



Himachal Pradesh National Law University, Shimla (India)

JOURNAL OF TAX LAW (JTL)

JOURNAL ARTICLES

ISSN: 2584-0428

JOURNAL OF TAX LAW

Volume I (2022)

***CONUNDRUM OF FINANCIAL VIABILITY OF HIMACHAL PRADESH: A
HISTOICAL, ECONOMIC & LEGAL SCRUTINY***

Hari Chand & Surya Dev Singh Bhandari

This article can be downloaded from: ([link](#))

Recommended Citation:

Hari Chand & Surya D. Bhandari, *Conundrum of Financial Viability of Himachal Pradesh: A
Histoical, Economic & Legal Scrutiny*, I HPNLU JTL 14 (2022).

This article is published and brought to you for free and open access by Himachal Pradesh National Law University, Shimla. For more information, please contact clbe@hpnlul.ac.in.

CONTENTS

1. Rewriting International Tax Norms for Sustainability
Preeti Lakhera 1

2. Conundrum of Financial Viability of Himachal Pradesh: A Historical, Economic & Legal Scrutiny
Hari Chand & Surya Dev Singh Bhandari 14

3. Steering Influence of Tax Laws over M&A Transactions: Reflections on Changing Landscape in India
Tarun Jain 37

4. Saving Mr. Tax Arbitration: Use of Institutional Arbitration for Tax Treaties
Ahan Gadkari 51

5. The Slow Extinction of Wealth Tax: How Far is it Justified
Chetan R. 80

6. Tax Regime at the Dawn of Digital Currency: A Study on the Repercussions of “The Union Budget 2022-23”
Tamasi Biswas 93

7. Interest on Late Payment of TDS Constitutes Expenditure or Not: An Analysis
Prasenjeet Kumar 104

8. Taxing the Agricultural Income: A Legal and Policy Analysis
Shreya Maloo 116

9. Taxation of Virtual Digital Assets in India: A Critical Analysis
Vatsa Akanksha 130

10. Critical Analysis of ITC on Free Samples under Goods and Service Tax in India
Anil Sain & Subham Chouhan 138

CONUNDRUM OF FINANCIAL VIABILITY OF HIMACHAL PRADESH: A HISTORICAL, ECONOMIC AND LEGAL SCRUTINY

*Hari Chand**

*Surya Dev Singh Bhandari***

[Abstract: *Financial viability is essential for the effective functioning of any state or political entity. Historically the region Himachal Pradesh both in the British administered regions and the princely states suffered from the feudal distribution of resources and a feudal view of economic production. The issue of economic viability plagued Himachal even during the years of its formation. It was vehemently contended that the state being incapable of standing on its own feet should not be allowed to exist as an independent unit and be merged with the more developed unit of Punjab. This paper has tried to analyze the financial status of Himachal Pradesh and explore legislative measures that can be adopted to strengthen its finances. Taxation serves as a means for revenue generation and social welfare. There are state expenditures aligned with the objective of promoting welfare activities. Modern states go beyond being laissez faire states by assuming responsibilities for social welfare. Whereas the 19th century European police states limited themselves towards ensuring law and order as well as protection from external aggression. These aspects have been examined in detail in subsequent sections of the paper. Himachal Pradesh does not have enough resources to finance its expenditures from the tax and non-tax revenue. This state is highly dependent on grants from Centre and is given special category status by the Central Government. If in the coming time this state is not able to generate enough resources and control its revenue expenditure then financial viability would be under question. Without prejudice to the aforementioned it could be safely concluded that Himachal has come a long way from being a feudal chattel towards a liberal prospering economic setup.*

Keywords: *Financial viability, Tax revenue, Finances, Economic set up, Princely Rule]*

* Hari Chand is Assistant Professor of Economics at Himachal Pradesh National Law University, Shimla. Email: harryhcv@gmail.com.

** Surya Dev Singh Bhandari is an Advocate at the High Court of Himachal Pradesh.

I

INTRODUCTION

Financial viability is *sin qua non* for the effective functioning of any state or political entity. Under the model of Westphalian sovereignty as developed in Europe after the thirty years war every state was deemed to enjoy the right to impose taxes on its citizen and pursue a policy of financial viability without any hue of external duress. The importance of financial stability in any political entity can be gauged by the scrutinizing the *prima face* melancholic ramification of the financial instability in, *inter alia*, Sri Lanka, Venezuela, Syria and Pakistan. The rise of extremist political opinion like Fascism in Europe and even the fall of the USSR both can be seen as the result of financial instability and turmoil. The Constitution of India in this regard provides for the provision for Financial Emergency under Art. 360 of Part XVIII of the Constitution. Further, Part XII of the Constitution is titled "Finance, Property, Contracts and Suits" wherein the realm of 'distribution of revenues between the Union and the States' is dealt with under Art. 268 to Art. 281. Hence, Constitution is well developed and conceived to ensure flow of revenue and thereby the development of a stable system.

The Indian state was envisaged by the founding fathers as a federation even though the term is absent yet it is latently ubiquitous in the working of the constitution. Under the Constitution powers of both the union and states are derived from the grund norm i.e. the Constitution itself. A division of power was done under the seven schedules of the Constitution in order to delineate the contours of the authority the respective governments. Art. 265 of the Constitution patently states that there shall be no taxes imposed save by the authority of law.

Furthermore, there are *inter alia* constitutional bodies like the GST Council¹, CAG² and the Finance Commission³ all of which deal directly with the division of state resources and audit of the application of the same. One of the criticisms of the Indian Constitution which envisages a union of states is the fact that state are financially handicapped and hence perpetually dependent on the Union for resources.

The present paper aims to scrutinize the financial status of Himachal Pradesh

¹ The Constitution of India, 1950 Art. 279A.

² The Constitution of India, 1950 Art. 148.

