

**ONE DAY
WORKSHOP
ON
CHALLENGES BEFORE ECONOMIC
DEVELOPMENT IN PUNJAB
MAY 3, 2012**

A RAPPORTEUR'S REPORT

Organized by:

**Centre for Development Economics and Innovation Studies &
Planning Commission Chair,
Punjabi University, Patiala**

Inaugural Session

One day workshop on the theme 'Challenges before Economic Development in Punjab' started today with the welcome address by Prof. Inderjeet Singh. Prof. Inderjeet Singh while welcoming the dignitaries and workshop participants argued that Punjab has now acquired the dubious reputation of being the number one state in health ailments, substance abuse and many more such socio-economic problems. The economy suffered heavily on account of the social and political turmoil, and is yet to recover. Politically, the state is more or less of the nature of a feudal sultanat'. The system requires change.

The theme of the Conference was introduced by Professor Lakhwinder Singh. The workshop is jointly organized by the Centre for Development Economics and Innovation Studies and Planning Commission Chair, Punjabi University Patiala. Dr. Lakhwinder Singh said that the state of Punjab at present stand at fifth position in terms of per capita income in the country. The gap between the per capita incomes of Haryana and that of Punjab has increased so much. This is really the point of worry. The state leadership now-a-days take more interest in protecting the interests of private business rather than that of the public. The rule base policy is now substituted with discretionary policy. The state has been pushed to a serious chaos with the privatization and discretionary policies. Punjab at this point of time is desperately seeking a package from the Centre government. Two types of packages have been sought by the state leadership, i.e. security package and development packages. The tax erosion is very big issue in Punjab. There is need to rationalize the subsidy regime also. The national monetary policy has been adversely affecting the states like Punjab. It must be understood that the problem of Punjab economy are that of the national economy. Therefore the centre must come forward with the solutions to the problems being faced by the state.

Professor B.S. Ghuman, Dean, Faculty of Arts, Panjab University, Chandigarh in his Inaugural Address has focused upon the problems and challenges being faced by the Punjab economy. The driver of growth during earlier phases was commercialized agriculture. He emphasized that the Punjab being the agriculture -centered state could not reap the benefits of new economic policy. He suggested many points of intervention to attain ten per cent rate of growth, which he insists is possible. The manufacturing and service sector can become new drivers of growth. The better Indo-Pak trade can be a new goldmine of growth for the state of Punjab. The declining agriculture sector and fragile manufacturing sector has become a big problem for the Punjab. The industry and agriculture developed in isolation to each other and had weak mutual linkages. He lamented that even the branded food items to state are coming

from other states. The need is to set up special economic zones by land pooling. The uninterrupted electricity supply is very essential to develop industry. The need is to attract fresh capital both domestic and foreign. The need of the hour is to establish Punjab Investment and Industrial Promotion Board. The single window at present is not working properly. In fact there are many windows within the single window. The E-Governance model of clearances will work better. The assigning of top priority to social sector is very much needed. The demographic dividend needs to be nurtured very sensibly to reap the benefits of high proportion of youth population.

He further said that the need is to properly accredit the schools, colleges and other institutions in the state. The need is to develop quality physical infrastructure in the state. Every budget must have fresh taxes. Tax-free budget is not a complete budget. The centrally sponsored schemes should be used properly. The rural economy must be diversified. The Punjab state must produce quality education to make the youth employable. The growth centered model has played havoc with the state. Let us control the pollution by putting industries under an autonomous board. The right to services act has made things better. The need is to create the advisory council of social scientists to Chief Minister.

Dr. Jaspal Singh, Vice-Chancellor, Punjabi University in his presidential remarks has said that the recent phase of globalization has changed the very drivers and course of growth. The need is to develop the network of researchers and other thinking person's to develop a research agenda to advise the policy makers and implementers. The country must be made truly federal. The globalization is not providing answers to the problems of common man. The concept of welfare state should not be lost under new policies. Prof. R.K. Bansal, Head, Department of Economics, presented the Vote of Thanks.

FIRST TECHNICAL SESSION

Prof. Upinder Sawhney dwelt upon the indicators of fiscal distress in the state of Punjab. The poor state of fiscal management is revealed from the fact that revenue receipts in 2010-11 were less than Fiscal Consolidation Roadmap Fiscal liabilities were 74778 crores in 2010-11. The share of non-tax revenue has halved. Share of development expenditure has remained stagnant at 45-48 per cent. Capital expenditure on social and economic services reduced to 6.22 per cent in 2010-11. Nearly 92 per cent of losses are in Punjab State Power Corporation Ltd. alone. There has been no or little transfer of funds to Guarantee Redemption Fund and local bodies, but widespread frivolous expenditure on 'Sangat Darshans' continues.

