural output and marketable surplus of rice. The magnitude of saving is meagre in relation to its need and this can be increased automatically with increase in income, equipment and output. So, though not sizeable some surpluses could be available in the future for financing development on this account.

SECTION—III

Sri B. Das, Sri P. N. Das and Sri B. Nanda in their papers have analysed a common problem, that is, devolution of Central assistance to states for meeting their plan expenditure. They point out that previously there was no such clear cut principle to distribute the central plan assistance to states. The principle of matching grant helped the states having favourable revenue position. Recently the Planning Commission changed this principle and decided that a block grant would be made available to the states to be distributed among them on the following principles such as (*i*) 60% on the basis of population, (*ii*) 10% on the basis of their per capita income if below the national level, (*iii*) 10% on the basis of their tax efforts in relation to per capita income, (*iv*) 10% for spill-over schemes and (*v*) 10% for special problem.

A close study of these principles reveals that population is not a correct criterion to distribute plan assistance because the objective of plan assistance is to accelerate economic growth and ensure regional economic development. All of them agree that the distribution of 10% of plan assistance on the basis of per-capita income. if below the national level, by a deviation method such as $\frac{T}{P}\left(1+\frac{x-x_1}{u}\right)P$ boils down to the same criterion as population where, u-u, tends to zero or where the difference between national per-capita income and State per-capita income is narrow. Sri Nanda is of the opinion that this 10% of the plan asistance should be distributed without giving any weightage to population whereas Sri B. Das and Sri P.N. Das suggest that it should be distributed on the basis of the inverse per-capita income i.e. state, having lowest per-capita income should get the highest share. If such a principle will be accepted then Orissa during the Fourth Plan would get 52·15 crores as against Rs. 14·79 crores on this account. All of them plead higher allocation to the states under the principle of special problems for the concentration of tribal population, underdeveloped infrastructure, abundance of natural and mineral resources and the recurrent damage to the economy due to flood, drought and cyclone. Sri Nanda finds that the only hope of raising the per capita income of Orissa to the national level is by increasing Central Investment in the state which he calculates to be Rs. 774 Crores for the Fourth Plan alone.

Summary of Group discussion :

In the discussion that followed the following broad points were made out.

(1) Dr. S. Misra, the then Vice-Chancellor of the Utkal University pointed out that development finance should be treated just like War Finance Mobilisation of resources, for financing the developmental projects has not

been started in the right earnest in India. He referred to the P.A.Y.E. scheme prevalent in India during war years and concluded that Community Development could not prove successful for rousing mass enthusiasm for the purpose.

He asserted that there should not be any apprehension because of mounting debt service charges. According to him borrowing for developmental and productive purposes is an indication of affluence and hence if borrowed funds are properly spent one should not get alarmed.

(2) Sri G. S. Das of Ravenshaw College shared a point that small states like Orissa with lowest per capita income are more vulnerable to the impact of inflation. Successive finance commission should take into consideration a compensatory finance scheme to give special grants to the states to tide over their budgetary gap caused by inflation. This point was contested by Dr. Bidyadhar Misra on the ground that if such a scheme is accepted then states will compete with each other to show greater inflationary gaps in their budget as they do now in case of budgetary deficits in the anticipation of central grants.

3. Sri S. K. Palit, analysed that the resources for plan implementation generally come from three principal sources such as the State Sector, Central Sector and centrally sponsored schemes. The State and the Central sectors jointly will provide Rs. 222·6 crores roughly for financing the Fourth Plan. So far as Centrally sponsored schemes are concerned Government of Orissa expects roughly Rs. 30 crores during the Fourth Plan. So the only hope lies in getting more of Central Investment in Orissa. The Central Government has tentatively decided that Rs. 8,000 crores would be spent on Central Investment. On the basis of the population one can expect for Orissa Rs. 150 crores of Central Investment at the maximum. But here the Central Government must be urged to increase its dose of investment in Orissa keeping in view of the special problems and backwardness of the State.

Mobilisation of resources should take into account the private investment specially when the Government has invested heavy sums of money on infrastructure development. He suggested that the functional relation operating between the rate of infrastructure facilities and the rate of private investment offers an interesting field of study.

Mobilisation of resurces also mean the utilisation of resources. In this connection he suggested that the pattern of Government expenditure should be properly phased so that the bulk of the expenditure should not be so spent in the month of March. This gives rise to greater mismanagement of the scarce resources available to the state.

Lastly according to him mobilisation of resources is a human problem. He pointed out that under given set of conditions "X" Officer of the Government can make an impact and keep in creating an yield whereas "Y" officer cannot do so. So the problem is both financial and human. This point was also emphasised by Dr. Coale, the American Specialist of the Orissa University of Agriculture and Technology.

4. Purnananda Das felt that the resources of the state can be augmented by imposing a levy on food-grains sold outside the state or by procuring food-grain from the state and selling it outside in a free market.

5. Dr. Bidyadhar Misra pointed out that abolition of land revenue has resulted in getting less amount of assistance from the Centre. The fifth Finance Commission has observed that when grants from the Centre are available to the states on the basis of their efforts the Government of Orissa by abolishing a settled tax like land-revenue has lost some claims for greater central assistance. Dr. Misra suggested that it is now difficult to reimpose land revenue. The State Government may be requested at present to streamline agricultural income tax and to enhance irrigation rates which will properly compensate the loss on account of abolition of land revenue.

6. The President of the Conference Dr. Baidyanath Misra summed up the discussion. He pointed out that mobilisation of resources in the states assumes proper utilisation of resources. He was of the opinion that increased productivity and surplus income should be tapped through taxation, to augment the resources of the state. But the crux of the problems is how much of productivity should be taxed. This required measurement and a great deal of empirical studies. He suggested that theoretically it should be so designed that the Marginal Social cost of the tax should be equal to Marginal Social benefit flowing from it.

In fine, the general concensus was that the tax system should be rationalised and the agaicultural sector should pay increasingly more in terms of taxation than the urban sector. There is enormous scope for increasing non-tax revenue by economic utilisation of forest and mineral resources and by increasing the investible surplus from the public sector enterprises. The pattern of devolution of plan assistance should be changed and the grant to the state should be considered sympathetically by the Centre because of numerous special problems of the state.

PART II

CREDIT-NEEDS OF AGRICULTURE IN ORISSA

CREDIT-NEEDS OF AGRICULTURE—SOME METHODOLOGICAL ISSUES

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The new agricultural strategy of the Fourth Five Year Plan involves heavy investment in agricultural inputs. It is beyond the capacity of many farmers to implement this new agricultural production programme out of their own resources. So the need for agricultural credit has assumed new dimension. In order to estimate the credit-needs of agriculture, some committees were appointed by the Government of India and the Planning Commission. Besides, the State Government (particularly the State Bureaus of Statistics and Economics) different commercial banks, agricultural Universities and research centres have made estimates of the credit-needs of agriculture. The methodology adopted by these institutions for estimating the credit-needs may be broadly divided into two categories—macro-appraoch and micro-approach. In this paper an attempt has been made to examine critically the relative merits and shortcomings of these two approaches and how far micro studies will be useful in filling up the gaps in the macro studies.

