CDEIS SERIES
POLICY PAPER NO. 1

REJUVENATION OF PUNJAB ECONOMY: A POLICY DOCUMENT

Centre for Development Economics and Innovation Studies (CDEIS), Punjabi University, Patiala

in collaboration with

Planning Commission Chair,
Department of Economics,
Punjabi University, Patiala

July 2012

Centre For Development Economics And Innovation Studies (CDEIS)

Lakhwinder Singh
Coordinator

The Centre for Development Economics and Innovation Studies (CDEIS) has been established with financial support from the Ministry of Finance, Department of Economic Affairs, Government of India at Punjabi University, Patiala in April, 2012. The CDEIS is a research organization with worldwide activities and interests. Its purpose is to develop a network of researchers working in the areas of development processes and policy making in the emerging economies. The Centre will focus on comparative studies that unravel the effects of science and technology flows between these economies and those that developed earlier. The Centre is engaged in conducting research studies in the areas of national innovation system and innovation policies, organizing conferences and workshops, as well as field surveys and training programmes. The CDEIS invites well known scholars from India and abroad as visiting Professors/Fellows and has also started a series of invited lectures with the aim of enhancing and strengthening the knowledge and research base of the faculty. The preliminary research work of the Centre is disseminated in the form of Policy Papers and Discussion Papers.

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Foreword

Punjab's economy progressed very well and acquired the status of most dynamic, prosperous and India's leading state economy in the era of state intervention. During the current phase of globalization, liberalization and privatization, the performance of Punjab economy has not been that encouraging. The market forces-led paradigm shift in public policy of the union government has adversely affected the developmental process of the state's economy, with subsidies and tax concessions, extended to the neighbouring states of Punjab, further aggravating the situation. Moreover, the centralization and concentration of powers, while encroaching upon the state subjects by the union government, is also reducing the state governments to the position of virtual have-nots.

The economic problems, embracing the state of Punjab, are turning out to be a sign of concern and anxiety for all sections of the society in terms of prosperity that has once been its very hallmark. This has triggered an urgent and immediate need for the revitalization of Punjab's economy.

This policy document is the outcome of the workshop in which twenty-two eminent economists of Punjab participated and it contains significant suggestions that need the attention of policy makers. The most important feature of this policy document is that it suggests policy measures and responsibilities for both the state and union governments. This is a commendable work done by the newly established Centre for Development Economics and Innovation Studies (CDEIS) and Planning Commission Chair (PCC), Department of Economics. I hope the CDEIS and the PCC will produce more such well-researched policy documents in the future too, helping the policy makers in their task of evolving holistic blueprints of economic development.

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Punjab economy since liberalization has performed below its potential level and slipped from first to fifth rank in terms of per capita income. The fiscal crisis has deepened during the last two decades. Fiscal policy and economic governance institutions remained dysfunctional and consequently investment collapse has occurred in the state. Recently, twenty-two economists, who are working on Punjab Economy, had gathered at Punjabi University, Patiala for a one day workshop with the aim of arriving at policy solutions for the economic problems of the state. The common policy issues that emerged from the workshop are stated in the Policy Document entitled "Rejuvenation of Punjab Economy". The policy document contains suggestions which are concerned with both the state and union governments. The active support rendered by colleagues in preparing this document and financial assistance from Ministry of Finance, Department of Economic Affairs, Government of India is gratefully acknowledged.