³ The Constitution of India, 1950 Art. 280.

along with the legislative means that can be adopted to augment the strength of the state finances.

One must note that apart from pure economical facets there are social aspects to taxation. Taxation is a method not only for revenue generation but it also acts as a means for social welfare. Similarly, the expenditure of the state is in line of welfare aspects i.e. the modern states are not only mere police states wherein the role and duty of the states is all but exhausted by the provision of law and order along with protection from external aggression but there is the burden of social welfare activities. These facets will be dealt in detail in the subsequent portions.

II

HISTORY OF REVENUE GENERATION IN HIMACHAL

Napoleon once aptly remarked that British were a nation of shopkeepers and this commercial spirit could be seen as the primary *raison d'être* of British adventure and interest in India. The British interest for India were in essence largely commercial but in contrast control over Punjab and Shimla Hill states, that form the present-day state of Himachal, was done for geopolitical rather than economic reasons. The aim was to, *inter alia*, firstly, to protect the trading routes towards Tibet, secondly to maintain military control and garrison over the Himalayan tracts. One ought to remember these actions were conducted within the greater paradigm of the great game between Russia and UK. When the British came, they defeated Gorkhas and entered into treaties with some Rajas and annexed the kingdoms of others.⁴ During the first World War, virtually all rulers of the hill states remained loyal and contributed to the British war effort both in the form of men and materials.⁵ Therefore, Himachal *per se* lacked well developed commercial activities and well-formed trading routes to tax and generate significant surplus wealth. Hence, under such constraints there was only agriculture as the primary source and in many was the sole source. One ought to remember there were no genetically modified crops, well developed horticultural sector or large-scale government incentives to aid in increased productivity rather there was ubiquitous low productivity that too of food crops rather than cash crops.

⁴ HIMACHAL GOVERNMENT NIC *available at* <https://himachal.nic.in/en-IN/at-a-glance.html> (last visited Mar. 19, 2023).

⁵ HIMACHAL GOVERNMENT NIC *available at* <https://himachal.nic.in/en-IN/british-rule.html> (last visited Mar. 19, 2023).

Further, the agriculture was in general handicapped by unsuitable topography filled with steep slope and high mountains, land holding was scattered and small, soil layer was anemic and stunted, irrigation was limited and resultantly the total area of cultivation was small. Further, it must be noted that cold desert form well over twenty percent of the state area denying agricultural opportunities in huge area of upper Kinnaur and Spiti.

With regards to the manufacturing sector there were no large-scale communities of guilds and trade was devoid of any luster even though small scale trading fairs like *Lavi Mela* of Rampur and *Nalwari* of Bilaspur were present. Though there were many manufacturing castes they were small as a percentage of population and faced social stigma, had low productivity, lacked specialization and were obligated to render compulsory and hereditary beggar services. The hill chiefs were reluctant to undertake any progressive commercial measures and the small revenue base limited the capacity for under taking any noteworthy investment in infrastructure or human resource development. Therefore, the princes had small land revenue as the only viable means of generating revenue that fluctuated with seasonal rainfall and popular agitations.

The princely states witnessed plethora of popular movements against augmentation of land revenue directed against them like the *Jugga* agitation in Bilaspur, *Dumh* movement in Rampur-Bushahr, Pajotha agitation in Sirmaur⁶, *Dhami Goli Kand* in Dhami, Kunihar struggle among others. These movements were all directed towards, among other, the reduction of the land revenue that was imposed or to prevent new revenue settlements. These agitations were led initially by local leaders initially but subsequently the *praja mandal*⁷ overtook this role in the princely states and by the Indian national congress in directly British administered territories like Kangra. The *Praja Mandal* movement was formally launched in 1939 yet it was present in many forms since prior decades. However, under the influences of struggle for freedom and civil rights it was Bilaspur which first witnessed *Bhoomi Bandobast Abhiyan* in 1930, leading to similar uprising in Mandi.⁸ *Bhoomi Bandobast Abhiyan* again reflects a movement against the imposition of land revenue. Therefore, one can safely conclude that traditional the area of Himachal lacked significant economic base with agriculture revenue being one of the chief

⁶ HIMACHAL GOVERNMENT NIC available at <https://himachal.nic.in/en-IN/freedom-struggle.html> (last visited Mar. 19, 2023).

⁷ *Ibid.*

⁸ Manjit Singh Ahluwalia. SOCIAL, CULTURAL AND ECONOMIC HISTORY OF HIMACHAL PRADESH. 45-65 (1998).

sources and that to if pushed beyond a limit gave way to popular upheavals.

III

FEUDAL DIS-INCENTIVE FOR ECONOMIC GROWTH

Himachal Pradesh both in the British administered regions and the princely state suffered from the feudal distribution of resources and a feudal view of economic production. Same was the case with the land distribution which again reflected feudal nature. Most of the agriculture laborer were merely tenant and enjoyed no rights over the lands that they cultivated over generations. The clan members of the hill chief called *mians* were provided tax free land traces. The practice of giving *jagirs*, *muafi*, etc. to nobles like *wazirs*, priest, *zaildars*, was in vogue. *Muafi* meant the remission of land revenue to the land owner who is excused to pay land revenue to the government. Hence, the burden of taxation was not equally distributed. Further, the idea of welfare state was alien to hill chiefs and the little surplus revenue generated was not invested in activities creating additional revenue but wasted at the altar of aristocratic taste and extravagances. Hence, the feudal mode of production dominated in the hill states.⁹ Unlike Punjab which had huge town like Lahore, Ludhiana, Multan, Patiala etc. Most of population in Himachal was in rural areas a fact that acted as a strong disincentive for development of services sector. The terrain was prohibitive of the establishment of hospitals, schools, libraries hence the level of human capital development was also minimal.

Even though there is the lack of consistent state wise historical data on caste hierarchies, levels of socio-economic and political development and data on rural and urban areas.¹⁰ It is not tough to state that the region was impoverished.