MACRO-STUDIES :

In recent years three important studies on the credit-needs of agriculture were based on the macro-approach. These studies were made by (1) Working Group set up by the Agricultural Production Board, Government of India, (1965), (2) Panel of Economists appointed by the Special Committee on co-operation of the Agricultural Production Board of the Government of India and headed by Prof. M. L. Dantwala and (3) the Fertiliser Credit Committee (1968).

(1) Methodology adopted by the Working Group of the Agricultural Production Board, Government of India :

The Working Committee estimated the short-term agricultural credit requirements of the farmers for production purposes under two broad heads—(*i*) traditional inputs and (*ii*) improved inputs.

Under traditional inputs, the cash requirements of the following items were estimated : (1) Wages for hired labour, (2) seeds, (3) manures, (4) fodder, (5) other materials, (6) hire of implements and bullocks,

(7) maintenance and repair of implements and machinery. In order to estimate the cash requirements of these traditional inputs, the average size of the farm was assumed to be of 10 acres. After the estimation of the total cash-requirements of these traditional inputs, it was concluded that 40 per cent of the total cash-requirement was demanded by the farmers as credit.

Similarly, under the improved inputs, the cash-requirements for the following five items were estimated : (1) seeds of new varieties, (2) fertilisers, (3) pesticided, (4) cost of fuel and lubricants for mechanised cultivation and (5) fuel, lubricants and electricity charges for irrigation. After the estimation of the cash-requirements of these five items, it was assumed that the 70 per cent of the first three items and the 40 per cent of the last two items were required to be financed by credit.

This methodology of the 'Working Group' was criticised on the following grounds :

First, their estimation of the credit requirements of the farmers was based only on the cash expenditure of the farmers on various inputs. So it was pointed out, this estimation would be unrealistic in the Indian condition. Here some allowance should be made for the payments in kind and this should be borne in mind while estimating the credit-needs.

Secondly, in order to estimate the cash requirements of the traditional inputs, the average size of the farm was assumed to be of 10 acres. This was again an unrealistic assumption particularly in the Indian condition.

Finally, the basis of assuming 40 per cent and 70 per cent of certain expenditures were financed by credit was not clear. It was pointed out that these assumptions were quite arbitrary.

(2) Approach of the Panel of Economists :

Largely due to the above mentioned defects in the methodology of the Working Group, the Panel of Economists headed by Prof. M.L. Dantawala re-examined the whole question. The panel adopted two approaches to arrive at the probable credit-needs of the agriculturists. Under the first method the credit-requirements were assumed to bear a certain relationship to the value of the agricultural produce. "Accordingly, the Panel applied the ratio of borrowings to the value of net agricultural produce in 1961-62 to the estimated value of agricultural produce in 1966-67 and

1970-71 at 1965-66 prices".[1] According to the second method the per acre borrowings were first estimated and then it was multiplied by the estimated acreage under cultivation in 1966-67 and 1970-71. The estimates so obtained were then inflated by 25 per cent to allow for the increase in price-level between 1961-62 and 1966-67. Under each of these methods, again, two sets of estimates were made : In one, the entire borrowings, for household expenditure were taken into account in addition to the borrowings for current expenditure in farm and non-farm business and in the other, only 75 per cent of the borrowings for the household expenditure were taken into account in addition to those for farm and non-farm business. The Panel of Economists, thus, presented four estimates in regard to short-term credit-requirements of the agriculturists. A critical analysis of both the approaches adopted by the Panel of Economists clearly reveal that the element of guess-work was rather high and many of the criticisms directed by them against the estimates of the 'Working Group' were also applicable for their own estimates. The only advantage of the estimates made by the 'Economicsts' Panel 'was that whereas the Working Groups estimates were based on the expenditure approach, the Economists' Panel relied to some extent on the borrowing data.

The Fertiliser Credit Committee, 1968 :

The Fertiliser Credit Committee (1968) estimated the credit-needs of agriculture for the country as whole with reference to only one item. In order to calculate the credit-need, the Committee took into account the probable trend in fertiliser consumption in all areas and in particular the areas covered by the HYV programme and other programmes of the intensive agricultural operations.

Although the methodology adopted in this study made a more systematic effort to assess the credit-needs of agriculture, its limitation was that it referred to only one item.

Thus, we find that the macro-studies immediately provided ready-made figures regarding the credit-needs of agriculture for a country or a state. Such estimates were very much useful particularly when suitable plans were to be made for the supply of credit in a particular state or country. But these estimates were often based on too many assumptions regarding the crop-pattern, input-requirements, cost of production and economic conditions of the farmers which might not conform to the real-world situation. In a sense, these estimates were purely guess-work.

1. Reserve Bank of India—Report of the All-India Rural Credit Review Committee Report, Bombay, 1969. P.82.

MICRO-STUDIES :

In recent years some commercial banks, agricultural universities, agro-economic research centres and individual scholars have made some micro-studies on the credit-needs of the agriculturists. Such studies were usually based on the detailed analysis of the size of the holding, crop-pattern, input-requirements, cost of production and the economic condition of the individual farmers in a smaller area (say a village or a block). Here credit-needs were estimated on the basis of a detailed study of the production-plans of a few individual farmers. Often such sophisticated tools like budgeting and linear programming were applied to estimate the relative costs of alternative production-plans and the credit-needs were estimated accordingly. Thus, the micro-studies were based on more reliable information collected from the individual farmers. But the coverage of such studies were usually restricted to a smaller area either due to lack of finance or due to the fact that the sponsoring agency of such studies were interested more in the studies in depth. This was responsible for a serious limitation of such studies in as much as the results could not be readily extended to a wider region like a state or a country

Integration of the Macro-studies with the Micro-studies :