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Post liberalization experience of economic development in Punjab coinciding with the four democratically elected governments showed a dismal economic performance. Punjab economy has not only lost her economic glory but also has slipped to 5th rank in terms of per capita income. Punjab economy lagged far behind in terms of per capita income for the year 2010-11(Rs. 67,473), which is Rs. 24,678 less than that of the first ranking state, that is, Haryana (Rs. 92,327). This was precisely because of the fact that the policies of Punjab government remained ineffective. Fiscal policy of the state government was in disarray and consequently investment collapse has occurred. Economic governance institutions such as State Planning Board in turn also remained nonfunctional. The recently elected SAD-BJP alliance government is facing a gigantic task of rejuvenating the economic governance and development process in Punjab. The twenty-two economists of the region (Appendix), while shouldering fundamental responsibility towards Punjab State, participated in a **one day Workshop** on the theme "**Challenges before Economic Development in Punjab**" on 3 May 2012 organized by the Centre for Development Economics and Innovative Studies in collaboration with Planning Commission Chair, Department of Economics, Punjabi University, Patiala with the aim of arriving at policy solutions for economic problems of the state. **The common policy issues that emerged from the workshop are as follows**:

? Punjab economy over the last three decades has been facing a chronic shortage of investment in capital formation. The investment-SDP (State Domestic Product) ratio remained below 20 percent, which is the lowest among the fourteen major states of India. Punjab's investment-SDP ratio is 15 percentage points lower than the all India average. **Punjab needs to match, at least, with the national average, and that requires an additional Rs. 10,000 crores (Rupees ten thousand crores) of annual investment in capital formation.** The deficiency of investment in the agrarian economy of Punjab has been increasing and has reached an all time low of 9 per cent investment-agriculture state domestic product ratio as per the latest available estimates. This is the result of lack of economic governance and inefficient functioning of the fiscal policy of the state government.

? If Punjab state wants to regain and achieve its lost economic glory, then revamping of the state fiscal policy is urgently desired. **Punjab government may raise tax-SDP ratio from 7 percent to 12 percent.** This can be done by increasing tax compliance, elimination of tax evasion and imposition of new taxes.

? Rationalization of subsidies is urgently required and it should be based on the principle of social justice. **Universal approach to subsidies should be eschewed with immediate effect.** Subsidy should be given for building capabilities of some deprived/sufferer sections of society for a limited time frame, that is, five to ten years and should be terminated as time elapses. This will release funds necessary for improving the capital formation to achieve targeted high rate of economic growth.

? The discretionary policy of distribution of grants such as 'Sangat Darshan Programme' has undermined the principle of equity and accountability. It has demoralized the public servants and made development oriented public institutions dysfunctional. No economy in the world has progressed without building strong and efficient institutional network. **Therefore, it is suggested that State Planning Board should be revamped on the pattern of Kerala State Planning Board.**

? Shiromani Akali Dal as a political party has championed the cause of rejuvenating the centre-state relations for building a truly federal India. However, in its own state, the party has not made concerted efforts to **establish a decentralized system of transferring resources and powers from the State to Panchayati Raj Institutions, which is urgently needed for a true federal structure within the state. Punjab state can learn a lesson from Kerala state's experience of decentralization.**

? To improve functioning of the fiscal policy of the state, the Punjab government should merge the ministry of revenue, which is responsible for looking after the revenue requirements of the state government, with the ministry of finance. At this moment, the Punjab government's ministry of finance is actually doing the functions of expenditure only. The efficiency principle demands that the functions of revenue generation and expenditure incurring should be under one ministry. This has a capacity to coordinate revenue and expenditure needs of the state government and will restore the lost efficiency of the fiscal policy of the state. **Thus, it is suggested that following the principle of efficiency and good governance, the ministry of revenue may be merged with the ministry of finance with immediate effect.**

? For further improving the economic governance of Punjab state, Punjab government may set up an **Economic Advisory Council to the Chief Minister of Punjab on a pattern similar to the Economic Advisory Council to the Prime Minister of India.**

? Keeping in view the financial position of Punjab state, there is an urgent need that the ministry of finance, government of Punjab establishes coordination with the union government and also finds out innovative and new sources of tax and non-tax revenue. The ministry of finance of the state government needs readily available expert advice which is possible only if some professional expert, who is well versed with trivial policy matters, is engaged on a regular basis. It is thus suggested that a **Chief Economic Advisor to the ministry of finance**, government of Punjab may be appointed on the pattern of union ministry of finance.