A way ahead was suggested in terms of fiscal reforms, with no place for populism. It was suggested that tax revenue as well as non tax revenue be increased. Reduction of subsidies, mainly in the power sector was recommended. Reduction of debt, and not using borrowed funds for debt servicing was suggested. Effective utilization of centrally allocated funds and transfer of funds to ULBs and PRIs as per constitutional requirements was emphasized.

Prof. A.S. Sethi expressed his opinion on the theme 'Estimation of fixed Capital Stock: A Comparative Analysis of Punjab and Haryana'. Capital stock was estimated through Perpetual Inventory Method (PIM). He has examined the relationship between capital stock and economic development of the states of Punjab and Haryana. Capital stock has grown in a decelerating manner in Punjab, whereas this is not the case with Haryana. Slowdown of capital stock pace has reduced the capacity of the state to increase GSDP of Punjab. In Punjab the kinked growth rate has become negative for electricity, gas and water supply.

As policy measure, it was suggested that emphasis be laid on road and transport infrastructure, assured electricity supply, and strengthening overall capital investment. A strong will on the part of the government is needed to reorient investment planning towards development policies. A rational provision of subsidies is also called for.

Prof. Surjit Singh stressed on bringing structural changes in the economy, and pointed out total obsession with a high growth rate (10 per cent) is not justified, as even Western countries do not have such a high growth rate. Instead, it is more important that growth percolates down to the lowest level and there is no wastage of resources. There is a need to prioritize sectors – health and education, for instance. It is significant to realize that political indifference hampers growth. Accountability is necessary. The example of other states can teach Punjab some lessons in fiscal responsibility.

Prof. Satish Verma emphasized that although monetary policy is outside the purview of states, but it needs to be realized that monetary policy has differentiating real effects across various states. One way in which this can happen is the industry mix of the state. Interest rate effect will be more in case of small scale industries. Monetary policy shocks cannot be borne by small scale industries and since interest rate effects are more in small scale sector, this has a direct adverse impact on employment.

Punjab has a large number of small scale industries. Manufacturing and construction in particular are interest sensitive sectors. And share of interest sensitive sectors has gone up in the recent years. This means that monetary policy is affecting the state. Hence there is an urgent need that monetary policy takes account of regional perspectives too, and not be

uniform for every state. It also needs to be kept in mind that interest rate impact is much more in recession than in boom period.

SECOND TECHNICAL SESSION

This session was chaired by Professor Upinder Sahney of Panjab University, Chandigarh and co-chaired by Professor M.S. Sidhu of Punjab Agricultural University, Ludhiana. Elaborating his views on the agenda of development, Professor R.S. Ghuman highlighted the Punjab's contribution in providing food security to the national economy. However, its geo-political situation is putting brakes or limits to future growth of Punjab economy because the big industries are not being established in the state. On the other hand, populism of providing free electricity, water, no new tax, no octroi, etc. were on the agenda of state government. He states that the state government, by providing free electricity/water to the farmers, has snatched away the facilities of providing quality education and health care from the people living in rural areas. He also welcomed the initiatives taken by the central government to promote Indo-Pak trade through Wagha border. Punjab state lacks investment climate because of sky-rocketing land prices, energy shortage, political climate, etc. Even the domestic capital is shying to start new ventures in the state or in the process of shifted away to the other states like Himachal Pradesh, Gujarat, Haryana, etc. Moreover, there is no data with the state government, how many industrial units have been shifted from the state to other states, how many NRIs are from the state, etc. To put the Punjab economy on the re-railing path, he suggested that there is need to: (i) build a political consensus on the future development agenda to be followed in the state; (ii) strengthen the institution delivery mechanism of state; (iii) develop peoples' cooperatives in every walk of life in the state; (iv) emphasize upon corruption-free and good governance in the state; and (v) sensitize the state bureaucracy to adopt people-centric approach in the state.

Based upon her arguments on the primary survey of farmers located in the four border districts of Punjab, Professor Gian Kaur discussed the problems of rural credit as well as rural society. She found that the literacy rate across the farmers is very much low, indicating their dependence on others for routine day-to-day work. Wheat-paddy rotation being dominant cropping pattern in these districts has played havoc with the groundwater resources in the state. Drug abuse is another problem faced the youth living in these areas. Moreover, changing disease pattern in rural areas where the cancers, HIV, hypertension, heart disease, etc. ruling the roster. Farmers are found to be fulfilled most of their credit needs, instead of the institutional sources, mostly from the non-institution sources. And, these non-

institutional sources exploited the poor farmers maximally. To solve these problems, state invention is urgently needed by enhancing credit to farmers on easy terms and regulating the policy of lending money by the commission agents. Also, awareness level of farmers be increased.

