

Subnational Reforms and Public Policy Issues in Punjab

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The Indian economy has undergone a paradigm shift and moved towards market-oriented reforms through deregulation, liberalisation and openness of the economy leading to a higher rate of economic growth. However, the sub-national constituents did not respond to the reform programme with similar effort and enthusiasm. The economy of Punjab witnessed deceleration from the beginning of the 1990s. The State which enjoyed top position in terms of per capita income in the country has slipped to fifth position in recent years. However the polity of the State has been apathetic towards the development needs of Punjab. Though the institutional framework for reforms is in place there is a huge governance deficit on the implementation front. This paper reviews the public policy issues in the State over the last two decades.

Introduction

The state of the Indian economy in 1991 necessitated the implementation of an economic reform programme with the focus changing from a controlled and regulated economy towards a more liberal policy framework. Successive reforms and reduction of state intervention and control over economic activity progressively moved the economy towards a market-based system. The regulatory regime was replaced by de-control, de-reservation, de-regulation and removal of restrictive policies. The rate of growth of the economy which was 2-3 percent from Independence up to the end of the 1970s has gone up to above 8 per cent over the last two decades. Liberalization has had an impact on most aspects of economic policy including industrial and trade policies, foreign investment policy, fiscal policy, financial market reforms and public sector restructuring. However, the pace of economic reforms has not been consistent over the last two decades across states and sectors because of various domestic and global compulsions.

In a federal set-up, the relevance of policy reforms at the national level is undermined if its sub-national constituents do not make an effort towards economic betterment through institutional and policy reforms in tune with the national policies. Therefore, the Indian states were expected to create an enabling environment for the implementation and success of macro economic reforms and the structural adjustment programme adopted by the Government of India (GOI) in 1991. State level fiscal consolidation and responsibility, creation of a better infrastructure and effective governance are the prerequisites for the success of sub-national reforms. However, the sub national reforms in India

have been largely neglected and are not much discussed at academic or political forums. It has been established widely that the state-level reforms in India have been uneven throughout the country and the success or failure of the same has been largely determined by the quality of governance at the level of each state of the Indian union (Howes et al, 2003).

Research into state-level reforms is still not enough as compared to the work on the progress and review of national economic reforms. There have been some studies by Callebaut, (1997) Ahluwalia (2000), Howes, Lahiri and Stern (2003), World Bank (2005), Sawhney (2005), Nambiar (2007, 2010), etc. Most of the work at the sub-national level relates to fiscal reforms and a lot of research on this aspect is done by scholars based at the National Institute of Public Finance and Policy, New Delhi. No doubt the fiscal responsibility of the state governments in India needs to be scrutinized closely but other areas like public sector, especially, the power sector reforms, infrastructure development commensurate with the national development policies and issues relating to the efficiency, effectiveness and transparency of government activities, have been largely ignored. The present paper seeks to examine the pace and pattern of sub-national reforms in Punjab, one of the most developed states in India. It is important to study this in view of the deteriorating economic condition of the State over the last few years. The study assumes significance in view of the fact that the institutional framework to facilitate the reforms has been updated and restructured from time to time by the Government of Punjab (GOP) but the economic performance of the State is not showing any significant improvement. The paper is organized into eight sections with the first one introducing the structure of the Punjab economy. Section II gives an overview of the institutional framework for reforms in Punjab. Sections III, IV, V and VI discuss the status of agricultural development, industrial, public enterprise and fiscal reforms in the State respectively. Section VII evaluates the overall reform process and the final section offers some conclusions and suggestions for a way forward.

I. The Economy of Punjab

Punjab was one of the fastest growing states of India in the 1970s and the 1980s. The data (GOP, 1992, 1994, 2010) show that when the average Annual Compound Growth Rate (ACGR) of Gross National Income in India was 4.08 percent in 1985-86, Gross State Income was 7.88 in Punjab; when it was 1.20 in India in 1991-92, it grew at 5.09 percent in Punjab. But when the same for the Indian economy was 9.52 percent in 2005-06, it was only 4.50 in Punjab which was less than half of the all India figure. Similarly during the Tenth Five Year Plan (2002-07) the Gross National Income in India grew at 7.80 percent per annum and it grew at only 5.11 percent in Punjab.

The average ACGR for various sectors of the economy of Punjab and India also shows similar results. When the growth rate of the primary sector in India in 1985-86 was only 0.87 percent, it was 8.41 in the case of Punjab and for the secondary sector the figures were 4.53 and 12.93 for India and Punjab

respectively; while the tertiary sectors growth rates were 7.05 and 3.38 percent for India and Punjab for the same year. The situation remained the same in 1991-92 as well when the primary sector in the country grew at a negative rate; its growth rate was 5.85 percent in Punjab. But in 2005-06 the situation reversed and the All-India rates of growth of the primary, secondary and tertiary sectors were 5.75, 10.65 and 10.59 respectively while the same for Punjab were 1.94, 7.77 and 4.73. During the Tenth Five Year Plan the annual rates of growth of all the three sectors of the Punjab economy improved and were 2.28, 7.75 and 5.96 for primary, secondary and tertiary sectors, but were still below the rates for the country as a whole which were 2.74, 9.40 and 9.37 respectively. This shows a marginal improvement in the performance of the Punjab economy.