From the above analysis of the relative merits and shortcomings of the macro and micro-methods of estimation of the credit-needs of the agriculturists, we find the following. The aggregative approach provide us with the ready-reckoners which can be used without further processing by the Government or the credit-supplying agencies for making appropriate credit-plans for agriculture. But, as has been already pointed out, one of the important shortcomings of these aggregative projections is that they are often based on assumptions which are not very much reliable. So when credit-plans (particularly the provision of supplying credit) will be made on the basis of these projections, there is possibility of diversion of credit from productive to unproductive uses and from farm to non-farm uses. This is because the aggregative projections are usually based on the technological considerations, ignoring to some extent the actual behaviour of the small farmers in demanding credit. Now, when the farmers will not voluntarily come forward to demand the credit provided by the credit agencies, there will be indiscriminate distribution of credit, which will ultimately result in misutilisation of credit. So in order to make more meaningful use of macro-studies in the credit planning of a state or a country, it is necessary to make a large number of micro-studies in different agro-economic-climatic conditions. These micro-studies will provide more-reliable preliminary information on which the assumptions of the macro-studies will be based. But one of the problems of conducting large number of micro-studies will be that the costs of conducting such studies will be high. Now, in order to reduce the cost element to some extent and make more fruitful use of such studies, proper co-ordination should be established among the different agencies which are now conducting such studies independently. If co-operative effort will be made by different agencies (particularly in the adoption of methodology including the preparation of questionnaire, selection of the area and organisation of the training facilities for the investigators), much of the duplication of work can be avoided and large number of such studies can be conducted in different agro-economic climatic condition with comparatively lower costs. So properly planned micro-studies can easily fill up the gaps in the macro-projections with comparatively lower costs. It is probably due to this importance of micro-studies the Planning Commission and the Reserve Bank of India (2) conducted more than ten such studies in different parts of the country in collaboration with different universities and agro-economic research centres.

It can be said, in conclusion, that to make proper credit-plan for the agricultural sector in a big state, it is indispensable to have reliable aggregative projections on the credit-needs of the farmers. In order to make such reliable projections, as a first step, it is essential to conduct some studies at the micro-level in selected areas. These micro-studies will provide the basis on which the macro-projections will be made and will reduce the element of guess-work in such projections.

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2. Ibid. pp-548—562.

CREDIT-GAP IN AGRICULTURAL FINANCE

(An Estimate for Small Farmers in Orissa)

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1·1. It is now recognised by all that the benefit of prosperity arising out of plan investments in the agricultural sector has largely gone to the rich land-owners and big farmers. This has resulted in greater income disparity between the small-holders and the big farmers. Some corrective steps have therefore been attempted for affording specific benefit to the small farmers during the Fourth Plan. Two special schemes—namely (*i*) Small Farmers Development Agency scheme, (*ii*) Marginal Farmers and Agricultural Labour Project have been undertaken in the Fourth Plan. The first scheme covers those possessing land-holding of 2·5 to 4·9 acres and the second one is intended to benefit those with land holding below 2·5 acres.

1·2. The present paper is an attempt to assess the credit-needs of small farmers and gap between its demand and supply.

2. Agricultural Finance :

2.1. The traditional classification of agricultural finance as short-term finance for covering the cost of inputs, the medium-term finance for financing the purchase of implements and assets including bullocks and the long-term finance for financing technological and structural improvements still hold good.

2·2. Short-term finance : By utilising the cost of cultivation data, we may build up an estimate of short-term finance required as follows :

We have already defined that the small-holders are those possessing land-holding up to 5 acres, which cover 33·9% of total operated area in the State. Assuming that the general cropping pattern in the State also holds good for the small-size holdings, we get the following acres under different crops and the total cost of its cultivation.

Cost of cultivation of small holdings in Orissa

Sl. No	Crop	Area (000 acres)	Cost of cultivation per acre (Rs.)	Total cost (000 Rs.)
1	2	3	4	5
1.	Autumn Paddy ...	174	131	22794
2.	Winter Paddy ...	3342	136	454512
3.	Summer Paddy ...	52	131	6812
4.	H.Y.V. ...	33	404	13332
5.	Pulses ...	687	72	49464
6.	Groundnut ...	45	181	8145
7.	Sugarcane ...	33	431	14223
8.	Potato ...	24	372	8928
9.	Jute ...	42	236	9912
10.	Tobacco	7	197	1379
11.	Other crops ...	2213	131	289903
				879404 or 88 Crores

2·3. For the purposes of short-term finance we need not take into account the cost of unpaid family labour, which accounts for 44%. So only the balance i.e. 56% of the total cost of cultivation may be treated as payments' cost. On the basis, Rs. 88 crores worked out above would actually come down to Rs. 49 crores. This is the net requirement of short-term finance.

3. Medium-term finance:

As cost of cultivation data utilised above include the cost of bullock labour and of implements, the above estimate of Rs. 49 crores includes both short-term and medium-term finance.

4. Long-term finance :

4.1. In the absence of any special studies in this regard we may utilise the long-term credit made available by co-operative institutions as an indicator of effective demand for long-term finance. According to available figures Rs. 1.3 crores were advanced as long-term co-operative loan during the year 1967-68 taking one-third of it as the share of the small farmers on the basis of co-operated area, we get about Rs.0.42 crore as long-term loan. But the farmers dependence on co-operatives for securing credit is only partial. According to the findings of the Rural Debt Investment Survey made by Reserve Bank of India, Co-operative Society as an credit agency catered only 16% of the credit-needs of cultivating households. On this basis total long-term loan availed of by the small farmers would be roughly of the order of Rs. 2·6 crores per annum.

4.2 Thus the requirement of agricultural finance of small farmers in Orissa would aggregate to—

(*i*) Short and medium term	..	Rs. 88 crores
(*ii*) Long term	..	Rs. 2.6 crores
Total	...	Rs. 90·6 crores

5. **Credit Gap :**

5·1. According to Rural Debt and Investment Survey in Orissa, an average cultivating household incurred a loan of Rs. 54.90 per annum. Taking the number of cultivating households below 5 acres size holdings as 16 lakhs in Orissa, and on the basis of average credit for cultivating households being about Rs. 54·90, we get an estimate of Rs. 8.8 crores as total supply of cash credit to the small farmers in the State. This leaves a credit gap of Rs. 81·8 crores (Rs. 90.6—8·8) or say Rs. 82 crores per annum.

6.1. For covering this credit gap the central sector investment of Rs. 6.5 crores under small and marginal farmers' development Agency would, no doubt, give a good start, but the major role is to be played by the financial institutions. But the low deposit credit ratio of commercial banks in Orissa acts adversely as a source of supply of finance. Latest data on per capita bank deposit credit ratio shows that as against a per capita deposit of Rs. 12.8, the credit advanced was Rs. 6.6 thus indicating that only half of the savings deposited by the people of Orissa are utilised in Orissa whereas the other half is diverted outside showing an export of capital. This trend has to be totally reversed.

6·2. The hope that private sector savings would increase to finance the needs of farmers is rather dim. This is largely due to the fact that with a slow growth rate of per capita income in Orissa at 1.3% per annum (at constant prices), and high marginal propensity to consume at 0·8, the income saving ratio of rural households has virtually remained stagnant around 2·3% since 1950-51. Under such conditions, the credit-needs should be met by raising the allotments under small Farmers' Development Agency as well as by massive institutional credit facilities extended to farmers.

