

Performance and Buoyancy of State's Own Revenue with reference to Mizoram in North East India

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Abstract

States are assigned substantial responsibilities in respect of social and economic development. Since their revenue sources are weak, states heavily depend on central transfers to meet their expenditure responsibilities for development and maintenance activities. Mobilization of adequate resource to finance these services is a major fiscal challenge at the state level. Mizoram faces constraints in mobilizing its own internal resources because of poor financial resource base, low per capita income and low industrial base. The present paper examined the revenue efforts of the state and assessed the contribution of state's own taxes and non-tax revenue in the overall revenue receipts. It was observed that state's own revenue receipts increased consistently in absolute terms over the study period. However, as a ratio to GSDP, own revenue witnessed a marginal increase only. Share of own revenue in the total revenue receipts has almost stagnated over the period. Own tax revenue receipts showed a higher growth rate than own non-tax revenue receipts. The buoyancies of various components of own revenue receipts showed mixed results. The levels of aggregate expenditure financed by own revenue receipts have shown a modest increase during the study period.

Key words: Social and economic development, GSDP, Central transfers, Own-tax and own non-tax revenue receipts, Revenue efforts, Aggregate expenditure.

Introduction

The Constitution of India assigned State governments significant responsibilities in areas like education, health, road development, power and other infrastructure facilities. Mobilisation of adequate resources to finance these services is a major fiscal challenge for sub-national government in India. Since the revenue sources are weak and inadequate, states are heavily dependent on central

transfers like tax devolution, grants etc., to meet their expenditure responsibilities for development and maintenance activities. Special category states are much worse in terms of own revenue resource base relative to non-category states and as a result, their dependence on central transfers is much higher. Small and hilly state like Mizoram faces several constraints in mobilizing state's own resources because of poor financial

resource base. Per capita income is relatively low and remained below national average; industrial development is also almost non-existent (Government of Mizoram, 2013-14). The state further suffers from inadequate infrastructural facilities. Due to hilly terrain and heavy rainfall, the cost of infrastructural development is much higher in the state, hampering growth and development efforts. When Mizoram attained statehood in 1987, the Planning Commission of India, because of its relative backwardness, placed it under special category state by which liberal funding pattern is provided. However, with the dismantling of the Planning Commission in 2014 and rationalization of centrally sponsored schemes, the State has to depend more and more on its own revenue sources to finance development and other non-developmental activities. The present paper is an attempt to understand the revenue efforts of the state and assess the contribution of state's own taxes and non-tax revenue in the overall revenue receipts.

The economics of public finance asserted that government intervention in the economy has been justified on grounds of market failure, equity consideration and provision of enabling environment for private sector (Samuleson, 1954; Musgrave, 1959; Bagchi, 2005). Market failure operates when a market economy fails to allocate resources efficiently. One such example is the case of 'externality'. Government can curb negative externalities (e.g., pollution) and promote positive externalities (e.g., primary

education) by means of regulation, taxation or subsidy, or public provision. Efficient provision of public goods is crucial for welfare, equitable distribution of income, stabilization, growth and development of a nation (Musgrave, 1959). Stiglitz (2005) also stressed the role played by government in providing infrastructure facilities in the form of educational, technological, financial, physical, environmental and social infrastructure of the economy. To achieve economic efficiency in the provision of social goods, national public services should be provided by national government and local services by local government and their costs should be shared in line with the preferences of the residents of the relevant regions (Musgrave, 1959; Oates, 1999; Musgrave & Musgrave, 2013). Samuelson stated that pure public goods should be financed through taxes while the quasi-public goods be subsidized or regulated by the government through a pricing mechanism. Mixed public goods maybe financed partially by user charges and partly through a combination of subsidy and user charges (Purohit and Purohit, 2009).

Objectives and Hypotheses

The central objective of the paper is to assess the performance of State's own revenue and estimate their buoyancies with reference to Gross State Domestic Product (GSDP). The following specific objectives have been formulated: (i) to examine the trend and structure of State's own revenue and own non-tax revenue and estimate their buoyancies in relation

to GSDP; (ii) to examine the level of revenue expenditure of the State financed by State's own revenue receipts. The classic Wagner's law indicated that the level of public expenditure increases with a rise in income. In order to finance the ever increasing state activities, government should raise more revenue. Accordingly, it has been hypothesized that state's own revenue receipts show increasing tendency with a rise in the level of state income.