The State had the highest per capita income in the country up to 2003-04. The remarkable development record has also been manifested in the achievement of most of the Millennium Development Goals (World Bank, 2004). Most citizens of Punjab have already achieved a level of socio-economic status that the majority of Indians may not even dream of. The poverty ratio in the State has always been far lower than the all India figures of population below the poverty line (GOP, 2011). In 1973-74 when the population below the poverty line (BPL) in India was 54.93 percent, it was only 28.08 percent in Punjab and in 1999-2000 the figures for the country and Punjab were 26.10 and 6.16 percent respectively and in 2004-05 the same was 21.80 at the All-India level and Punjab accounted for only 5.20 percent of the BPL population.

But Punjab lost its 'numero uno' position gradually as its pace of growth slowed down during the 1990s and in 2005-06 it was at the third position in terms of per capita income amongst the major Indian states and in 2008-09 slipped to the sixth position (GOP, 2011). The rate of growth of the Punjab economy is much slower than the all-India growth rate as mentioned above. A number of factors are responsible for the slow pace of economic development in Punjab: cross border terrorism affected the state for more than a decade resulting in not only the deceleration in the growth rate of the economy but also flight of capital from Punjab; fiscal profligacy of the successive governments during the 1990s due to their populist policies; stagnant agriculture, slow pace of industrial development and last but not least, the bureaucracy and the polity have been apathetic towards the developmental needs of the State over the last two decades (World Bank, 2004 and GOP, 2002).

Punjab, believed to be predominantly an agricultural economy, has undergone a structural change in terms of the contribution of various sectors to the Gross State Domestic Product (GSDP). As per the data provided in the Statistical Abstracts of Punjab (various issues), the primary sector contributed more than 57 percent to GDP in 1970-71, followed by the tertiary sector (26.87 percent) and the secondary sector (15.70 percent). But the contribution of GSDP originating in the primary sector declined to nearly 47 percent in 1990-91 and only 26.60 percent in 2008-09. The contribution of secondary sector increased to nearly 25 percent in 1990-91 and that of the tertiary sector remained more or less the same at about 28 percent. However, the contribution to GSDP from the tertiary sector has gone up to more than 43 percent in the recent past (2008-09)

and that of secondary sector more than 30 percent during the same time. This clearly shows that the primary sector is no longer the leading sector in Punjab and is contributing only about one-fourth to the state income whereas the tertiary sector is contributing the maximum to GSDP in Punjab. Successive governments in Punjab since 1992, when the popular government came into power after a decade long civil strife in the State, did not make any concerted effort towards the revival of the primary sector and also did not fully tap the growth potential in other sectors of the economy. There is a tremendous scope for the growth of manufacturing and services sectors in the State. There is a dire need for strong policy measures to be taken to revive the economy of Punjab and improve the rate of growth of all the sectors in the State. There has been a lot of academic and media focus on the issue of restoring the lost glory of the State as also the need for a turn around of the primary sector but the government has seldom taken it seriously (Sawhney, 2010, 2009, 2008; Dhési and Singh, 2009; Times of India, 2010).

II. The Institutional Framework for Reforms in Punjab

Punjab has an excellent record of enacting various Acts and Legislations as mandated by the GOI for implementing certain reforms at the state level. The GOP was amongst the first states in the country to constitute the State Finance Commission as required under Article 243-1 of the Constitution of India as per the 73rd and 74th Constitutional Amendments in 1992. The State Finance Commission looks into matters relating to state finances including the transfer of funds from the state government to the Panchayati Raj Institutions (PRIs) and Urban Local Bodies (ULBs) and ways to generate more resources for these institutions. The GOP declared industrial policies in 1992, 1996, 2003 and 2009 to facilitate industrialization in the State and to attract not only domestic private capital but also foreign capital in tune with the national policies. The focus of the policies has been on hassle free investments in Punjab with various incentives to certain categories of investors like the Information Technology (IT) and IT enabled services (ITes), agro-industrial development, uninterrupted power supply and location of industries in the border areas, etc. The Punjab Information Technology Policy, 2001 was specifically designed to meet the growth requirements of the IT sector in the State. There is a separate Tourism Policy, 2003 meant to tap the tourism potential in Punjab. The Punjab State Special Economic Zones (SEZ) Act, 2009 is the sixth SEZ policy at the state level in India. There also exists a Punjab Industrial Facilitation Act, 2005 to further simplify the procedures related to industrialization in the State.