With regards to the artisans who made articles for the general public they were made to perform *beggar* under the *Beth* system. *Beth* and *beggar* were an obligatory personal service in return for certain cultivating rights.¹¹ *Beggar* can be viewed as a form of unpaid forced labor¹² though compulsion was not always present and such actions were part of the world view of the performers of *beggar* it seemed fair just natural and above all inevitable. The Constitution

⁹ Satish K. Sharma, *Persisting Hierarchies, Perpetuating Inequalities, Historically Lived Realities of Dalits in Rural Himachal Pradesh*, Socio Bull. 65, 72-74 (2016).

¹⁰ *Id* at 75.

¹¹ Jaideep Negi, *The Begar System in the Shimla hill States during the British Period*, Ind Hist Cong. 55, 694 (1994).

¹² *Ibid*.

of India has by the virtue of Art. 23 Part III has abolished the practice of forced labour. The social hierarchies emerged from two types of land ownership that were *ala malquiat*, the land vested in the name of the rulers, invariably representing the thakurs and rajputs who were superior owners, and, the other 'actual owners' of land identified *adnamalquiat*, regarded as the inferior owners. It is safe to state that the existence of the feudal mode of production necessitated forced labour to the native chiefs through practices like the *beth* and *beggar*.¹³ The practice was denuded of vigor and vitality as the British Indian Government began to receive complaints of people against beggar through *Praja Mandais* after their organizations were successfully able to rouse the people against the payment of unjust taxes and performance of *beggar*.¹⁴ It must be noted that the practice was ended only after independence.

The, freedom from feudal exactions like *beth* and *begar* led to restructuring of class structures in rural Himachal Pradesh, since tax on land or agricultural produce is no longer a significant source of state revenue the farmer could invest more of saving to increase agricultural productivity.

It is important to note that even in 1961, agriculture was the mainstay of 94% of the population in Himachal Pradesh.¹⁵ In 1966, 80% of the population in Kangra district and 46% in Shimla was dependent on agriculture.¹⁶ The cottage industries, trade and commerce were better developed in the sub-montane areas and the dependence on agriculture was therefore comparatively less.¹⁷

Post-Independence the state of Himachal has actively taken on social welfare functions. The human development index of Himachal has also enhanced from a meager 0.479 in 1990 to 0.725 in 2018, this substantial leap would have been unimaginable and unachievable without the active mobilization of state resources by both the center and state. One ought to mention that the state gets special funding at 90 : 10 ratio from the center. Further, Baddi has today become a global pharmaceutical hub¹⁸ and it was declared as the state's first dry port.¹⁹ Furthermore, a mega drug park has been sanctioned in Una District.

¹³ Yogesh Senhi, *From Feudalism to State Developmentalism Changing Economic Formation of Himachal Pradesh*, Eco & Pol W. 51 104 (2016).

¹⁴ *Ibid.*

¹⁵ *Ibid.*

¹⁶ *Ibid.*

¹⁷ *Ibid.*

¹⁸ Tribune News Service, *Committee to prepare national drug database* THE TRIBUNE (Nov. 10 2022, Solan) 3.

¹⁹ Tribune News Service, *Baddi gets state's first dry port*, THE TRIBUNE (Oct. 7, 2023, Solan) 2.

Therefore, the state has effectively created a manufacturing base in spite of historical handicaps.

IV

WEAK REVENUE BASE AS A CHALLENGE FOR STATE FORMATION

Himachal Pradesh as political entity came into existence on 15th April, 1948. It was constituted by integrating the princely States of Chamba, Mandi, Suket, Sirmaur and twenty-six smaller states known as the Punjab Hill States. Subsequently, in 1954 Bilaspur, which was then a part "C" State, was also merged with Himachal Pradesh.²⁰ The state achieved the present geographical status after the passage of the Punjab Reorganization Act, 1966 yet the political recognition of Himachal as the eighteenth state of India had to wait till 1971. On 25th January, 1971, Himachal Pradesh was made a full-fledged State.²¹ This journey towards statehood was full of challenges most serious of which was challenge to establish that the state was economically viable.

The issue of economic viability plagued Himachal Pradesh even during the years of its formation. It was vehemently contended that the state being incapable of standing on its own feet should not be allowed to exist as an independent unit and be merged with the more developed unit of Punjab. The first leader of opposition of Himachal Pradesh Shri Dina Nath from Bilaspur quoting the J. Faizal Ali Commission stated in the First Legislative Assembly that "the unit was backward, was uneconomical and could not stand upon its own legs'. He further, polemically argued that Himachal was "a decrepit weak and paralytic child and as experience has shown, cannot grow by itself." Hence there were strong calls to merge the state with Punjab solely on economic basis. Himachal was seen as a poor region largely due to absence of resources and it was believed that the state if formed could not be sustainable without huge central aid. This view was adopted by Mr. K. M. Pannikar and H. N. Kunzru in opposition to J. Fazal Ali during the deliberation of the State Reorganization Commission. The aforementioned State Reorganization commission report was discussed in *Vidhan Sabha* from November 28 to 30, 1955, barring three members all spoke in favor of retention of separate identity of Himachal. This issue was discussed in all the subsequent Commissions like Ashok Sen, Sardar

²⁰ HIMACHAL PRADESH NIC available at <https://himachal.nic.in/en-IN/at-a-glance.html> (last visited Mar. 19, 2023).

²¹ BRITANNICA available at <https://www.britannica.com/place/Himachal-Pradesh> (last visited Mar. 19, 2023).

Hukum Singh etc eventually the matter was decided in favor of Himachal's existence as a separate state. Yet, there were indications that the state had to show high level of economic prudence. The next section will see a departure from a historical analysis and focus more on a detailed analysis of the present structure of the economic scenario.