Sources of Data and Methodology

Data are drawn from the Annual Financial Statements (Budgets), Government of Mizoram. Other sources include CAG Reports on State Finances (Government of Mizoram) and RBI publications on State Finances. The data for GSDP are obtained from the Mizoram Economic Survey. The study covers the period from 2002-03 to 2011-12. The aggregate revenue receipts of the state is divided into state's own taxes, own non-tax revenue and central transfers. Simple descriptive statistics such as percentages and ratios are used to examine the pattern and trend of revenue variables like taxes and non-tax revenue receipts of the State. The compound annual growth rate has been used to assess the performance of various fiscal variables which takes the following functional form: $Y_t = Y_0(1+r)^t$ or $\log(Y_t) = b_1 + b_2 t$ where, $b_1 = \log Y_0$, $b_2 = \log(1+r)$, $r = e^{b_2} - 1$, is the compound growth rate. The buoyancy of revenue with reference to GSDP is estimated using the following regression model: $\log(R_t) = b_1 + b_2 \log(\text{GSDP}_t) + u_t$ where, $R_t =$

Revenue (nominal) in year t; $\text{GSDP}_t =$ Gross State Domestic Product (nominal) in year t; $b_1 =$ intercept; $b_2 =$ buoyancy estimate, and $u_t =$ error term in year t. The model ensures constant elasticity of the dependent variable with respect to dependent variable. In addition, the model is not affected by differences in measurement unit.

Taxonomy of State's Own Revenue Receipts

State's own revenue receipts are classified into own taxes and own non-tax revenue receipts. State's own taxes are further classified into three sub-groups: (i) Taxes on income & expenditure i.e., taxes on professions, trades, callings and employment; (ii) Taxes on property & capital transaction like land revenues, stamps and registration fees, etc.; and (iii) Taxes on commodities and services which include a variety of taxes like sales tax, state excise, motor vehicles and passenger taxes. State's own non-tax revenue, on the other hand, consists of receipts from the following items: (i) Interest receipts, dividends & profit; (ii) Receipts under General, Social and Economic services. Non-tax revenue represents payment made to the government for which there is a *quid pro quo*. These payments may be of three types: (i) compulsory and requited payments like penalties and fines; (ii) voluntary and unrequited payments; and (iii) voluntary and requited payments comprising of revenue earned from the resources owned by the Government such as forest, wildlife etc., sale of usage rights, admission fee, as well as the royalties and

rental payments received by the Government, and dividends and interest receipts from investments made by the Government.

Results and Discussion

Composition and Trend of State's Aggregate Revenue

The aggregate revenue receipts of the State are presented in Table 1. Revenue receipts are given in terms of state's own revenue and revenue transfers from the central government. The revenue performance of the State depends on the state's efforts to improve

its own revenue receipts as well as the buoyancy relative to GSDP. It could be observed from the table that Mizoram depends heavily on central transfers for its revenue sources. Revenue transfers constituted 93 to 89 per cent of the total revenue receipts of the state during 2002-03 to 2011-12. The share of own tax revenue increased consistently while the proportion of total revenue receipts accounted by own non-tax revenues has gradually declined. Similarly, the proportion of shared taxes is rapidly increasing while grants are consistently showing a downward trend.

Table 1: Composition and Trend of Aggregate Revenue (Rs. in crore)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Total Revenue	1022	1371	1502	1654	1969	2040	2653	2964	3375	4012
	-100	-100	-100	-100	-100	-100	-100	-100	-100	-100
1. State's Own Revenue (i+ii)	81	92	115	175	201	208	253	234	277	347
	-8	-7	-8	-11	-10	-10	-10	-8	-8	-9
i. Own Taxes	28	34	40	55	68	78	95	108	130	179
	-3	-2	-3	-3	-3	-4	-4	-4	-4	-4
ii. Own Non-Taxes	53	50	76	120	133	130	159	127	147	168
	-5	-4	-5	-7	(7)	-6	-6	-4	-4	-4
2. Revenue Transfers (i+ii)	941	1279	1387	1479	1768	1832	2400	2729	3098	3665
	-92	-93	-92	-89	-90	-90	-90	-92	-92	-91
i. Shared Taxes	95	130	156	226	288	363	383	395	591	828
	-9	-9	-10	-14	-15	-18	-14	-13	-18	-21
ii. Grants	846	1149	1231	1253	1480	1469	2016	2335	2507	2837
	-83	-84	-82	-76	-75	-72	-76	-79	-74	-71