The GOP established the Directorate of Disinvestment under the Department of Finance in July 2002 to restructure/privatize the State Level Public Enterprises (SLPEs) and their subsidiaries/promoted companies. Punjab was amongst the first few states to enact the Fiscal Responsibility and Budget Management Act (FRBMA) in October 2003 under the directions of the GOI to bring about fiscal reforms. The GOP enacted the Punjab Infrastructure Development Act in 2002 and set up the Punjab Infrastructure Regulatory

Authority. It has a very clear policy on Public-Private Partnerships (PPP) in the State. The State also has a Textile Policy, 2006 and Biotech Policy, 2006. Punjab implemented Value Added Tax (VAT) in the State in 2005 as a part of the tax reform effort of the GOI.

The GOP set out to carry on the power sector reforms and formed the Punjab State Electricity Regulatory Commission (PSERC) in March 1999 under section 17 of the Electricity Regulatory Commissions Act, 1998 with the objective of rationalization of electricity tariff, advising in matters relating to electricity generation, transmission and distribution in the State. Thereafter the Electricity Act, 2003 was enacted under which the state electricity boards were supposed to bring about massive restructuring of the power sector in order to make them economically viable entities in all the states, as the state electricity boards continued to be in huge losses and were the cause of fiscal deficits in almost all the states.

The Punjab Social Development and Governance Reforms Commission was set up to suggest measures to improve the governance and delivery system in the State in January 2009. More recently the GOP has enacted a Right to Service Act, 2011 to ensure the implementation of several social welfare schemes as well as the delivery of citizen-centric services. It is clear from above that Punjab has an adequate and an up to date institutional framework to carry on the state-level reforms as needed from time to time as also directed by the Government of India.

III. Agricultural Development in Punjab

Punjab was the first state in the country to usher in the Green Revolution after the adoption of New Agricultural Strategy comprising high yielding varieties (HYV) of seeds, fertilizers, pesticides and assured irrigation in the mid-1960s. The agricultural development in the State was structured to produce food grains, mainly wheat and rice, to meet the food requirements of the country. Therefore, a fairly good canal irrigation system and certain state level institutions were created to provide agri-inputs to the farmers at subsidized rates during the 1970s and 1980s. The emphasis was also laid on agricultural research and extension activities especially by the Punjab Agriculture University at Ludhiana as well as Indian Council of Agricultural Research. The total food grain production increased significantly from 7.3 million metric tonnes in 1970-71 to 26.9 million metric tonnes in 2009-10 (GOP, 2011) and Punjab emerged to be the largest contributor to the central pool of food grains over the years.

Rapid agricultural development of the state resulted in Punjab experiencing a rate of growth much higher than the rest of the country as mentioned above. However the growth momentum could not be sustained and deceleration started in the agricultural sector. There has been a negative impact of the wheat-paddy rotational cropping pattern on the environment in the form of falling water table, deterioration in soil health, river water pollution, etc. Successive governments in the State did not pay much attention to the maintenance, modernization or up-gradation of agri-infrastructure in Punjab. Storage of food grain during the

procurement season and thereafter poses a major challenge. The storage capacity for agricultural produce in the State is extremely inadequate. Grain is exposed to the vagaries of nature and is damaged due to lack of covered space in *mandis*. The state government collects hefty taxes on the sale of food grains from the farmers but has failed to provide any shelter. Large quantities of precious food grain are lost every year due to bad weather - both the center and the state are responsible for this condition. Food rotting in the open fields is a common sight when millions of poor can't afford two square meals a day. Manual handling delays grain procurement causes wastage and raises cost. The irrigation system in the State has not been strengthened since it was created almost four decades ago. There is colossal water wastage due to dilapidated canals making the area vulnerable to floods.

Land acquisition for infrastructure, industry and real estate development in the State is proving to be detrimental to the long term interests of the farmers, especially those who are holding small farms. For a short while the gains from land acquisition seem huge to the farmers as a lot of money comes into their hands but in the long run it is not easy for them to sustain their livelihoods. This is because most of them, especially the younger generation, dissipate the lump sum cash in their hands on consumption expenditure like buying flashy cars, houses in urban areas, etc. rather than investing it fruitfully in ventures that give them steady income. An average farmer is not trained to take up any non-farm activity, so is rendered jobless leading to frustration and often drug-addiction and alcoholism. The repercussions of indiscriminate changes in land use for non-farm activities can also create issues of food security as the area under cultivation is likely to shrink in the long run. There also seems to be no regulation and discipline in government actions as far as the utilization of farm land is concerned.

The GOP seems to be apathetic towards the deteriorating conditions in the agricultural sector of the State, which was the growth driver in Punjab since 1966-67. There is no specific policy to improve the deteriorating condition of agriculture, either by the Government of India or the State government.