? Punjab government urgently requires economic governance reforms. It has assigned the task of policy making and policy implementation to a single agency. However, these two tasks require specialized and separate agencies based on the principles of

public interest and accountability. However, since a single agency has been conducting the functions of policy making and policy implementation in the state, it has thus assumed monopoly powers. This monopoly power of the bureaucracy has made it anti-development and a den of corruption. It is therefore suggested that policy making should be separated from policy implementation. Further, **an independent evaluative agency of professionals and not of bureaucrats is desired to be appointed for ensuring the accountability of those who are responsible for implementation of the public policies**. These economic reforms will ensure efficiency and equity in the distribution of outcomes of the economic policy as well.

? The future economic drivers of economic development are very much rooted in the progress of the knowledge economy. Punjab government needs to harness this revolution occurring in the knowledge economy for ensuring sustainable economic development and intergenerational equity. Therefore, it is suggested that **Punjab government must devote at least one percent of its SDP for Research and Development (R&D) expenditure with immediate effect**. The state government may also target to raise R&D expenditure to 2.5 percent of the SDP by 2020. To ensure the planned development benefits for Punjab state from investing in knowledge economy, it is suggested that a **State Knowledge Commission** may also be set up on the pattern of National Knowledge Commission.

? Although monetary policy is under the control and directions of the union government, yet state government plays an important role in directing the credit flows. The credit-deposit ratio since green revolution period in Punjab has remained quite low. From this source alone, **it is possible to raise investible resources to the tune of Rs. 25,000 crores per annum.** These borrowings if invested in productive economic activities as well generating quality infrastructure will crowd in both domestic corporate sector and foreign investment.

? The agriculture sector is the engine of growth of Punjab economy. Agriculture sector after liberalization policy has been facing multipronged crisis. Rising costs, dipping income and increasing incidence of indebtedness among the small and marginal farmers manifested in a spate of suicides. Agrarian crisis of Punjab economy is deep rooted and needs new policy initiatives, that is, short period and long period. As a short term measure, it is suggested that **the farmers should be freed from the tyranny of the middlemen by reforming the rent seeking, anti-farmer commission agents/*arhrtiya* system.**

? The interlocking of credit and output markets is a major factor behind the crisis of indebtedness leading to suicides. The first step towards saving farmers from these suicides is breaking the credit-crop nexus. This can be dismantled with change in present system of making payments through *arhtiyas*/commission agents. The state machinery should realize that the Agricultural Produce Marketing Committee Act

(APMC) was formulated way back in 1961, when it was essential to provide farmers, who were new to commercial crops, with an assured market and save them from being fleeced by cartels of private buyers. The act has now become a facilitator for *arhtiyas* to recover their dues from farmers, rather than facilitate the farmers. Further, interlinked credit contracts as well as the act forbid them to sell their produce directly to procuring agencies. **It is suggested that the state government should ensure that the system of making payments to farmers through commission agents should be replaced with direct payments immediately.**

? Further, another option with the government in case farmers do not have bank accounts is that **Primary Agriculture Credit Societies (PACS) be involved in the sale of grains, and payments can be made to farmers through these societies.**

? The APMC act, surely, is not 'amendment proof' and the government can move a resolution to make appropriate changes in it in favour of farmers. The changes should not only include direct payment system, but also the freedom to sell at least a part of their produce to private agencies if they so wish. This way, **it can also play an important role in breaking the nexus of credit-crop linkage by not giving the *arhtiyas* a chance to exploit the farmers by first lending them at exorbitant rates** and then, withholding their payment to deduct their own dues first.