RURAL FINANCE — AN INTEGRATED SCHEME OF CREDIT SUPPLY (WITH SPECIAL REFERENCE TO ORISSA)

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The farmers need credit of different types for different purposes. Short-term credits are needed by the farmers to buy seeds, fertilisers, insecticides, pesticides and to hire labour needed on the farm. It is also needed for marketing the produce when it is ready for sale. The medium-term credit is required to buy tractor, irrigation equipments, seed-drill, thresher, spraying machines and other farm equipments. Long-term credit is needed for different purposes, such as, making permanent improvements on the farm, reclaiming and levelling the land, promoting irrigation and constructing godowns and cattle sheds.

Apart from the village money-lenders, the short-term and medium-term finance for agriculture are provided by the village credit societies and central co-operative banks. The long-term finance in the rural sector is provided by the Land Mortgage Banks, presently known as Land Development Banks. These are advanced to create capital assets on land to increase its productive capacity. A survey of one of the U. P. Divisions reveals that 92 p.c. of the farmers needed medium-term credits for the purchase of pump sets, 86 p.c. for constructing tube-wells, 79% of the farmers for the purchase of tractors and 38 p.c. for the purchase of other agricultural implements. Only 16 p.c. of the farmers needed long-term credits for land improvements. The need for credit from sowing to marketing is fully recognised. The working capital is required for meeting the temporary adverse market conditions, to bridge the gap between the sale of goods on credit and the realisation of sale-proceeds and paying of taxes if any. The assessment of credits of the farmers is to be done both at the Central and at the State level. The Approach to the Fourth Five Year Plan has stated that, "In the irrigated areas or those with assured rainfall the small farmer should be encouraged to use the high-yielding varieties of seeds and other modern agronomic practices which maximise yields and to this end, positive steps should be taken to ensure that he gets the necessary inputs-water, seed, fertiliser, credit, etc".[1]

1. 'Credit needs of changing agriculture in Tarai' conducted in the Division of Agricultural Economics, U.P. Agricultural University, Pant Nagar, reprinted in 'Agricultural Situation' June 1969, p. 217.

The Reserve Bank of India has a special responsibility in this respect. It is advancing agricultural credit to the co-operative banks and has liberalised its policy of purchasing debentures of the central land mortgage banks. In spite of the attempt of the Reserve Bank to institutionalise the rural credit, the success in the backward States like Orissa has been quite discouraging and the non-institutional agencies such as private money-lenders, traders, relatives and similar sources still dominate the agricultural finance. Thus a large part of rural finance even now is supplied by the unorganised sources.

Co-operative Bank as an agency of rural finance :

So far, the co-operative organisation was the only institutional agency that stepped up the supply of agricultural credit. It is now meeting 35% of agricultural credit-needs.[2] It advanced medium-term and short-term credits worth Rs. 202 crores in 1960-61 and the amount was increased to Rs. 400 crores in 1967-68. The amount of long-term credit over this period increased from Rs. 12 crores to Rs. 84 crores. But the co-operatives have not been able to meet the entire requirements of the farmers. The estimates of annual requirements are of about Rs. 2,000 crores and the co-operatives are able only to meet about $\frac{1}{3}$ of this requirement. About 57% of rural population are not able to tap co-operatives as source of agricultural finance. In future it may have an expanding role to play, but agricultural development should not wait for such a long time. Thus considering the quantum of agricultural credit requirements, the co-operatives are hardly able to meet a significant part of it. It is for this reason that the Informal Group on agricultural credit has suggested for the setting up of Agricultural Credit Corporation in Bihar, West-Bengal, Orissa, Assam, Rajasthan, Manipur and Tripura. Even though the late arriving Land Development Banks are now increasing the advance of long-term capital, there is yet much to be done to bring about an all-round development of Co-operative movement in the State.

Role of commercial Banks :

The All-India Rural Credit Review Committee has estimated the demand for short-term agricultural credit by the end of the fourth plan at Rs. 2,000 crores and for the medium-term and long-term credit at Rs. 500 crores, Rs. 1,500 crores respectively. As against this, co-operative credit agencies are expected to provide about Rs. 750 crores by way of short-term credit and Rs. 500 crores by way of both medium-term and long-term credits during the fourth plan. Hence a large gap is left to be met from the other agencies, particularly the commercial banks. The total rural finance

2. 'Expanding Role of the Co-operative in Agriculture' published in Agricultural Situation, June 1969. p. 199.

advanced by the major banks amounted to Rs. 171 crores in June 1963 and it has risen to Rs. 200 crores in Dec., 1969[3]. The credit-need gap is so vast in the rural sector that without the help of the commercial banks no progress worth the term can be easily conceivable.

For the rapid increase of food supply, the Government is now aiming at increasing use of high-yielding varieties of seeds and application of fertilisers. For the success of programmes like the Intensive Agricultural Development Programme, timely and adequate quantities of fertilisers are highly needed. The requirements of fertilisers in 1970-71 have been estimated at about Rs. 714 crores. Even though it was agreed that the State Bank of India's role in rural finance should be supplementary to that of the co-operative banks, yet in April, 1968, a detailed list was formulated for the financing of all agricultural operations right from sowing upto marketing of corps including processing, storage and preservation. The State Bank advances funds not only for meeting the working capital requirements but also for mechanisation and modernisation of agriculture. It is now covering a wider sphere inclusive of cattle-breeding, dairy-farming, pisciculture, piggery, horticulture, farm storage, etc. Previously the farmers who used to own large holding (more than 25 acres) were assisted. But now a farm of five acres or even less can obtain similar credit facilities.

For the proper assessment of the need for bank credit, the National Credit Council was set up on December, 22, 1967 to determine the properties for the grant of loans and co-ordinating lending and investment policies between the co-operative and commercial banks and other institutions. It has set targets for individual commercial banks in respect of credit to be advanced to the different sectors. The State Bank of India is quite responsive to the needs of the agricultural sector as per the demand of the time. Apart from helping the co-operative movement, it has started helping the farmers directly. Direct agricultural advances of the State Bank Group increased from Rs. 0·98 crore in June, 1968 to Rs. 43 crores in February 1970. The total rural finance of the State Bank Group has increased from Rs. 17·26 crores in June, 1968 to Rs. 116·76 crores in Dec., 1969[4]. The State Bank of India has introduced Farm Graduate Scheme in 1969 and assisted 107 graduate-farmers upto the end of that year. The village adoption approach was adopted by the State Bank Group to widen the sphere of the bank's rural finance. Here one village or a cluster of village can be treated as a single unit, after necessary survey. The State Bank of

3. 'State Bank Assists Green Revolution.' By T. R. Vardachary, published in S.B.I. Monthly Review, March, 1969.

4. 'Meeting Financial Needs of Farm Sector'. By T. R. Vardachary, published in State Bank of India, Monthly Review, April, 1970. p.123.