IV. Industrial and Infrastructure Reforms

Punjab had a fairly developed industrial sector prior to the advent of militancy in the State in 1980-81 with Ludhiana, Jalandhar, Amritsar and certain small towns like Mandi Gobindgarh and Goraya having industries like hosiery, cycles, machine tools, sports goods, woolen textiles, carpets, steel re-rolling, agricultural machinery, etc. One decade of terrorism spelt a doom for the state economy, in general, and industry in particular. The World Bank (2004) states

The impact of militant activities on growth was swift, widespread and, in some cases, permanent: The industrial growth rate halved, from 8 to 4 percent: and the growth rate of services sector decelerated as well, and fell by half, between 1987/88 and 1992/93. Even the agricultural growth rate plummeted from

around 6 percent year to around 2 percent during this period due to decline in long term investment associated with the uncertainty surrounding the militancy activities. Our calculation shows that the output loss suffered by Punjab on account of militancy activities could be as large as Rs.13,000 crores in today's prices (equivalent to 29 percent of today's GSDP).

However, even after two decades of the end of that era, the State has a different set of problems which are proving to be major hurdles in the development of industry in the State.

In line with the GOI, the state governments in the country started drafting new policies to facilitate industrialization under the liberalized and globalized regime. Accordingly, GOP announced its first post-reform industrial policy in 1992 followed by another in 1996, 2003 and the latest being the policy of 2009. Each of these policies brought out, more or less, the same set of strategies towards industrial development in the state. All the policies emphasized facilitating the setting up of industries through single window clearance, encouraging foreign direct investment (FDI), attracting private domestic investment by offering better incentives vis-à-vis the neighbouring states including the fiscal sops and easier land acquisition, etc. The latest policy of 2009, based on a review of Punjab's industrial scenario by the United Nations Industrial Development Organization (UNIDO, 2008), is no different from the earlier policies. It does not offer anything which has not earlier been institutionalized through certain organizations, policies, acts and legislations in the State. Punjab has a separate document for every provision made for facilitating industrial development in the State in the new policy. But the investment climate in the State is not conducive because of the prohibitive cost of land, severe power crisis, acute shortage of skilled manpower and increasing corruption and red-tapism. The neighbouring states are also competing away investment as Punjab is not offering any attractive incentives for the investors and is also not honouring its own commitments made from time to time, for example, the Industrial Policy of 2003 had a provision for capital subsidy for setting up industrial units in the border districts but no subsidy has been paid to the entrepreneurs so far. Therefore they are unable to compete with their counterparts in other states.

The state-wise data on FDI inflows into different Indian states show that of the total FDI equity inflows reported by different regional offices of the Reserve Bank of India, between April 2000 to August 2011, the Mumbai office comprising Maharashtra, Dadra and Nagar Haveli and Daman and Diu accounted for 35 percent followed by the Delhi office comprising Delhi and parts of Haryana and Uttar Pradesh, accounting for 20 percent. Punjab falls under the Chandigarh office which comprises Chandigarh, Punjab, Haryana and Himachal Pradesh and it accounts for only around one percent of total FDI equity inflows during 2000 to 2011, which means that the share of Punjab is almost negligible (GOI, 2011).

The key to high rate of industrial and economic growth is a well-developed infrastructure. The budgetary resources are inadequate to provide the requisite investments to ensure sustainable infrastructure development in Punjab. The Punjab Infrastructure Development Board (PIDB) is the nodal agency for facilitating private investment in infrastructure across different sectors - roads and highways, urban infrastructure, industrial infrastructure, electricity, health and education. The PIDB is funded through the Punjab Infrastructure Development Fund. The Punjab Infrastructure Initiative Fund (PIIF) has been created to finance project development through public private partnerships (PPP). The State is in dire need of both rural and urban development, airports, good roads and uninterrupted power supply.

V. Public Enterprise Reforms with Special Reference to Power Sector Reforms

The State Public Sector Undertakings (PSUs) consist of 45 companies and 5 statutory corporations of the GOP. Nearly 86 percent of the investment of PSUs is in the power sector, followed by the financial sector (about 7 percent), while there is only an investment of about 3-4 percent in the SLPEs meant to support the agriculture sector. Most of the SLPEs in Punjab have been suffering huge losses and are inefficient, lack transparency and accountability in their working (Sawhney, 1993). Prior to the setting up of the formal framework for disinvestment, it was decided to close down six SLPEs between 1991 and 2001. After the adoption of economic reforms in India, the GOP decided to restructure the PSUs and accordingly the State Disinvestment Commission recommended dissolution of nine companies (Sawhney, 2005). Presently there are 19 non-working state undertakings and winding up/closure of the recommended undertakings has not yet been finalized.