V

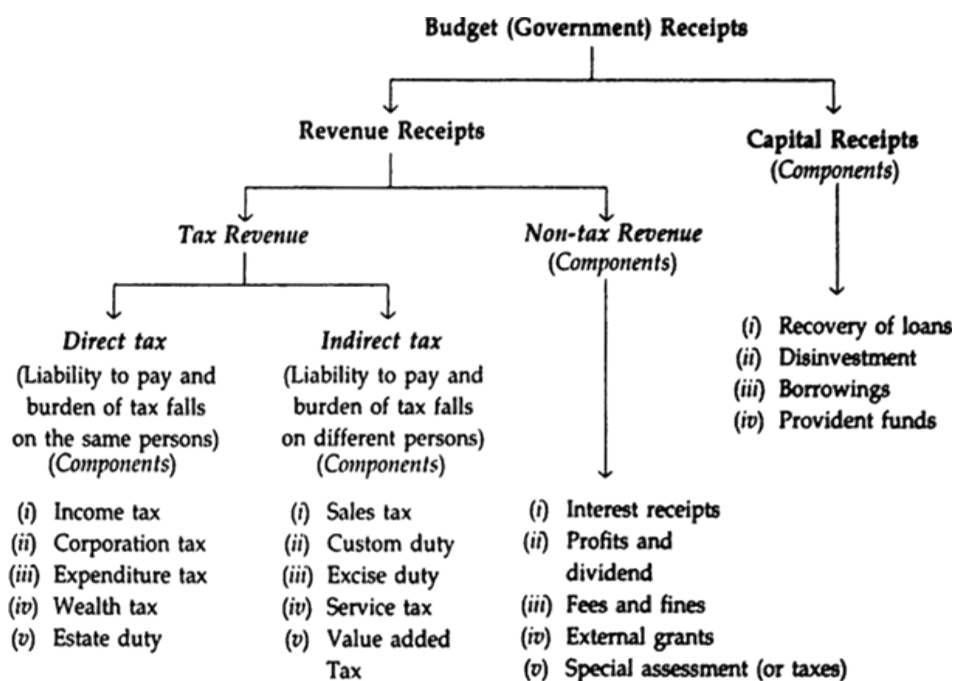
PRESENT STATUS AND AN OVERVIEW OF GOVERNMENT REVENUE AND EXPENDITURE IN THE STATE OF HIMACHAL PRADESH DURING 2021-22

As per the 2011 census of India the total population of the state was 68.64 lakh of which 33.82 lakhs were females.²² Around 90% of the state's population lives in rural areas.²³ Agriculture, horticulture, hydropower, and tourism are important constituents of the state's economy. The people are generally perceived to be docile and law abiding. The State is bordered by Jammu & Kashmir on North, Punjab on West and South-West, Haryana on South, Uttarakhand on South-East and China on the East.²⁴

²² Department of Economic and Statistics Government of H.P., STATISTICAL ABSTRACT OF HIMACHAL PRADESH 2017-18 12 (2018) available at https://himachalservices.nic.in/economics/pdf/StatisticalAbstract_2017_18.pdf (last visited Mar. 19, 2023).

²³ *Ibid.*

²⁴ J. M. Balokhra, "THE WONDERLAND HIMACHAL PRADESH - AN ENCYCLOPEDIA ON THE STATE OF WESTERN HIMALAYAS" 25 (2013).



The Government of Himachal Pradesh mobilizes monetary resources through tax revenue i.e. direct tax and indirect tax, non-tax revenue, share of State in central taxes and grants-in-aid from Union Government to meet the expenditure for administrative and developmental activities. Table 1.1 shows that Government has achieved its target of GST, excise duty and VAT by December for the year 2021-22 which shows that state economy is now out of the impact of Covid-19.

It is evident from the Table 1.2 that the budget estimates for the year 2021-22 total revenue receipts were estimated at Rs. 37,028 crores as against Rs. 35,588 crores in 2020-21 revised estimates.

During the financial year 2020-21 the State Excise and Taxation Department collected Rs. 7044.24 crore taxes under different heads against a target of Rs. 6886.13 crore.²⁵ During the current financial year 2021-22, (up to December 2021) the department has collected Rs. 6,232.24 crore of taxes under different heads against the annual target of Rs.6,964.84 crore which is evident from the Table 1.1.

Table 1.1: Fiscal Position and Parameters (Rs. crore)

²⁵ DEPARTMENT OF ECONOMIC AND STATISTICS GOVERNMENT OF H.P., ECONOMIC SURVEY 2021-22, 12 (2022) available at <https://himachalservices.nic.in/economics/en-IN/economic-survey.html> (last visited Mar. 19, 2023).

Item	Target 2020-21	Actual Receipts 2020-21	Target 2021-22	Achievement (December, 2021)
1. Goods and Services Tax	3451.39	3466.58	3106.25	3157.00
2. State Excise	1624.26	1599.74	1867.90	1436.02
3. Value Added Tax	1467.38	1630.11	1614.10	1309.74
4. Other Taxes and Duties	262.76	264.26	288.22	250.44
5. Passenger and Goods Tax	80.34	83.55	88.37	79.04
Total	6886.13	7044.24	6964.84	6232.24

Source: Excise and Taxation Department, Government of Himachal Pradesh

5.1 Revenue Receipts

Government receipts can generally be classified as non-debt and debt receipts.²⁶ The non-debt receipts comprises of tax revenue, non-tax revenue, grants-in-aid, recovery of loans and disinvestment receipts.²⁷ Debt receipts mostly comprise of market borrowings and other liabilities, which the government is bound to repay in the future.