Note: Figures in parentheses are per cent to total

Source: Annual Financial Statements, Government of Mizoram

As observed from the table, the composition of the State's aggregate revenue hardly changed during 2002-12. In 2002-03, out of total revenue receipts amounting to Rs.1022crore, State's own

revenue accounted for eight per cent (Rs.81crore) and revenue transfers from Central government 92 per cent (Rs.941crore). As on 2011-12, own revenue receipts of the State constituted

nine per cent while central revenue transfers 91 per cent. The share of State's own revenue receipts of the State has marginally improved by one percentage points over the period.

The growth trends of the major components of aggregate revenue receipts are given in Table 1. The aggregate revenue receipts which were Rs.1022crore in 2002-03 jumped to Rs.4012crore in 2011-12, showing a compound annual growth rate of 15.2 per cent (Tables 1 and 2). State's own revenue receipts, recording a 16.7 annual growth rate, also increased

from Rs.81crore in 2002-03 to Rs.347crore in 2011-12. Again, increase in own revenue receipts was mainly due to a rise in own tax revenue which registered an annual growth rate of 22 per cent. In absolute terms, state's own tax revenue receipts rose from Rs.28crore in 2002-03 to Rs.179crore in 2011-12. Own non-tax revenue also increased from Rs.53crore to Rs.168 crore during 2002-12, representing an annual growth rate of 13.8 per cent. Central transfers, as given in terms of shared taxes and grants-in-aid, showed that shared taxes grew much more rapidly than grants-in-aid.

Table 2: Compound Annual Growth Rates of Aggregate Revenue Receipts (2002-03 to 2011-2012)

Items	Per cent
1 Revenue Receipts (A+B)	15.2
A. State's own revenue (i+ii)	16.7
i) State's own taxes	22
ii) State's own non-taxes	13.8
B. Central Transfers (i+ii)	15.2
i) Shared taxes	24.8
ii) Grants-in Aid	13.6

The trend in the aggregate receipts relative to GSDP is given in Table 3. Aggregate revenue receipts as a percentage of GSDP gradually increased from 47 per cent in 2002-03 to 57 per cent in 2011-12. As percentage to GSDP, while own revenue receipts registered a modest

increase, central transfers showed a marked improvement. Own revenue receipts marginally improved to 5 per cent of GSDP in 2011-12 from 4 per cent in 2002-03 while central transfers moved from 43 per cent in 2002-03 to 52 per cent in 2011-12.

Table 3 : Aggregate Revenue Receipts relative to GSDP (per cent)

	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Revenue Receipts	47	59	56	56	60	53	58	56	56	57
i) Own Revenue	4	4	4	6	6	5	6	4	5	5
ii) Central Transfers	43	55	52	50	54	48	52	52	51	52

Source: Annual Financial Statements, Government of Mizoram.

Own Tax Revenue: Trends and Composition

The Seventh Schedule to Constitution of India underlines the revenue sources for the Centre and the States respectively in the Union and State lists. The major sources of Own Tax Revenue (OTR) of the States are direct taxes such as profession tax, taxes on property & capital transaction like land revenue, stamp & registration fees and indirect taxes on commodities and services which include sales taxes/VAT, state excise, taxes on motor vehicles, entertainment taxes etc. The tax system of Mizoram could accordingly be classified into three broad groups: (i) Taxes on income and expenditure i.e., professional tax; (ii) Taxes on property and capital transaction i.e., land revenue and stamp and registration fees; and (iii) Taxes on commodities and services which include VAT, State excise duty, entertainment taxes, taxes on motor

vehicles and taxes on petroleum (POL) products.