As per the Report of Comptroller and Auditor General (CAG) of India (2010), during 2004-05 to 2009-2010, the working public sector undertakings incurred losses every year except 2004-05. The percentage of turnover of PSUs to the State GDP declined from 15.03 in 2004-05 to 11.64 in 2009-10. The losses of SLPEs are mainly on account of deficiencies in financial management, planning, implementation of projects, running their operations unprofessionally and lack of monitoring. Most of these losses are controllable and there is huge avoidable expenditure incurred by these organizations. The return on capital employed has been extremely low in their case, being as low as 0.96 percent in 2008-09 and negative in the years 2005-06 and 2007-08. There are huge accumulated losses, very high debt and interest payments (GOP, 2010).

The GOP is aware of the serious financial burden of the SLPEs on the public exchequer but is absolutely apathetic towards taking any concrete steps to divest out of these loss making undertakings. Most of the undertakings are not only running into perpetual losses but do not adhere to sound accounting practices as per their respective Acts. They neither finalise their accounts annually within the stipulated period nor present them for auditing and thereafter to be tabled in the State Legislature. In some cases the accounts are running in arrears for more

than five years. This prevents the scrutiny of the working of these organizations. Delay in finalization of the accounts can lead to gross misappropriation of funds and misuse of public money, apart from the provisions of the Companies Act, 1956. Thus the SLPEs are a source of major fiscal burden on the state exchequer as their accumulated losses were 5.5 percent of the State GDP in 2009-10 as calculated on the basis of the CAG report of 2010 (op.cit).

Failed Power Sector Reforms

More than 85 percent of the public sector investment in Punjab is in the power sector, i.e., the Punjab State Electricity Board (PSEB), which had been running into huge losses over the years due to mismanagement, over-staffing, heavy transmission and distribution losses, unviable electricity tariffs and free power to the agricultural sector. The CAG (2010) has observed that to meet the chronic power shortage in Punjab, the PSEB resorted to unplanned purchase of power at exorbitant rates resulting in avoidable extra expenditure of Rs.43229.8 million during 2005-10. If the Board had planned well and augmented the power supply in the State in response to demand or resorted to long term power purchase arrangements at a lower cost, huge amount of resources could have been saved. The GOP signed a Memorandum of Understanding (MOU) in March 2001 with the Union Ministry of Power for implementation of power sector reforms with identified milestones like reduction of transmission and distribution losses, 100 percent metering of consumers in the State, monitoring of MOU on quarterly basis, etc. Most of the milestones have not been achieved even after a decade of entering into this agreement. The PSEB was to be unbundled into three separate companies for transmission, distribution and generation of electricity in the State as per the Electricity Act, 2003. The Union government gave a specific time frame to each state to unbundle the power utilities under the Act.

The GOP should have unbundled PSEB after carefully creating awareness amongst all the stakeholders regarding its impact and boldly implementing it by putting all the institutions in place at the earliest; which included the withdrawal of electricity subsidy to certain classes of consumers in the State. Instead it chose the path of procrastination and kept on postponing the inevitable in order to retain the populist policy of free power to farmers as well as relenting under trade union pressure. It sought 13 extensions from the Union government on one pretext or the other. Thereafter in April 2010, the Punjab Cabinet decided to corporatise PSEB by creating two separate companies - Punjab State Transmission Corporation Limited (TRANSCO) to look after the transmission and Punjab State Power Corporation Ltd. (POWERCOM) to manage generation and distribution of power in the State. However both the companies are fully owned and managed by the government and also the staff and their service conditions continue to be the same as PSEB, only they are nominally allocated to the two new organizations. Tariff continues to be determined by the PSERC as in the past and all the subsidies to different sections of the consumers, including the farmers continue as before. So far it seems that this structural change in the power sector has been brought about merely to fulfill the

obligation laid out in the Electricity Act, 2003 and has not resulted in any radical power sector reforms and the State continues to face severe power shortage and the two new organizations are also suffering huge losses.

VI. Fiscal Reforms

Fiscal reforms form a very important part of any reform programme and enables a government to implement the development-oriented policies more effectively. The most important factor responsible for the declining economic performance of Punjab is its gross fiscal mismanagement.

Punjab has been under fiscal stress since the mid-1980s, when it became a revenue deficit state. Punjab had the dubious distinction of being among the states with the highest fiscal deficit in the country at the beginning of the reform period. Militancy, that lasted for over a decade in the State, was one of the major causes of its poor fiscal condition but not the only reason as reported in the *White Paper on State Finances* (2002). It further brought out the factors that adversely impacted the State's fiscal situation which include the ever increasing burden of committed expenditure – wages, salaries, pensions, interest payments on mounting public debt, power subsidies, loss making public undertakings and slow growth of revenue. Populism undermines the capacity of the government to raise resources and improve the productivity of revenue. Low irrigation charges, free electricity for the farm sector, abolition of octroi and uneconomic transport fares added to the burden on the state exchequer and resulted in further decline in investment on health, education and other social services. The populist policies in the State have resulted in too much indebtedness over the years. The GOP has taken all the institutional and sectoral measures suggested by the GOI, Reserve Bank of India and other agencies to attain fiscal balances and restore macro-economic stability in the state finances. An evaluation of the fiscal reform programme of the State reveals that the Government of Punjab has not adhered to the recommendations of most of the committees and commissions and the financial targets laid down in various documents have rarely been achieved (Sawhney, 2005).