Professor R.S. Sidhu of Punjab Agricultural University, Ludhiana stated that a deceleration in the growth rate of Punjab economy seems to be a natural phenomenon. This is largely due to that its agriculture sector has already reached a plateau because of low public investment in state's agriculture sector and no new technological breakthrough in recent past. The present cropping pattern, particularly the paddy cultivation has already stressed upon the state's ecology, soil health and scarce groundwater resources. He favoured a multi-pronged strategy to development the agriculture sector in the state which consists of (i) raising public investment in agricultural research and development; (ii) subsidizing power only to the small and marginal farmers; reduction of area under paddy as well as reducing water-use pattern in the paddy by adopting new technology. He also favoured the promotion of agro-industries in the state.

Professor Sukhpal Singh spoke about the rising debt among the farmers in the state. He stated that more than 90 percent of farmers in the state have outstanding loans. Majority of loans arranged by the farmers are from the non-institutional sources where a reckless exploitation of the poor farmers is a rule. Over the time period, this situation led to de-peasantization of farmers in the state. Quoting his field studies, he informed that about 40 percent of state's small and marginal farmers have either left the occupation already or in the process of leaving it. 18 percent of such farmers sold their land and another 11 percent sold a part of their land holdings. He also pointed out an aggressive behaviour of commission agents belonged to the Jat Sikh castes in grabbing such farmers' land. About the suicides in rural Punjab, he opines that nearly three-fifth suicides were from the side of farmers and the rest from the agricultural labour classes. Those who committing suicides, three-fourth farmers mentioned debt related causes. To improve upon the living conditions of farmers, he suggested that the activities of commission agents be regulated in the state; steps be taken to improve skill and education levels of rural communities; develop alternate market channels to increase viability of farming occupation.

Professor Sukhwinder Singh and Professor J.S. Brar in their jointly prepared research study analyzed 'how the Punjab state looks after her poor'. Tracing the rich legacy of starting

pro-poor schemes like the Pensionary Benefits, NREGS, RSBY and Atta-Dal schemes, they highlighted that, with the exceptions of state's sponsored old age pension and subsidized food (Atta-Dal) schemes, all other schemes are operating at very low and sub-standard levels. For example, NREGS having so many advantages for the poor, however, its implementation in Punjab is subject to many weaknesses like the administration apathy, lack of political will, upper castes' dominance of village polity, illiteracy among beneficiaries, etc. In fact, the programme has been implemented in an adhoc manner. The social audit and vigilance committees do not exist in the state. In spite of a large gap between the number of job cards families and those actually getting employment, no one has been paid unemployment allowance.

On pensionary front, the state has granted these benefits with wider coverage much before the central government favoured such schemes. For instance, pensions for old age (1964), widows/destitute women (1968), orphaned/dependent children (1968) and disabled persons (1982) – whereas the central schemes (pensions for old age, 1995 and widow/disabled persons, 2009) were of recent origin. Further, under the democratic pressures, number of pensioners doubled from 9.29 lakh in 2002-03 to 18.03 lakh in 2009-10 (covering 7.4 per cent of state population) and led to creation of Dedicated Social Security Fund since 2005. Another pro-poor scheme operating much below the expectations is the RSBY as more than two-fifth BPL families were not issued Smart Cards during 2008-09 and 2009-10.

However, state's flagship programme (Atta-Dal Scheme) is functioning very well with least pilferages. It showed whereas the state has political interests/gains (e.g., old age pension and Atta-Dal schemes), such schemes are showing better performance compared to the centrally sponsored schemes (e.g., NREGA, RSBY) where the performance is much below due to many reasons. It showed that the Punjab state did not show full enthusiasm to take full advantage of the centrally funded schemes. Partly, this is explained by general level of apathy and indifferent attitude of state bureaucracy towards all government programmes. Partly, it is attributed to lack of political-will as shown by the prevailing power structure in the state.

For better implementation of such schemes, people's involvement especially those of beneficiaries is of utmost importance. The system of setting up of vigilance committees at village level, social auditing mechanism and educating the PRIs and ULBs' elected

representatives will enhance the utility of these schemes. For getting better results, training of elected representatives of these bodies is also essential. The state and district administration need to be toned up where performance is below the state average. Capacity building of state apparatus be enhanced for better implementation. Utmost transparency and accountability in selecting beneficiaries is another essential condition. There in need to strengthen civil society movements in the state, especially in the rural areas. Above all, good governance is the hallmark of success of any scheme and socially aware sections of society should become more active to ensure a better implementation of these schemes.