? The state government should also provide greater storage facilities in the *'mandis'*. This task should not be left to the centre or procuring agencies alone. Appropriate godowns, shelters, and basic amenities in mandis will also go a long way to protect the interest of farmers who can then wait for a better price to sell their output. The commission to *arhtiyas* has been increased steadily, but no amenity is provided to farmers in *mandis.* **If crops are to be sold through *arhtiyas* then at least the *arhtiyas* should be compelled to spend a certain percentage of their *'arht'* (commission) on providing these amenities to their client farmers.**

? It is a well investigated and established fact that small and marginal farmers and agricultural labourers are under great distress and committed maximum suicides. The families of the deceased farmers and labourers are undergoing social and economic trauma. **There is an urgent need to save these families on humanitarian grounds.**

? **Rs. 5 lakhs and Rs. 3 lakhs immediate compensation to victim families of the farmers and agricultural labourers respectively be given as one time grant. Waiving off whole institutional and non-institutional debt of victim families will be a step in the right direction.**

? **Moratorium on debt held by all the categories of farmers and labourers with the commission agents/informal money lenders is desired to stop suicides in rural Punjab. Furthermore, it is suggested that suitable and gainful government employment to the victim's kin should be provided. The government should bear the cost of education of the children of the family of the deceased farmers and labourers.**

? The maximum number of farmers who committed suicides belong to Malwa region of Punjab. It is observed that the lack of irrigation at the tail end of the canal area and floods of Ghaggar catchment area have been reported as one of the important factors for crop failure/crop damage. So**, it is suggested that immediate modernization and refurbishment of the very old canal system of the state and prevention of floods while taming the Ghaggar river be undertaken immediately**.

? For a long run solution to agrarian distress, it is suggested that Punjab government should step up efforts to pull out rural people out of agriculture by giving agro-processing industry a policy push. The subsidies and tax concessions which have been offered/provided to the corporate sector/mega projects should be given to rural entrepreneurs who are willing to start new manufacturing firms that will process local raw materials and employ rural labour. **It is suggested that Punjab government may encourage new generation member based cooperatives.**

? The rural economic transformation of Punjab economy is a desired long run goal of economic development. This transformation is possible if primary producers are integrated with both manufacturing and marketing activities for reaping the surpluses generated by them. Therefore, it is suggested that **Punjab government should extend necessary infrastructure facilities and ensure that farming should become a part time occupation.**

? The future progress of Punjab agriculture will depend on crop diversification especially of paddy. This will not only save ground water resources, but also help to harmonize agriculture development with environment. Alternative remunerative crops are available which can viably replace paddy cultivation provided that assured market and price support system is put in place by the state government. It is suggested that **Punjab government should develop a Cargo Airport for transportation of output of these alternative crops to the international markets.** Furthermore, to reap the benefits of rise in agriculture productivity, the Punjab government should harness biotechnological revolution while investing in generating adequate skills at three levels, that is imparting training to scientists working in universities, scientists involved in agricultural research and extension services, and of course to the farmers.

? Marketing and brand creations are highly specialized activities. Market intelligence is required for the successful functioning of economic activities. Punjab state is deficient on this count. Therefore, it is suggested that Punjab government should establish a market intelligence research cell. **It is thus recommended that there is an urgent need to establish an International Institute of Trade and Marketing (IITM) as an autonomous body**. The suggested institute will fill the gap of information needed for searching domestic and international markets and will also provide essential marketing skills at the door steps of the rural people.

? Health and education are two pillars of human capital. The modern economic development is highly positively correlated with level of development of human resources. Unfortunately, Punjab state lags far behind in development of human capital due to collapse of the public health and educational system. There is urgent need for restructuring and revamping these two ailing sectors of the state. Thus, keeping in view the present scenario, it is suggested that **the state funding to education be increased to 6 percent of the SDP.** For improving the education system of Punjab, it is recommended that an autonomous **State Education Regulatory Commission** be set up with immediate effect.

? The existing system of educational administration provides only education without ensuring quality. **To enhance competitiveness of the educational institutions, the compulsory accreditation of all the educational institutions is recommended**.