As per a recent report of the Confederation of Indian Industry (CII, 2011) on a comparative study of State Finances of Northern States, the Gross Fiscal Deficit as a proportion of Gross State Domestic Product (GSDP) in Punjab was 3.1 for the average of 2005-08 and 4 for 2008-09, whereas it should not be greater than 3 percent as per the FRBMA. The revenue deficit as percentage of GSDP was 1.8 for 2005-08 and 2.9 in 2008-09, despite the receipt of Non-plan Revenue Deficit Grant from the GOI, whereas it should have been completely wiped out in order to meet the Fiscal Responsibility targets. It is notable that on one account Punjab has met the FRBMA target, i.e., debt to GSDP ratio which was 42.6 as the average for 2005-08 declined to 35.2 percent for 2009-10 (RE); though the time frame of this target has not been adhered to as it was supposed to be achieved by 31 March, 2007. In short, it may be said that Punjab is still having fiscal imbalances despite various reform measures spelt out by the government.

VII. Overall Evaluation of Reforms in Punjab

As observed in the preceding sections of this paper, Punjab has all the legislations, rules and regulations for the development of different sectors of the State. What is glaringly missing in the entire institutional framework is a comprehensive policy for the revival of agriculture in Punjab. No official document, except the annual budget speeches, spells out a roadmap for the all-inclusive growth strategy in the State. The present paper has not dealt with certain socio-economic indicators reflecting poor gender ratio, lack of proper civic amenities as well as a dire necessity for health and education reforms in the State. The entire success of the policy depends on its implementation, i.e., the strategy, seriousness and the delivery system. Mere enactment of such policies has no meaning. The various concessions and subsidies offered to attract industry can only be granted if the financial health of the State allows it. Presently that is not the case. Also a prerequisite for the rapid and effective development of any sector hinges on good infrastructure including assured power availability. Punjab is not able to meet these conditions at present. The State does not offer an investor-friendly environment and so has not been able to attract any major domestic or foreign industrial/service sector project except a joint venture refinery between Hindustan Petroleum Corporation Ltd (HPCL) and Mittal Energy Investments Pvt. Ltd., Singapore known as HMEL. There is hardly any simplification of procedures for setting up a business in Punjab; on the contrary, there are too many bureaucratic hurdles and corruption is rampant.

It is not the content of the industrial policy in Punjab that matters, but the capability of its polity and bureaucracy to implement not only this policy but several other commitments made to the electorate and people of Punjab to improve the quality of their lives and also to arrest deceleration of the state economy. This requires an enabling environment, including investments in technological and organizational capabilities of the state. The much talked about e-governance, put to effective use by other states, is far from being attempted in Punjab. Accountability of administrative performance is necessary for all the stakeholders, including the corporate sector, civil society and Non-Governmental Organizations. There is a huge potential for industrial and service sector growth, particularly, agro-industrial development in Punjab if the GOP implements certain decisions which may not be populist and may seem harsh in the short run but will accelerate the pace of growth of the economy of Punjab and will confer political dividends in the long run.

Although the Punjab government has formulated various policies for encouraging industrialization in the State, yet there are certain decisions which the government takes outside the formal institutional framework. A case in point is that of the issue of concessions to HMEL. After the final negotiations on concessions with the promoters of HMEL with the GOP in 2005 and with the refinery now nearing completion, the company allegedly asked for further concessions and the GOP seriously considered them, which did not seem like a prudent fiscal step. Renegotiation undermines the credibility of the government

and erodes confidence of the people. There should be a definite, well-defined, objective and transparent criterion laid down in the industrial policy, listing concessions and subsidies for promoting industrialization. There should not be any tinkering in the already framed strategy. Granting of ad-hoc concessions under the influence of powerful industrialists or lobbies, if that is what is happening, is bound to raise issues about the credibility and transparency of the government.

Punjab's record in infrastructure development is far from satisfactory. Most of the agri-infrastructure created in the State during the period of the Green Revolution, that is, during the 1970s and 1980s has neither been upgraded nor supplemented. Due to the weak fiscal position of the State as well as the apathy of the government many vital sectors of the economy have remained neglected, especially the social areas of education and health. Punjab failed to avail funds from the Central government/ Planning Commission for several social welfare/education/health and infrastructure development schemes. The review carried out by the Planning Commission (2009) reveals that during the Tenth Five Year Plan the utilization of funds for centrally sponsored schemes was only 54.13 percent in Punjab. The major factor adversely impacting the schemes was non-release of the share of the State which was only 22 percent. In 2009-10 there was only 36.81 percent achievement against Annual Work Plan in *Sarv Siksha Abhiyan* and under the National Rural Health Mission there was only 37 percent utilization of the available funds. In the case of certain schemes there has been absolutely no utilization of funds. As reported in the review there is gross under utilization of funds under all the central schemes in Punjab, which leads not only to non-creation of socio-economic infrastructure in the State but also available funds are wasted at a time when the State is starved of developmental resources (Planning commission, 2009)

Governance reforms are central to the successful implementation of the Jawaharlal Nehru National Urban Renewal Mission (JNNURM). The main objective of the implementation of reforms under JNNURM is to provide an enabling environment for the growth of our cities by enhancing effective urban service delivery, land management, financial management and stakeholder participation in local governance. The withdrawal of property tax in Punjab is in contravention to the spirit of JNNURM.