Table 1.2: Major Fiscal parameters of State Government (₹ in crore)

²⁶ *Ibid.*

²⁷ *Ibid.*

Item/ year	2017-18	2018-19	2019-20	2020-21 (RE)	2021-22 (BE)
1. Revenue Receipts	27,367	30,950	30,742	35,588	37,028
2. Tax Revenue (including central share)	11,909	13,003	12,301	12,312	14,806
3. Non- Tax Revenue	2,364	2,830	2,502	2,268	2,754
4. Disinvestment Receipts	35	9	2	0	0
5. Recovery of Loans	40	22	21	31	41
6. Total Expenditure	34,811	39,154	43,063	53,460	50,192
7. Revenue Expenditure	27,053	29,429	30,730	36,011	38,491
8. Capital Expenditure	3,756	4,584	5,174	5,692	6,013
9. Loans Disbursed	503	468	458	361	354
10. Interest Payments	3,788	4,022	4,234	4,623	5,018

Source: Annual Financial Statement (Budget), Government of Himachal Pradesh.

Table 1.3 (As percentage of GSDP)

--	--	--	--	--	--

Item/Year	2017-18	2018-19	2019-20	2020-21 (RE)	2021-22 (BE)
1. Revenue Receipts	19.75	20.86	19.32	22.71	21.14
2. Tax Revenue (including central share)	8.60	8.76	7.73	7.86	8.45
3. Non- Tax Revenue	1.71	1.91	1.57	1.45	1.57
4. Disinvestment Receipts	0.03	0.01	0.00	0.00	0.00
5. Recovery of Loans	0.03	0.01	0.01	0.02	0.02
6. Total Expenditure	25.13	26.39	27.06	34.12	28.65
7. Revenue Expenditure	19.53	19.83	19.31	22.98	21.97
8. Capital Expenditure	2.71	3.09	3.25	3.63	3.43
9. Loans Disbursed	0.36	0.32	0.29	0.23	0.20
10. Interest Payments	2.73	2.71	2.66	2.95	2.86

5.2 Tax Revenue

Table 1.2 shows that Budget Estimates of 2021-22, the tax revenue (including central taxes) was estimated at Rs.14,806 crore as against Rs.12,312 crore in 2020-21 RE which is more than the revised estimates.²⁸ Revenue receipts are going to increase as state government has implemented 6th pay commission in state which would increase the effective demand. The state government has increased Valued Added Tax on diesel by Rupees 3 on 8th January 2023²⁹

²⁸ *Ibid.*

²⁹ ANI, *Himachal Pradesh govt raises VAT on diesel by Rs. 7.40 per litre Hindustan Times* (Jan

that would add approximately more than 300 crore rupees to govt resources.³⁰ The government is planning to impose water cess on production of electricity.³¹ Further, govt is planning to increase excise duty on liquor to give subsidy to milk producers.³² According to the famous economist Keynes, “Demand creates its own supply”. So, when people will have more money in hand that will increase economic activities and that will increase income, output and employment in the state of Himachal Pradesh.

5.3 Non-Tax Revenue

Non-Tax Revenue is comprised mainly of interest receipts on loans, receipts from sale of power, dividends and profits from public sector undertakings and receipts from services provided by the Government like general services such as those provided by the Public Service Commission, social services such as health and education, economic services such as irrigation etc.³³ The non-tax revenue is likely to increase to Rs. 2,754 crores in 2021-22 as against Rs. 2,268 crores in 2020-21 showing an increase of 21.43 per cent. This is estimated to be 1.57 per cent of State GSDP as is evident from the Table 1.2 and Table 1.3 respectively.

5.4 Non- Debt Capital Receipts

As is evident from the Table 1.2 Non-Debt capital receipts consist of recovery of loans and advances and disinvestment receipts. The budget estimate for 2021-22 envisages Rs. 41 crores as recovery of loans and no income from disinvestment because Government has no purpose of selling any asset.³⁴ Table 1.2 also shows that disinvestment receipts are nil due to the reason that state government does not have enormous resources like Central government as well as this focuses more on welfare of people having socialist bent of mind.

Table 1.2 further shows that as per budget estimates of 2021-22, total

08, 2023, Shimla) 3.

³⁰ Tribune News Service, *Himachal Pradesh government increases VAT on diesel; gets costlier by Rs 3* (Jan 8, 2023, Dharamsala) 3.

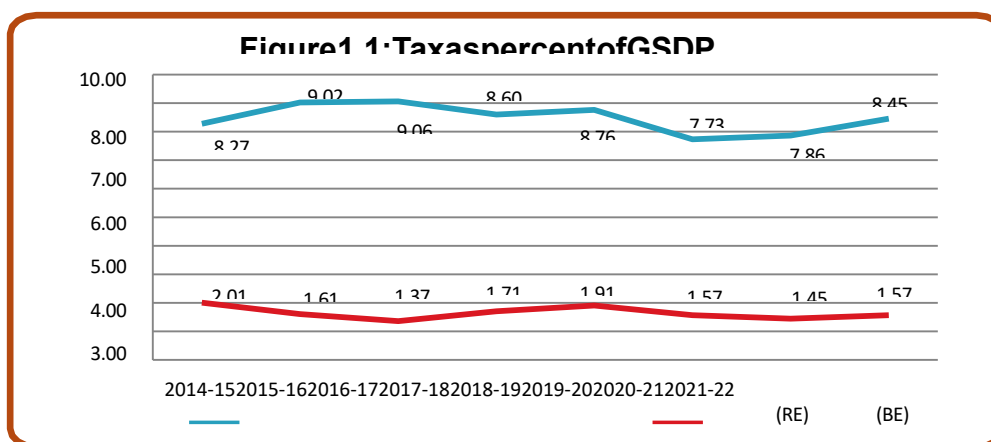
³¹ THE STATESMAN, No financial burden on public from water cess: HP govt, *available at* <https://www.thestatesman.com/india/no-financial-burden-on-public-from-water-cess-hp-govt-1503161972.html> (last visited Mar. 19, 2023).