India has also devised schemes for financing the small farmers and dry farming, to which the Fourth Plan is also concerned.

As per the recommendation of the All-India Rural Credit Review Committee, the Small Farmers' Development Agency was established. It has also started helping formulation of plans to assist those small farmers who are unable to benefit from the agricultural development. A country-wide net work of pilot projects in the form of small Farmers' Development Agencies are to be started to find out the problems of small farmers and ensure necessary credits and services. The Review Committee has also insisted on the uniform development of rural electrification in all the states; and this can increase the number of pump sets and schemes of lift irrigation. The Committee has also assigned a promotional role of growing importance to the Agricultural Refinance Corporation, and suggested that it should have refinance facilities to the co-operative and commercial banks.

Mobilisation of Rural Savings :

In order to meet effectively the credit needs of the farmers, rural savings should be mobilised. The savings during the plan periods have lagged much behind the level of investment. The saving-income ratio at the end of the third plan stood at 10·5 p.c. as against the investment rate of 15 p.c. Between 1950-51 and 1966-67 the income from agriculture increased by 146·47 p.c. from Rs. 4890 crores in 1950-51 to Rs. 12051 crores in 1966-67[5]. The rural sector has substantially benefited from the huge developmental expenditure incurred during the plan period. The share of agriculture to the national income was 51·5 p.c. in 1964-65 as against 51·3 p.c. in 1950-51. But the growing prosperity in the rural areas has, however, not been reflected in their contribution to the savings. A significant portion of rural income has been either unproductively invested or conspicuously consumed. Between 1950-51 and 1962-63 the savings of the household sector increased by Rs. 572·6 crores, but the share of the rural sector was only Rs. 70·7 crores, whereas remaining amount was from the urban sector. The proportion of rural savings has, in fact, declined from 29·3 p.c. in 1950-51 to 15·2 p.c. in 1962-63[6]. Hence the augmentation of rural savings would be needed most in order to ensure stable supply of credits to the rural sector.

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5. 'Mobilisation of rural savings'. By V. T. Dehejia, published in S.B.I. Monthly Review, Nov., 1968.
6. V. T. Dehejia in the above article has stated that the savings of the household sector increased from Rs. 411 crores in 1950-51 to Rs. 983·6 crores in 1962-63. The contribution of the rural household sector to the nation's household sector would be less than 1/8.

Among the institutional agencies extracting rural savings the co-operatives occupy an important place. But these have failed to mop up resources adequately. During 1961-62 to 1965-66, the primary agricultural societies have been able to raise deposits amounting to only Rs. 34.49 crores in 1965-66. In Orissa the average deposits per member of these societies is as low as Rs. 6·07[7]. The mobilisation of rural resources needs the co-operation and integration of both the co-operative and banking institutions operating in the rural areas.

Need for Credit in Agriculture in Orissa :

Agriculture being the predominant occupation in Orissa, its output has a great bearing on the level of State income. The contribution of total agriculture including crop production, animal husbandry, forestry and fishery is about 60 per cent of the State income. On account of the slow rate of development of agriculture, the rate of growth of the State income is lower than that of other states in India. In order to raise the per capita income of the State to the all-India level a substantial amount of investment in agriculture is necessary. Unless the private sector resources are mobilized by different types of institutions and directed towards agriculture this is not possible. The co-operative credit societies have not been able to mobilize rural savings fully nor have they been able to meet the credit need of the farmers substantially. The Commercial banks have to play a leading role in field of rural finance.

It is noticed that in recent years the rural incomes have increased at a rate much higher than the rate of rural saving. This can be mobilised through the spread of both the co-operative and commercial banks. The present programme of ruralisation of the commercial banks is a right step in this direction. The co-operative alone are at present, not able to meet the rapidly increasing capital needs of the farmers. A multi-agency approach becomes a logical corollary. The commercial banks in the rural areas can find it easy and convenient to finance the high-yielding crops, small industries as well as the artisans. The need for credit is not assessed on a scientific line because of lack of co-ordination between various agencies advancing credits and there is also the absence of an effective State Planning Commission having the entire planning in the State. There is therefore the need for a separate State Planning Commission to assess scientifically the need for agricultural credits and find out the various agencies to supply it. In Orissa the co-operatives do not adopt the policy of advancing loans

7. Even in co-operatively advanced states like Maharastra, Madras and Andhra Pradesh, this average is Rs. 8·8, Rs. 7·7 and Rs. 7·3 respectively. Information collected from the above article.

on uniform security measures. The Government stipulates no property security for loans below Rs. 500, some of the central banks do not observe it. The State Co-operative Bank should give necessary guidance to the central banks. Security is necessary with a view to seeing that the advance is repaid. But it should not be made a measure of the credit requirements of the borrowing form or individual.

The Reserve Bank in all suitable cases has advised the policy of State partnership, including contribution to share capital. This contribution in Orissa seems to be discouraging and needs to be increased at least to match with the corresponding all-India average. In this respect a little more liberal policy of the Reserve Bank for the co-operatively backward regions would be appreciated for the balanced growth of credit institutions in the country as a whole. Economists like Dehejia suggest the establishment of a new financial agency for the purpose of deposit mobilisation in the rural sector. This agency should be in a position to offer higher deposit rates to attract deposits and lower loan rates to mobilise bank credits for productivity. The State Bank's attempt to establish service stations of Russian type with provision for giving equipments and machineries on hire would greatly help the small farmers who may not be credit-worthy to obtain loans for buying these equipments.

At present the credits to the farm sector is being advanced by the co-operatives, the State Bank of India, Land Mortgage Banks and the Agricultural Department. Hence while advancing such loans a co-ordination committee of the representatives of each such institution even at the lower level need be constituted. This can avoid overlapping if any. It is true that the present field of agricultural development is so vast that overlapping is not easily conceivable. But with the expansion of activities on rural finance the need for such co-ordination will definitely be recognised. The State agricultural policy should integrate the operations of the co-operative and commercial banks. There is the need for integrating the crop loan system of the co-operative banks with the village adoption and other development schemes of the State Bank of India. Because in both these schemes the increased cost of paddy, sugarcane, potato, jute, wheat and pan is met from the credits obtained from them. The maximum power of Rs. 2,000 fixed by the central co-operative banks may not help the farmer who is really interested for a large-scale transformation. This amount may be increased and may be largely supported by property security.

In order to determine the credit-needs and meet it effectively one has to make a distinction between the priority and non-priority sectors. Credits may be advanced first to those field which can generate saving potentiality at an early time and help raising the income of the debtors.

The experiment of the State Bank of India in the district of Ganjam, for the promotion of high-yielding and better variety of potatoes in the village Alapur and chillies in Jamuni has been highly successful. A few other similar schemes for the promotion of deep-sea fishing at Surala, bell-metal industry at Kabisurjyanagar have now been complete with the hope of raising the level of income of the artisans now living just from hand to mouth.