VIII. Conclusions and a Way Forward

The governments in Punjab, ever since the mid-1990s, have been pursuing populist policies in the expectation of creating vote banks and returning to power, but the reality has been, except for the last election, to the contrary, that is, the same political party in the State has not returned to power for two consecutive terms. The following reforms are urgently needed in Punjab if economic deceleration in the State is to be seriously arrested.

1. Revival of Agricultural Development

A renewed thrust is required for putting agriculture back on the growth path with special emphasis on making agriculture more remunerative. Special effort has to be made for creating new and modern agri-infrastructure, maintenance, modernization and upgradation of existing facilities as per the contemporary requirements wherever diversification out of wheat-paddy has taken place. Extensive crop damage and wastage of precious water is reported due to frequent breaches in canal embankments. There is a pressing need to maintain and rejuvenate the canal system in the State.

Another area which requires a fresh impetus through public investment is agricultural research and development, which was the harbinger of growth and success of the Green Revolution. The government seems to have lost focus on this account; this needs to be pursued with renewed zeal and vigour. Better agri-infrastructure can surely help and surplus food grains can be stored in food deficit states instead of the states where they are procured. All this requires a coordinated effort between the centre and Punjab. Blaming each other for the condition is not the solution to any problem.

The membership of World Trade Organization poses huge challenges for Indian agriculture and a State like Punjab must be well equipped to meet them. However, the GOI must take the first step forward to deregulate the agricultural sector in order to increase India's competitiveness in world markets by integrating the domestic agricultural market. The GOP must give up a populist regime and eliminate subsidies that have largely benefited interest groups rather than poor farmers, in order to align incentives and liberate resources from the State budget. These freed-up resources must be directed towards urgent public interventions, such as building storage space for agri-produce, create and maintain irrigation channels and meet other challenges of infrastructure.

The ad-hoc and self-serving decisions of the government lead to frequent changes in land use, that is, land may have been acquired for building infrastructure or industries but is normally being used for creating residential colonies where the profits are huge. A clear cut land acquisition policy along with a framework for the rehabilitation of the uprooted farmers is urgently required.

2. *Conducive investment climate for industry and service sectors*

The GOP must focus on implementing the provisions for the efficient growth of the industrial and services sectors as per various state policies and facilitation acts enacted from time to time in order to encourage investment in industry and services in Punjab. The investment climate in the State must be made conducive by eliminating certain roadblocks that discourage industrial investment, like prohibitive cost of land, severe power crisis, acute shortage of skilled manpower and increasing corruption and red-tapism.

It is imperative for Punjab to strengthen its manufacturing and service sectors which offer huge potential for growth and development in the State. Punjab has a huge potential for developing food processing industry, which can help create jobs for the people of the State who have been rendered unemployed

after land acquisition. This can also help the problem of food grain wastage due to poor storage and mismanagement to a great extent. Processed food can be exported as well as sold in the domestic market as there are no restrictions on the movement of industrial products but agricultural produce cannot be freely sold in the other states.

The GOP should focus on the development of technologically advanced sectors like IT, ITes, biotechnology, pharmaceutical sector, etc. The policies for the same already exist but are not implemented seriously. The endeavour should be to remove all the bottlenecks like infrastructure, shortage of power and bureaucratic hurdles. The public private partnership model must be used wherever the capacity of the state is limited. Industrial clusters for sports goods, leather goods, textiles, hosiery, cycles and cycle parts, industrial tools, etc. must be created as a priority in Punjab. The State has also not availed of special incentives/schemes offered by the Central government from time to time for industrial parks/zones. Once again the problem is that of slow moving polity and bureaucracy, not being able to seize the opportunity at the appropriate time for comprehensive development of the State.

3. Fiscal and other reforms

Fiscal responsibility is a prerequisite for arresting further deterioration in the economy of Punjab and putting it back on the path of development. Reduction and maintenance of fiscal deficit and debt to GSDP ratios as per the FRBMA, 2003 is imperative. Improving the composition of public expenditures, by reducing the share spent on wages, pensions, interest payments, agricultural subsidies, notably the power subsidy and also efforts to mobilize on tax resources are also required. Punjab must not dissipate the funds allocated under centrally sponsored schemes but must use them effectively. There is also a need to encourage local governments to mobilize resources as well as adhere to the constitutional commitment of devolution of funds to the ULBs and PRIs.