? The government aided sector needs to be rejuvenated and expanded in coverage. **There is need to restore the posts which at present stand freezed under the 95 percent grants-in-aid system**. Further, apart from traditional disciplines, the grants-in-aid system should be extended to emerging disciplines in the aided institutions such as computer, commerce, bio sciences, management, etc. It will help in reducing the financial burden on the institutions and students and will also ensure rightful payments to teaching staff, growth of new subjects and high quality teachers. It is suggested that **the present practice of existence of multiple types of teachers with differential grades of payments, tenures, qualifications and service conditions should be dismantled.**

? **The state government should increase the expenditure on higher education to 1.5 percent of SDP as recommended by various expert bodies**. Some proportion of the enhanced expenditure must be earmarked as capital account expenditure in order to add up physical infrastructure in the institutions of higher learning.

? The Punjab public health system is in shambles. To revamp the public health system of Punjab, it is suggested that **the public health expenditure be raised from the present less than one percent to 2 percent of SDP in the year 2012-13 and further it should be raised to 3 percent in subsequent years.**

? The people of Punjab are suffering from chronic, lifestyle and man-made diseases like cancer, heart diseases, HIV-AIDS, diabetes, blood pressure, joint-pains, etc. For tackling such diseases, it is suggested that **multi-specialty hospitals in each district be established**. **Special geriatric clinics/hospitals may be established in each sub-division hospital** in urban areas and in each Community Health Centres (CHCs)/Rural Hospitals (RHs) in rural areas to cater the health care needs of the aging population.

? The emerging disease pattern in Punjab demands super-specialty treatment based on higher level medical innovations. The treatment for such ailments either is not available or is too expensive and is out of the reach of the common man. Therefore, **Punjab government may establish four super-speciality world class health care and research institutions on the pattern of AIIMS/PGI.**

? According to well establish research findings, the number of poor and vulnerable section of population is quite large and increasing day by day in the state. The exclusion of these people has been increasing in all spheres of life including the health care system. **Therefore, the goal of 12th five year plan is more inclusiveness and can be achieved if state health insurance cover like Rashtriya Swasthya Bima Yojana (RSBY) be made available to vulnerable sections of society.**

? A large number of people of Punjab are suffering from health ailments resulting from lack of clean drinking potable water. **The underground water supply contains heavy metals, residue of pesticides/chemicals and uranium in excess of permissible limits.** Therefore, it is suggested **that drinking water fit for human consumption should be supplied to each and every resident of Punjab**.

? The devolution of financial resources by the union government is also being done through centrally sponsored schemes. These schemes also involve minor contribution from the state governments. However, in the case of Punjab almost all the finances available through these schemes are being underutilized. **The unclaimed resources by the state from the union government are a loss of investment, which is otherwise a legitimate financial resource of the people of Punjab.**

? The rejuvenation of economic development process, although, remained fundamental responsibility of the state government, but major and dynamic policy instruments that affects the growth momentum of the state government are under the control of the union government. It is pertinent to state that since the liberalization period, the union government's decisions with regard to external sector, decontrol of prices, tax restructuring, and many more, in fact, have played havoc with the economic growth momentum of the state. The higher degree of concentration of the policy instruments in the hands of the union government has increased the gap between haves (Union government) and have-nots (state government). **It is suggested that the tendencies of the federal structure to becoming more and more unitary needs to be curbed on urgent basis.**

? The revival and rejuvenation of Punjab economy is both in national as well as in the interest of the state. **Since the state has been substantially contributing and will continue to contribute to the food security of the nation and also because its strategic location is crucial from the point of view of national security, the persistence of economic crisis in the state will jeopardize both**. It is pertinent to point out here that the constraints on economic growth faced by the Punjab economy are partly under the purview and control of the state government and partly comes under the purview and control of the union government. Thus it needs joint efforts of both the governments for the removal of constraints for realizing the potential of economic growth. **The initiatives from the union government will go a long way to set the ball rolling.**