The credit policy of the State of Orissa should be accompanied by a credit plan, and the credit mechanism should be co-ordinated with planning mechanism. Distribution of credits should be deliberately planned to fulfil the targets of investment and production devised by the planning authority. The credit policy should be so framed as to promote price stability and prevent hoarding and accumulation of inventories. In Orissa it is quite unlikely that the large funds needed for the growth of rural sector would come from the urban sector. Extraction of resources from the rural sector alone can help the promotion of that sector. Heavy investment in the infra-structure and spreading the existing net work of co-operatives and commercial banks remain the lasting solution for the problem of rural credit.

FINANCING ORISSA AGRICULTURE

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An attempt is made in this paper (*i*) to examine the role of various agencies financing cultivators of Orissa and (*ii*) to analyse the extent of utilisation of credit by the cultivators both in the productive and non-productive purposes. This study was suggested by the need to develop the institutional financing in the State.

Financing Agencies :

Financing agencies can be grouped mainly into two categories. One is institutional and the other non-institutional. The agencies like Co-operatives, Commercial banks and the Government come under the first category while the money-lenders, both professional and non-professional, traders and commission agents, landlords and relatives fall under the second category. It is needless to discuss the importance of the institutional agencies in financing agriculture. Therefore, the share of each agency in the field of financing the cultivators of Orissa merits a detailed examination. This is shown in Table 1.

TABLE 1

Average amount borrowed per cultivator family through various financing agencies in Orissa during 1961-62

Agencies		Amount borrowed in Rs.	in %
(*a*) *Institutional* :			
(*i*) Co-operatives	...	9·1	6·57
(*ii*) Government	...	2·3	4·19
(*iii*) Commercial Bank	...	...	...
(*b*) *Non-Institutional* :			
(*iv*) Money-lenders	...	24·1	43·90
(*v*) Traders	...	10·9	19·85
(*vi*) Relatives	...	2·1	3·82
(*vii*) Landlords	...	0·1	0·19
(*viii*) Others	...	6·3	11·48
Total borrowings	...	54·9	100·00

Source :— "Organizational Framework for the Implementation of Social objectives". Report of a study group of the National Credit Council, October, 1969.

TABLE 2

Amount loaned to the cultivators of different asset groups by various agencies in Orissa during 1961–62 *(In Rupees)*

Asset groups	Institutional Credit			Non-Institutional Credit Agencies.						
	Co-op.	Govt.	Com. Bank	Agril. Money-lenders	Professional Money-lenders	Traders & Com. Agent	Landlord	Relative	Others	TOTAL
1	2	3	4	5	6	7	8	9	10	11
(Less than Rs.500) ...	1·3	0·1	..	2·2	8·4	..	..	..	1·6	13·1
Rs.500—Rs.1,000 ...	3·4	0·3	..	2·2	9·0	..	..	0·1	1·1	16·6
Rs.1,000—Rs.2,500 ...	4·8	1·4	..	5·9	10·0	2·1	0·1	0·5	2·3	27·1
Rs.2,500—5,000 ...	12·6	1·6	..	7·8	18·5	4·9	0·2	1·8	2·2	49·6
Rs.5,000—Rs.10,000 ...	10·1	3·3	..	11·0	24·0	7·4	0·2	4·1	6·5	66·6
Rs.10,000—Rs.20,000 ...	14·5	9·7	..	19·5	17·6	93·6	..	3·6	143·8	165·1
Rs.20,000 and above ...	41·7	7·2	..	32·0	36·7	76·9	..	23·1	..	361·4

Source: National Credit Council "Organizational Framework for the Implementation of Social objectives": Report of a study Group of the National Credit Council, October, 1969.

Table 1 shows that the institutional agencies together contributed only 10·76 per cent of total credit to the rural households in Orissa, whose main occupation is farming. The remaining 89·24 per cent of credit to these borrowers came from the non-institutional agencies. However, a detailed analysis of the contribution of these agencies with respect to various asset groups will no doubt help in guiding our policies towards effective and efficient financing of agriculture. Table 2 illustrates the share of the agencies in relation to the asset groups.

The following conclusion could be drawn from table 2 :—

(a) Amount of Credit increases with the increase in the level of asset. This confirms the economic logic that the borrowing strength of an individual increases with the increase in 3 Rs' viz. 'Returns', 'Repayment Capacity' and 'Risk-bearing ability' which are directly associated with the levels of asset groups.

(b) Money-lenders control 80 per cent of the total credit used by the farmers, whose asset is less than Rs. 500. It is because of very weak security position of this category of farmers and credit policies of other agencies, who consider this group of farmers as non-creditworthy. Other reasons may be lack of information, very low social status, illiteracy and other socio-economic factors which go along with the standard of living of the individuals.

(c) A tendency of substitution is clearly noticed in Table 2 in favour of institutional credit with the rise in the level of assets. This process of substitution has the advantage of lowering the marginal cost of borrowing capital. Thus, it will provide incentive for greater borrowing for productive purposes.

(d) The table also helps as a source in testing the hypothesis that the co-operative credit, by and large, falls in the hands of privileged higher asset groups. This is only due to wrong credit policy of co-operatives which did not take the merit consideration of various potentials of the small farmer.

(e) The traders, agents and indigenous bankers emerged out as the biggest source of financing to higher asset strata because of their nature of business and procurement tactics. The loan to the big farmers assures the traders and agents to procure agricultural commodities in most favourable terms. This class of agency has no interest in financing the small farmers who do not enjoy the privilege of marketable surplus. The traders and

TABLE 3

Year-wise disbursement of Agricultural credit through Co-operatives in Orissa

(In thousand rupees)

Sl. No.	Year as on	Agricultural Credit Societies			Primary Land Development Banks		
		No. of Societies	Member-ship	Loan advanced during the year	No. of Societies	Member-ship	Loan
1.	30-6-59	8,358	798	25,288	...	...	...
2.	30-6-60	9,607	879	34,239	...	...	...
3.	30-6-61	8,740	961	42,918	10	2,177	403
4.	30-6-62	8,743	1,028	53,371	14	6,315	2,392
5.	30-6-63	8,726	1,083	64,081	14	10,086	4,251
6.	30-6-64	7,779	1,127	77,686	19	21,484	4,980
7.	30-6-65	5,610	1,157	89,706	27	32,565	7,259
8.	30-6-66	5,428	1,218	98,803	37	66,532	6,729
9.	30-6-67	5,062	1,245	97,751	45	73,050	10,663

Source : Annual Administrative Reports on Co-operative Movement in Orissa: Registrar, Co-operative Societies Orissa, Bhubaneswar.

agents not only occupy a significant place in financing Orissa agriculture, but also help in converting the sizeable marketable surplus to marketed surplus through credit contract.