³² A. Sharma, Himachal Pradesh Budget: Cow cess of Rs 10 per bottle on sale of liquor; 5,000 new recruitment in Jal Shakti dept *The Indian Express* (Mar. 17, 2023, Shimla) 3.

³³ *Supra* Note 29, at 46.

³⁴ *Id.* at 55.

expenditure of the State Government was estimated to be Rs. 50,192 crores



out of which Rs. 38,491 crores (76.69 per cent) was kept for revenue expenditure.³⁵

Note: Chart shows that the tax revenue which was 7.73 per cent of the GSDP in 2019-20 increased to 7.86 per cent in 2020-21, which further increased to 8.45 per cent in 2021-22

As per the budget estimates the Revenue receipts of the Government for the year 2021-22 were estimated to be 21.14 per cent of the GSDP as against 22.71 per cent in 2020-21 RE. Similarly, the tax revenue for the year 2021-22 was estimated at 8.45 per cent of GSDP as compared to 7.86 per cent during 2020-21. Non-tax revenue is 1.57 per cent of the GSDP in 2021-22 as compared to 1.45 per cent during 2020-21.

Table 1.4: Growth Rate of State Government's Fiscal Indicators (in per cent)

Item/ year	2017-18	2018-19	2019-20	2020-21 (RE)	2021-22 (BE)
1. Revenue Receipts	4.20	13.09	-0.67	15.76	4.05
2. Tax Revenue (including central share)	4.62	9.18	-5.39	0.08	20.26

³⁵ *Ibid.*

3. Non- Tax Revenue	37.67	19.72	-11.61	-9.34	21.41
4. Interest Payments	12.78	6.16	5.28	9.19	8.54
5. Total Expenditure	-3.51	12.48	9.98	24.14	-6.11
6. Revenue Expenditure	6.74	8.78	4.42	17.18	6.89
7. Capital Expenditure	7.34	22.06	12.86	10.01	5.65

Source: Annual Financial Statement of Himachal Pradesh Government Budget

5.5 Government Expenditure

Rationalization and prioritization of Government expenditure is integral to fiscal reforms. As State's tax to GSDP ratio is low, Government faces the challenge of providing sufficient funds for investment and infrastructure expansion while maintaining fiscal discipline. Thus, improving the quality of expenditure towards capital spending is significant.³⁶

5.6 Composition of Revenue Expenditure

The Government spends major chunk of its expenditure on revenue expenditure. In 2021-22 it is estimated that 77 per cent of the total budget spending will be on revenue expenditure.³⁷ The composition of revenue expenditure is given in Table 1.5 below which reveals that 55 per cent of total expenditure is likely to be spent on salary, pension, interest payment and subsidies in 2021-22 (BE). The expenditure on salary, pension and interest payments is committed expenditure in nature and has limited headroom for creation of addition fiscal space. The subsidies have been moderated at 2.1 per cent of the total expenditure in 2021-22.

³⁶ DEPARTMENT OF ECONOMIC AND STATISTICS GOVERNMENT OF H.P., ECONOMIC SURVEY 2021-22, 12 (2022) available at- <https://himachalservices.nic.in/economics/en-IN/economic-survey.html> (last visited Mar. 19, 2023).

³⁷ *Ibid.*

Table 1.5: Item wise composition of Revenue Expenditure (₹ in crore)

Item	2017-18	2018-19	2019-20	2020-21 (RE)	2021-22 (BE)
1. Salary and wages	10,671	11,016	11,669	14,836	14,403
Salary and wages as % to total expenditure	30.65	28.13	27.10	27.75	28.70
2. Pension	4,709	4,975	5,490	7,266	7,082
Pension as % to total expenditure	13.53	12.71	12.75	13.59	14.11
3. Interest	3,788	4,022	4,234	4,623	5,018
Interest as % to total expenditure	10.88	10.27	9.83	8.65	10.00
4. Subsidy	907	1283	1068	1158	1081
Subsidy Interest as % to total expenditure	2.61	3.28	2.48	2.17	2.15
Total Expenditure	34,811	39,154	43,063	53,460	50,192

Source: Annual Financial Statement (Budget), Government of Himachal Pradesh.

The growth of major items of revenue expenditure is given in Table 1.6, which shows that the growth of expenditure on salary is increasing year on year. The growth in Salary expenditure over the previous year increased by

27.14 per cent in 2020-21, and is estimated to decrease by 2.92 per cent in 2021-22 (BE). Pension expenditure increased by 14.46 per cent in 2017-18, 6 per cent in 2018-19, 32 per cent in 2020-21. However, in 2021-22 (BE) it is expected to decrease by 2.53 per cent. Growth in interest payments was 13 per cent in 2017-18, 6 per cent in 2018-19 and is likely to increase by 9 per cent in 2021-22 (BE).³⁸ Growth of subsidy expenditure increased by 19 per cent in 2017-18, 41 per cent in 2018-19. In 2019-20 there was a decrease of 16.77 per cent followed by an increase of 8 per cent in 2020-21. In 2021-22 (BE), it is estimated that there will be decrease of 7 per cent in this component of the expenditure. The government has reduced the contract period for the newly inducted employees which is also going to increase wage bill of the regular employees of the government. Further, after the restoration of old pension scheme in the state of Himachal Pradesh since the year 2004 is going to pose a huge burden on the finances of government.