? It is pertinent to point out here that the Thirteenth Finance Commission of India had not only shown a familiarity with the deep rooted economic crisis of Punjab economy, but also had developed some road map to solve it. However, the proposal of debt relief put forward by thirteenth finance commission of India is woefully inadequate. The finance commission of India has clubbed indebtedness of Punjab state with Kerala and West Bengal taking a view that the rise of the problem is due to the same reasons in all three states. On similar lines, the political leadership of Punjab had also discussed a debt relief package. This package, even if given, will not solve the unprecedented crisis faced by the Punjab economy. **What, in fact, is desired and expected for Punjab from the union government is not only the long pending debt relief package, but a capability building "Investment Revival Package"**. The investment revival package must, initially, at least cover the investment deficiency gap between Punjab state and Indian economy based on the difference of investment-gross domestic product ratios.

The economists of the region unanimously resolved to issue an appeal to the union government of India for providing a compensatory Special Investment Deficiency Package to the tune of Rs. 55,000 crores (Rs. 11,000 crores per annum) for rejuvenation of Punjab economy in the next five years. Besides, a debt relief package should also be awarded to the State. The special package is in the interest of food security and strategic national interests of India. If it is announced with a pledge to continue it for next five years then it is possible to roll Punjab economy on the path of self sustained growth. The proposed investment revival package can be expended in a manner to solve the major constraints faced by the Punjab economy. The road map for its long awaited structural transformation from agrarian to industrialized economy can be laid down along with ensuring the food safety and security of the national economy. This will also achieve and reconcile the long term goal of economic development of both the national and the state economy.

Appendix

List of Economists in Alphabetical order

- ? A.S. Bhullar, Professor of Economics, Department of Economics and Sociology, Punjab Agricultural University, Ludhiana.
- ? A.S. Sethi, Professor of Economics, Punjab School of Economics, Guru Nanak Dev University, Amritsar.
- ? Anita Gill, Professor of Economics, Department of Distance Education, Punjabi University, Patiala
- ? B.S. Ghuman, Professor of Economics, and Dean Social Sciences, Panjab University, Chandigarh.
- ? Gian Kaur, Professor of Economics and former Head, Punjab School of Economics, Guru Nanak Dev University, Amritsar.
- ? Inderjeet Singh, Professor-Incharge, Planning Commission Chair, Department of Economics, Punjabi University, Patiala
- ? J.S. Sidhu, Professor of Economics, Department of Economics and Sociology, Punjab Agricultural University, Ludhiana.
- ? Jaswinder Singh Brar, Professor of Economics, Centre for Research in Economic Change, Punjabi University, Patiala.
- ? Kesar Singh Bhagoo, Professor of Economics, Centre for Research in Economic Change, Punjabi University, Patiala.
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- ? Parmod Kumar, Assistant Professor, Department of Economics, Punjabi University, Patiala.
- ? R.K. Bansal, Professor of Economics and Head, Department of Economics, Punjabi University, Patiala.
- ? R.S. Sidhu, Professor of Economics and Dean, Agricultural Sciences, Punjab Agricultural University, Ludhiana.
- ? Ranjit Singh Ghuman, SAIL Nehru Chair Professor, Centre for Research in Rural and Industrial Development (CRRID), Chandigarh.
- ? Satish Verma, Professor and Former Head, Punjab School of Economics, Guru Nanak Dev University, Amritsar.
- ? Sukhpal Singh, Professor of Economics, Department of Economics and Sociology, Punjab Agricultural University, Ludhiana.
- ? Sukhwinder Singh, Professor of Economics, Centre for Research in Economic Change, Punjabi University, Patiala.
- ? Surjit Singh, Professor and Director, Institute of Development Studies, Jaipur.
- ? Upinder Sawhney, Professor of Economics and former Head, Department of Economics, Panjab University, Chandigarh.