The author assumes that the present situation with respect to the position of these agencies might have gone unchanged during this period of a decade so far as the ranking is concerned, since until recently there was no major change in the agriculture credit policies in the State and the expansion of the institutional agencies is much slow in this State. However, there is emperical evidence that the volume of credit has gone up many fold during the sixties. This is evident in Table 3.

Table 3 suggests that agricultural credit through primary credit societies have swollen from Rs. 25,288 thousands in 1959 to Rs. 97,751 thousands in 1967, which is a rise to the tune of nearly four times. Similarly loans through the primary land development banks have expanded from Rs. 403 thousands in 1961 to Rs. 10,063 thousands in 1967, arise to the extent of as high as 35 times over a small period of 7 years.

Rapid expansion of loans advanced by the land development banks reveals that the demand for long term credit has considerably increased. This is bound to happen in the process of technological transformation, which needs all kinds of credit—short-term, medium-term and long-term. It is expected that the long term loans might have gone to meet the expenses towards land improvement, including construction of field channels for irrigation and drainage, purchase of pump sets and farm machineries and other capital expenditure in farming as well as clearance of old and non-institutional debts.

Utilization of Credit :

It is unfortunate that the very scarce resource is misutilized, even in case of institutional credit which are supposed to be utilised in the desired direction leading to greater production. In a backward state like ours it is not easy to put a check to misutilization of credit by putting some rules and regulations in the institutional framework. However, the study in the nature of utilization of credit will certainly help develop some policy guidelines in order to minimise the misutilisation . The pattern of credit utilization is presented in Table. 4.

According to Table 4, there appears to be a much larger proportion of loan being utilized in the form of household expenditure which includes expenditures on family consumption, and social customs. The loans spent on this purpose and other purposes like expenditure on litigation and repayment of debt come under the same floor of non-productive

TABLE 4

Average amount borrowed in rupees per family classified according to purpose and asset group of farmers of Orissa during 1961–62

Sl. No.	Asset Groups	Capital expt. in farm business	Current expt. in farm business	Capital expt. in non-farm business	Current expt. in non-farm business	Repay-ment of debt.	House-hold expt.	Expt. on litigation etc.	Any other purpose	More than one purpose	Total loan
1	2	3	4	5	6	7	8	9	10	11	12
1.	Less than Rs.500 ...	0·7	0·2	..	..	..	11·4	..	..	0·7	13·1
2.	Rs.500—Rs.1,000 ...	4·0	0·6	0·3	2·5	..	7·2	1·8	..	0·2	16·6
3.	Rs.1,000—Rs.2,500 ...	5·3	0·3	0·7	2·8	0·4	16·6	..	..	1·0	27·1
4.	Rs.2,500—Rs.5,000 ...	14·4	0·5	..	4·6	1·4	27·4	0·1	...	1·3	49.6
5.	Rs.5,000—Rs.10,000 ...	10·6	2·4	0·6	7·5	0·9	40·0	2·9	0·3	1·2	66·6
6.	Rs.10,000—Rs.20,000 ...	17·4	5·1	...	93·6	..	46·1	0·5	..	2·3	165·1
7.	Rs.20,000 and above ...	23·1	..	18·4	175·00	5·1	136·6	3·2	..	...	361·4
	All Asset Groups ...	9·7	1·0	0·8	13·4	0·8	27·2	0·8	0·1	1·1	54·9

Source : Organizational Frame work for the Implementation of Social objectives : Report of a study Group of the National Credit Council, October, 1969.

loan or in other words non-self-liquidating loan. As we all know, this pattern of utilization of credit only adds to seriousness of the problems of rural indebtedness and drags the economy in the direction of further backwardness.

Effort should, therefore, be made to shift the pattern of utilization of credit from unproductive purposes to the productive allocation such as capital and current expenditures, both in farm and non-farm businesses.

However, in the present situation of technological changes in agriculture, emphasis should be put on the current expenditure on farm business in order to meet the growing demand to buy fertilizers, pesticides, HYV seeds and modern implements followed by capital expenditure on farm business designed to meet the heavy expenditure on machinery, draft power etc. The success of the high-yielding varieties programme mainly depends on the quality and quantity of the agricultural finance. The quality part covers the purpose and type of loan, and their balance proportion, time of disbursement and time of recovery, forms of loan (cash and kind components) and supervision. Similarly, quantity aspect of credit is an equally important task in the financial management activity. This needs extensive farm management studies to derive technical co-efficients so necessary to fix scales for financing agricultural enterprises. In absence of a realistic scale, misutilization of credit is bound to occur, since either inadequate or surplus amount of borrowings will prompt the farmers to shift the desirable utilization pattern. Again the possibility of maximising income by application of non-institutional capital with a very high rate of interest is economically unsound. Hence the role of the istitutional agencies has to be geared up to meet the challenges of green-revolution .

However, the consumption credit needs of farmers, particularly of small farmers, should not be lost sight of, while assessing the credit needs.

Lastly it may be suggested that the question of linking credit with inputs, inputs with output, output with marketing and marketing with recovery may be considered to make the credit policy more productive oriented.

RAPPORTEUR'S REPORT

CREDIT-NEEDS OF AGRICULTURE IN ORISSA

A. K. MITRA

In the wake of the 'green revolution' in agriculture, the credit-needs of the farmers have assumed new significance. The 'green revolution' or the 'high-yielding varieties' programme presupposes use of various inputs in greater intensity. It is beyond the capacity of many small farmers to provide all the requisite inputs out of their own resources. So to make the 'green revolution' a reality particularly for the small tarmers, adequate and timely supply of the agricultural credit on suitable terms is essential. To consider the various problems, which the small farmers face to get adequate amount of agricultural credit, this topic was selected for discussion.

In all, following six papers were received on the subject for discussion :

1. A. K. Mitra—Credit-Needs of Agriculture—Some Methodological Issues.
2. P. N. Das—Credit-Gap in Agricultural Finance
3. P. Panda—Rural Finance—An Integrated Scheme of credit-supply.
4. P. K. Das—Fiancing Orissa Agriculture.
5. S. C. Mallick—Credit-Needs for Improving Agriculture.
6. R. Singh—Credit Needs of Farmers in Changing Agriculture.

A.K. Mitra in his paper "Credit-Needs of Agriculture—Some Methodological Issues" examines the relative advantages and disadvantages of macro and micro approaches in the estimation of the credit-needs of agriculture. He points out that the aggregative studies which are based on various assumptions just provide some ready reckoners regarding the credit-needs of agriculture. But these macro-studies in order to be useful must be supplemented by large number micro studies at the individual farm-level.