Table 1.6: Growth of major items of Revenue Expenditure

Item	2017-18	2018-19	2019-20	2020-21 (RE)	2021-22 (BE)
1. Salary and wages	13.27	3.23	5.93	27.14	-2.92
2. Pension	14.46	5.65	10.35	32.36	-2.53
3. Interest	12.78	6.16	5.28	9.19	8.54
4. Subsidy	18.72	41.46	-16.77	8.48	-6.67

Table 1.7: Debt Position of the State Government (₹ in crore)

³⁸ *Ibid.*

Items	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
A. Public Debt (A1+A2)	22,659.48	25,198.06	27,919.56	32,570.27	34,670.71	36,424.77	40,571.41
A1. Internal Debt	21,647.06	24,127.33	26,860.87	31,493.97	33,591.41	35,363.12	39,527.72
A2. Loans and Advances from Central Government	1,012.42	1,070.73	1,058.69	1,076.30	1,079.30	1,061.64	1,043.69
B. Public Account and Other Liabilities	8,783.08	9,953.54	10,648.26	11,852.46	13,235.49	14,348.12	15,535.49
C. Total Liabilities (A+B)	31,442.56	35,151.60	38,567.82	44,422.73	47,906.20	50,772.89	56,106.90
GSDP	94,764	1,03,772	1,14,239	1,25,634	1,38,551	1,48,383	1,59,162
Debt as %age to GSDP	33.18	33.87	33.76	35.36	34.58	34.22	35.25

Source: Finance Department, Government of Himachal Pradesh

Table 1.7 above shows that debt as percentage to GSDP was 35.25 per cent in 2019-20, which was 34.22 per cent in 2018-19.

Is the state financially viable?

After the above discussion on revenue and expenditure we have conclude that Himachal Pradesh does not have enough resources to finance its expenditures

from the tax and non-tax revenue, whereas its expenditure on salary, pensions and interest payment is more than 3/4th. this state is highly dependent on grants from Centre and is given special category state status by the Central Government. If in the coming time this state is not able to generate enough resources and control its revenue expenditure then financial viability would be under question.

VI

SUGGESTIONS TO AUGMENT RESOURCES

- *Tax on Horticulture*: Tax on agriculture and horticulture at par with income tax ought to be applied. Himachal has a huge horticultural sector that is subsidized and these subsidies should be checked. There is a need to rationalize the horticultural aid. Some subsidies inevitably aid the rich and the income generated is largely not reinvested in productive areas. Due to this reason income inequalities are glaring in the state. If taxes are put on horticultural income and subsidies are given to poor people in the state then we can hope to reduce the gap between rich and poor
- *Ease of Doing Business*: State ought to create business friendly environment. Bureaucratic hurdles ought to be avoided and the state could adopt an ease of doing business index. Multiple indicators suited to the state condition can be adopted. It is a truism that safe and business friendly environment is always a melting pot for investors.
- *Incentives to Tourism industry*: The government has come out with the Dharmashala Declaration with the intention to make India a global leader in tourism by 2047. A present around seven percentage of state GDP³⁹ comes from Tourism there is vast potential in the area schemes like *nai rahe nai manzi*⁴¹ reflect the priority by the government. Home stays need to be encouraged and provided with necessary incentives to grow. The paradigm of tourism is expanding today it includes, among others, adventure tourism (like river rafting, paragliding, mountaineering, trekking etc) pilgrimage tourism, (temple, monastery, gurudwara tourism etc) eco-tourism etc. Hence there are multiple facets to tourism all of which need to be

³⁹ INDIA BRAND EQUITY FOUNDATION available at <https://www.ibef.org/states/himachalpradesh> (last visited Mar. 19, 2023).

⁴⁰ Gaurav Bisht, *Amid tourist boom in Himachal, HPTDC makes a profit of Rs. 5.82 crore in two months*, HINDUSTAN TIMES, (Jun. 30, 2022) 4.

⁴¹ HIMACHAL TOURISM available at <https://himachaltourism.gov.in/nai-raahein-nai-manzilein/> (last visited Mar. 19, 2023).

adequately exploited. With the fear of repetition one can state that the State is endowed with all the basic resources necessary for thriving tourism activity like geographical and cultural diversity, clean and peaceful environment and beautiful streams, sacred shrines, historic monuments and the friendly and hospitable people.⁴²

- *Conditions of roads and railway needs to be improved:* Kiratpur-Manali four lane road and Parwanu-Shimla four lane road work should be completed as soon as possible. Further two more four lane roads i.e. Shimla-Matour and Panthankot-Mandi four lane road should be started and completed on priority basis without any delay. Creation of Atal tunnel has opened year around tourism prospects in Lahual and Pangi regions. EIA may be relaxed for strategic areas so that development paces is augmented. In October 2022, Prime Minister Mr. Narendra Modi flagged the new Vande Bharat Express from Amb Andaura, Una to New Delhi⁴³ this development is in line of the creation of infrastructural facilities.⁴⁴
- *Economic viability study of new institutions:* The government should avoid creating institution that cannot be sustained economically. This include among others opening college and schools here there is no demand. Also, there should be rationalization of educational institutions where the strength is less than the required numbers. Every year government plans to close down such institutions but due to political reasons government fails to achieve this objective.
- *Expenditure on retirement pensions and salary:* Government of Himachal Pradesh spends more than 75 per cent of its committed expenditure on salaries, pensions and interest payment. For the developmental activities very less resources are diverted. Recently the new Government has announced the restoration of old pension on one hand but on the other hand Government has not been able to pay arrears of 6th pay commission and DA since January, 2022 and by the year 2030 this this decision of restoration of OPS is going to pose a huge burden on exchequer.
- *Focus on industries:* There are very less number of industries in the state.

⁴² HIMACHAL SERVICES available at https://himachalservices.nic.in/economics/ecosurvey/en/tourism_and_civil_aviation.html (last visited Mar. 19, 2023).

⁴³ *Supra* Note 40.

⁴⁴ Bhavey Nagpal and Dar Ovais, *New Chandigarh-Baddi rail link to boost industry in Himachal Pradesh*, HINDUSTAN TIMES, (Dec 12, 2022, Chandigarh) 4.