The restructuring/winding up of state level public enterprises at the earliest is a must in order to arrest the flow of scarce public resources to loss making SLPEs. Power sector reforms - other than notional unbundling of Punjab State Electricity Board - need to be expedited in order to meet the power needs of all sectors as well as the household consumption requirements. There is an urgent need to augment power generation capacity in the State and also to emulate 'best practice' from other states like creating a power bank, etc.

A perusal of the economic reform programme in Punjab suggests that the governments of the State, since the mid-1990s, have been indulging in competitive politics and have paid no heed to the developmental needs of the State. It is only a comprehensive multi-sectoral development policy coupled with effective governance and service delivery which can arrest the deteriorating economic condition in the State. Populist policies, destroying the roots of development, cannot be sustained in the long run. It has been proposed by Bhagwati and Panagariya (2004) that economic performance has become an important determinant of voter behaviour in recent years. This explains the

reason why anti-incumbency has become a prominent feature of election outcomes. Gupta and Panagariya (2010) have brought out a very strong relationship between growth performance and election outcomes. Superior growth performance is positively associated with good governance and law and order.

A state policy can be termed as 'public policy' only if it promotes the public interest. The interest of the masses must be protected and the poor be given priority in the allocation of public resources. If such policies create disproportionate gains to one section of society at the cost of others, these can create instability in the system. Populist policies create wider social and economic disparities than they bridge. Such policies are neither economically sound nor benefit the people for whom they are meant, for example, subsidized farm outputs, including free power, have rarely benefited the small and marginal farmers; rather they weaken the system if pursued indiscriminately over a long period of time.

It is worth noting that the Punjab government set up the Punjab Social Development and Governance Reforms Commission to suggest ways and means to improve the governance and delivery system of various public services in the State and has also enacted the Right to Services Ordinance. This amounts to an admission by the government that there are serious flaws in the delivery system, policy implementation and the quality of governance. However, the Commission has submitted three reports to the GOP but no action has been initiated on any of the recommendations so far. This further reflects the apathy of the government towards the urgency of improving the quality of administration in Punjab and to put Punjab back on the path to economic recovery.

To conclude, it may be noted that there is an urgent need for governance reforms, transparency in the development delivery mechanism and fiscal reforms ensuring that the public funds are utilized according to sound financial practices and not diverted for gaining political mileage through wasteful public functions and populist announcements. Timely and regular audit of public expenditure as well as judicious use of public funds is imperative to ensure transparency and good governance along with improving public access to information, fixing responsibility to strengthen accountability. It is necessary to use precious public resources for inclusive growth. There is an acute skill deficit in various sectors of the state and the educated youth are not employable. Capacity building of the state administration for the implementation of various central and state schemes is also very essential. The Government of India also must come forward to provide a push to the State by offering certain special incentives for industrial and service sector development of the border districts of Punjab on the pattern of special assistance/incentives/ subsidies that are offered to special category states.

Public policy in Punjab has been sacrificed at the altar of populism. A well framed and cohesive public policy must be designed in order to expedite the economic revival of the State, to serve the interest of the masses without sacrificing economic interests of the State. Blaming the central government for

all the ills of the State as well as shifting the onus of poor economic performance on the era of militancy in Punjab cannot resolve any crisis. The Akali-BJP government in Punjab has been re-elected with a historic two-term victory in the recent elections (March 2012). The party has made innumerable promises to the electorate to give away 'freebies' to various segments of the population like the girl students, unemployed youth, widows, etc. If actually delivered, these would cost nearly Rs.10,000 crores per annum as per the early estimates. The State is already reeling under a huge debt of Rs. 78,000 crores as well as unpaid salaries and arrears, along with several other bills. Therefore the newly formed government is likely to face an insurmountable task of fulfilling the 'populist' promises as well as fiscal management. The revival of the State economy requires certain tough measures like reducing non-merit subsidies, cutbacks on non-developmental expenditure especially on administration as also streamline the essential public outlays on strengthening infrastructure in the State in general and agri-infrastructure in particular. Leakages in revenue collection and social expenditure need to be plugged with an iron hand.

The past record of the present government on the economic front is not very encouraging and there was no evidence of any serious effort towards reviving the economy of the State. The pre-poll promises also included providing clean and effective governance and strengthening the public service delivery system. The people of Punjab have provided an opportunity to the government to prove themselves. Therefore, it is not only a challenge but also the responsibility to deliver what they promised. A strong and committed leadership is necessary which can work to protect the interests of the poor and deserving but which is tough with the 'free riders'. The apathetic attitude towards the real problems of Punjab and a self-serving approach needs to be abandoned in order to restore the lost glory of the State before it is too late and the economic decline becomes irreversible.

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