Otherwise, he feels, that there is possibility of diversion of credit from productive uses to other uses. This is because, now-a-days, Government and institutional sources at least try to make provision for agricultural credit for production purposes on the basis of these macro studies. But when the farmers do not come forward to demand credit, the officers just to show their efficiency distribute credit indiscriminately in many cases and this results in use of credit for non-productive purposes and consequent overdue and non-recovery of loans. He feels the difficulties, particularly the costs, involved in conducting large number of micro studies and suggests that a joint effort should be made in this direction by the Agricultural and co-operative Departments of the Government, Agro-Economic Research centres, Agricultural Universities and the commercial Banks through their 'lead bank' scheme.

P. N. Das of Bureau of Statistics and Economics in his paper "Credit Gap in Agricultural Finance—An estimate for small Farmers in Orissa" makes an attempt to assess the credit-needs of small farmers and the gap between its demand and supply with the help of some secondary source of data. He estimates the cost of cultivation of the small farmers which is about Rs. 90·6 crores. Then using the data furnished by the Rural Debt and Investment Survey, 1961-62, and other studies estimates that the total supply of credit in Orissa is only Rs. 8·8 crores. Thus, he comes to the conclusion that the credit-gap in agricultural finance for small farmers in Orissa is about Rs. 82 crores per annum. Although it is extremely difficult to bridge up this wide credit-gap, he suggests that the greater amount of advances by the commercial banks to the farmers of the state and greater allotment from the institutional agencies like Small Farmer's Development Agency would go some way in bridging up this gap.

It appears that Das's estimate is based on the assumption that the small farmers in Orissa have no resource of their own to invest in agriculture. This assumption probably needs further verification with the help of large number of studies particularly at the micro-level.

Prahalad Panda (Berhampur University) in his paper "Rural Finance-An integrated Scheme of Credit Supply", points out the deficiencies of the institutional sources particularly the Co-operatives, the Commercial Banks and other Rural Savings Schemes in meeting the credit-needs of the agriculturists in Orissa. In order to provide credit in adequate amount to the agriculturists, the co-operatives and the Commercial Banks should make an integrated approach to mopup the increased agricultural income through their rural savings schemes and utilise the amount to provide greater amount of production credit to the agriculturists. Besides, he also suggests that there should be a separate State Planning Commission to assess scientifically the credit-needs of agriculture and to find out suitable agencies to provide credit.

P. K. Das in his paper "Financing of Orissa Agriculture examines with the help of some secondary data, the role of various agencies in financing agriculture in Orissa and analyses the extent of misutilisation of institutional credit by the farming community.

Group-discussion :

Dr. S. Misra, Vice-Chancellor of Utkal University initiated the group-discussion on the subject by posing a queer problem, which is often noticed in the demand for and supply of agricultural credit in the State. He pointed out that, on the one hand, we all agree that there is need for greater investment and providing greater credit-facilities to agriculture on the other hand, the institutional sources of credit particularly the commercial banks very often complain that they are prepared to advance loan to the agriculturists on suitable terms and are prepared to help them in various ways but the agriculturists of the State do not come forward to take advantage of these credit facilities. This may sound paradoxical but this is a fact and requires further probing and investigation. He requested the delegates and other participants to give some thought to this aspect of the problem. As the time for discussion was very short, the group-discussion on this topic practically centred round this issue.

Expressing his own views on this issue later on Dr. S. Misra pointed out that the agriculturists in the State are sometimes not in a position to take advantage of the credit-facilities of the Commercial Banks as these banks attach greater importance on the secutiry of the loan. Unless agriculture is commercialised, the agriculturists would not be in a position to take loans from the commercial banks or for the matter of that from any-other institutional source. As a first step to institutionalise agricultural credit, it is neccessary to commercialise agriculture in Orissa. To commercialise agriculture, he felt, it is necessary to start a large number of agro-based industries and there should be proper integration between the agricultural production and the agro-based industries.

Dr. Bidyadhar Misra felt that sometimes the farmers are not in a position to utilise the credit facilities offered by the institutional sources as they have no production plan at hand. In this connection he cited his experience in the Gatiroutpatna Panchayet area of the Cuttack District where a study on the credit-needs of the farmers revealed that most of them did not have any definite production plan to implement. As a result they did not feel the necessity of borrowing money from institutional sources for production purposes. H. K. Das Gupta expressed more or less similar views, when he pointed out that in traditional agriculture, there is no need for credit, need for credit arises only when agriculture is commercialised. As overwhelmingly large number of farms in Orissa are organised on the traditional basis the total amount of credit available with the commercial banks are not fully utilised.

Dr. Chakradhar Misra said from his personal experience, which he gathered in course of the surveys conducted by the Bureau of Statistics and Economics, Government of Orissa, that the small farmers do not like to borrow money from the institutional sources because their risk-bearing capacity is less. He felt from his personal experience that small farmers in Orissa always apprehend that by the time the loan is granted, some pressing domestic needs may arise and the entire amount will be spent for the purpose. In other words, there will be diversion of credit from the productive use to non-productive use. As a result, they will find it hard to repay the loan and it may so happen that to repay the loan, they would have to lose some of the assets already acquired. It is this apprehension, which discourages the small farmers to take advantage of the credit facilities offered by the institutional sources like commercial banks. Similar views were also expressed by Mr. Coale, who felt from his experiences of working with farmers in the district of Dhenkanal that they are very much reluctant to take credit particularly from the institutional sources. So both of them suggested that the small farmers may be encouraged to borrow money from the institutional sources.

Dr. Baidyanath Misra felt that the conditions imposed by the commercial banks for granting of the loan are difficult to comply on the part of the small farmers. He particularly cited two examples in this connection. One of the conditions is that the cultivator must cultivate five acres of land in a consolidated block. Another condition is that they must produce a certificate that they have not borrowed from other sources. These conditions are difficult to comply on the part of the small farmers. Besides, he pointed out that there are a lot of procedural difficulties in receiving credit from the commercial banks. So unless the credit-policy is made more flexible and the procedure of advancing loan is simplified, it will not be possible for the small farmers to take advantage of the credit-facilities offered by the commercial banks. S.K. Palit also agreed with, Dr. Baidyanath Misra that the terms and conditions of the commercial banks and other institutional agencies are not conducive to encourage the farmers to borrow from these sources. He suggested that the short-term production loans should be granted without any security. For the medium term and the long-term credit, the credit-norms should be relaxed and suitably changed in favour of the farmers.

Thus, it became evident from the group-discussion that the small farmers in Orissa are not in a position to take full advantage of the credit facilities offered by the institutional sources due to a complex set of factors. The most important factor is that agriculture still continues to be a way of life rather than a business proposition. It is not organised on commercial basis and in most of cases the farmers do not have any definite production-plan to implement to take advantage of the available institutional credit facilities. Besides, lack of enterprise, low risk-bearing capacity, and stringent terms and conditions often either prevent them or discourage the small farmers to go to the institutional sources.

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