Those few are concentrated in Baddi-Barotiwala-Nalagarh (BBN) region and few in Una, Sirmour and Solan districts. More investment should be attracted to establish new industrial units in the state that will create more employment opportunities on one hand whereas more tax revenue to the Government on the other hand. There is a need to remember that 2003 Industrial Package for the State was the edifice upon which the industrial growth is based. Further, pharmaceutical should remain the focus of the state. In this direction in October 2022, Prime Minister Mr. Narendra Modi laid the foundation stone of the Bulk Drug Park at Haroli in Una district, which will be built at a cost of Rs. 1,900 crore (US\$ 231.35 million) and provide employment to more than 20,000 people.⁴⁵

- *Attracting footloose Industry:* Himachal as a state has a good track record of law and order situation, further the climate is soothing with respect to the Indian Plains. This along with a state with high HDI, low corrupt will attract footloose industry.
- *Heaven for work from home:* Just like footloose industry a similar argument can be made for the services sector. The positive aspects of the aforementioned point could be used to attract this new services model. Online working and digital interface have liberated the corporate workforce from their offices in metropolitan areas. If long stay for such populous can be ensured a new paradigm of tourism can be created. Yet, it may create its own law and order problem that need to be accounted for.⁴⁶
- *Cooperative and competitive sub federal model:* District level model of the Indian federal model can be adopted. There can be both cooperation and competition at the district level on a multi parameter index.
- *Development of Hydro Power Projects:* State of Himachal Pradesh has been able to harness only 30 per cent of its hydro power production capacity. Still 70 per cent capacity is lying unutilized in the state.⁴⁷ If more such projects are established then it can create more employment opportunities as well as revenue to the state government.
- *State level think tank:* Think tank is the repository of ideas and on lines of

⁴⁵ *Supra* Note 40.

⁴⁶ THE INDIAN EXPRESS available at <https://indianexpress.com/article/cities/shimla/work-from-home-seems-to-be-work-from-himachal-says-police-chief-7397968/> (last visited Mar. 19, 2023).

⁴⁷ *Supra* note 28, at 154.

NITI Aayog can be formulated at the state level to provide succor in the strategic and tactical approach adopted by the state government.

- *Rationalization of Land Laws:* Section 118 of the of the Himachal Pradesh Tenancy and Land Reform Act, 1972⁴⁸ should not allowed to be a handicap for industries. Red tapism and bureaucratic inertia ought to be removed to create the conditions prerequisite for healthy growth of industrial sector.
- *Forward and backward linkages for agricultural produce, agro based industry:* Agriculture is the main occupation and the major source of employment in the state, as 89.96% of the population lives in rural areas.⁴⁹ With suitable agro-climatic conditions, Himachal Pradesh has realised the importance of commercial crops, including off-season vegetables, potatoes and ginger.⁵⁰ Horticulture based agro industry can lead to huge value addition. Pickle, wine, jams, fruit juice etc are example of agro based industry. There is a need to tap these areas so that the produces can undertake steps of value addition at the own level also. Further, there is the need to provide ample forward and backward linkages. There is a need to augment irrigation, road penetration etc in this regard.
- *Privatization of consistently loss-making PSUs:* The government should only remain in areas of strategic, national important along with welfare functional that private sector is either unable or unwilling to undertake. At present a total of 13 of the 23 public sectors undertaking (PSUs) of the Himachal government are in the red with losses mounting to Rs 4902.77 crores.⁵¹ The biggest loss-making PSUs are HP Electricity Board and Transport Corporation (HPSEB) with a loss of Rs 1809.60 crore followed by Himachal Road Transport Corporation (Rs 1707.11 crore loss). However, being a welfare state, the government is offering subsidized travel and power to the people, putting additional burden on these two PSUs which have been extended grant-in-aid in the Budget.⁵² No one is pointing towards the abandonment of the state enterprise of the end of welfare measure but there is a need to rationalize them. If efficiently managed like corporate these PSUs can be sources of revenue generation for the state instead of putting burden on already stressed state resources. The model of

⁴⁸ Himachal Pradesh Tenancy and Land Reforms Act, 1972, S. 118.

⁴⁹ *Supra* Note 40.

⁵⁰ *Ibid.*

⁵¹ Tribune News Services, *Himachal: Losses in 13 of 23 PSUs mount to Rs 4,902 crore*, THE TRIBUNE (Mar. 19, 2023, Shimla) 1.

⁵² *Ibid.*

management and structuring that is followed by the Maharatans PSUs can be replicated in these corporation under the state government.

VII

CONCLUSION

It could be safely concluded that state of Himachal has come a long way from being a feudal chattel towards a liberal prospering economic setup. Services sector has long overshadowed the agricultural sector and even the primary sector has no reassembles with its ancestor during the era of princely rule. The state has dispelled the melancholic opinions of giants like H. N. Kunzru and K. M. Panikkar. The state is indeed financially viable but there is a need to prevent unsustainable gap between revenue and capital expenditure as there is no possibility that the state will develop by neglecting the capital expenditure as the necessary infrastructure will only be created by the capital expenditure. The creation of a huge government sector in Himachal an area that puts sever burden on the economy has to be seen as a social welfare step undertaken by the state. Yet, today there is a need to rationalize this area. Hydro electricity, horticulture, tourism, pharmaceuticals and IT sector has huge untapped potential. The government has shown steadfastness towards the aforementioned. Therefore, the story of Himachal has been financial speaking a story of sanguineness and succor was provided by the committed and hardworking laity of the state. The growth of state's GDP has remained sluggish during 2022-23 and dropped to 6.4 per cent as compared to 7.6 per cent growth recorded in 2021-22.⁵³ Yet, the overall story is promising and noteworthy and it could be concluded that the concerns of financial viability were largely misplaced. There is no inherent weakness of fatal defect only a sever fiscal indiscipline can create challenges which too are no beyond the capacity of any rational policy to handle.

⁵³ **Pratibha Chauhan**, *Himachal Pradesh Budget 2023: Cow cess on liquor; move to fetch Rs 100 crore per annum*, **THE TRIBUNE (March 17, 2023, Shimla) 3**.