Table 4 presents the trend of own tax revenue (OTR) of the State. As on 2002-03, own tax revenue receipts amounted to only Rs.27.97crore; but the amount persistently increased to Rs.178.67crore in 2011-12, indicating a rise of 6.4 times. Revenue receipts from professional tax indicate approximately a three-fold increase from Rs.3.9crore in 2002-03 to Rs.11.96crore in 2011-12. Tax revenue from property and capital transaction also witnessed a moderate increase. Commodities and services taxes are the major contributors of State's own tax revenue of the States. The absolute amount contributed by these taxes increased from Rs.22.95crore in 2002-03 to Rs.163.60crore in 2011-12, showing more than a seven-fold increase. Sales taxes/VAT increased from Rs.18.20crore to Rs.142.26crore - an increase of approximately eight times over the period.

Table 4 : Trend in Own Tax Revenue (Rs. in crore)

Item	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Total Own Tax (a+b+c)	27.9	63.6	74.7	106	130	77.5	183	207	252	179
(a) Taxes on income & expenditure	3.97	4.08	4.38	4.53	5	5.32	5.93	7.93	8.39	11.9
(b) Taxes on Property & Capital Transaction	1.05	0.85	0.97	1.76	0.94	1.71	2.09	3.15	4.68	3.21
(c) Taxes on Commodities & Services	23	28.9	34.2	48.9	61.7	70.5	86.6	96.5	117	164

Source: Annual Financial Statements, Government of Mizoram.

The composition of State's own tax revenue is given in Table 5. As observed from the table, commodity and service taxes which accounted for 82 per cent in 2002-03 rose to 92 per cent in 2011-12. On the other hand, share of professional tax has gone down from 14.2 per cent in 2002-03 to 6.6 per cent in 2011-12. Taxes on property & capital transactions also saw a gradual decline from 3.8 per cent in 2002-03 to 1.8 per cent in 2011-12. Land revenue which contributed 3.5 per cent of the total own tax revenue receipts in 2002-03 fell down to 1.4 per cent in 2011-12. Similarly, share of tax revenue from state excise duty and passengers & goods taxation also declined over the years. Revenue from motor vehicle taxes, stamps and registrations had also registered a moderate increase in relative terms during the period of study.

Table 5: Composition of Own Tax Revenue (Per cent to total)

Item	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Total Own Tax (A+B+C)	100	100	100	100	100	100	100	100	100	100
A. Taxes on income & expenditure	14.19	12.05	11.06	8.22	7.39	6.86	6.27	7.37	6.45	6.64
B. Taxes on Property & Capital Transaction (i+ii)	3.76	2.52	2.44	3.2	1.38	2.21	2.21	2.93	3.6	1.8
C. Taxes on Commodities & Services (i to v)	82.05	85.45	86.5	88.57	91.23	90.9	91.52	89.7	89.9	91.6

Source: Annual Financial Statements, Government of Mizoram

Own Non-Tax Revenue (ONTR): Trends and Composition

Own non-tax revenue of the States covers a wide range of receipts ranging from interest receipts on the loans provided by the State governments, dividends and profits received by the State governments, revenue from general services, such as State lotteries, revenue from user charges, fees and penalties imposed on various social and economic services provided by the State Governments. Various components of Own Non-Tax Revenue of the

Government of Mizoram are given in Table 6. Component-wise, receipts from economic services dominate own non-tax revenue of the State, followed by general services. Non-tax revenue receipts from social services are found to be the lowest. As shown in the table, it is observed that interest receipts from various loans given by the State have increased steadily. Recovery from the expenditure of economic services also showed an upward trend while that of the general services and social services showed a declining trend.

Table 6: Trends and Composition of State's Own Non-Tax Revenue (Rs. in crore)

Item	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
Own Non-Tax Revenue (a to	52.6	58	75.6	120.1	133.4	130.3	158.7	126.5	146.7	168
	-100	-100	-100	-100	-100	-100	-100	-100	-100	-100
a. Interest Receipts	2.4	3.3	3.7	6.9	8.8	15.6	32.9	17.9	12.7	15.6
	-4.6	-5.6	-4.8	-5.8	-6.6	-12	-20.7	-14.1	-8.7	-9.3
b. General Services	17.7	14.4	15.6	12.1	52.5	6.5	12.1	18.1	23.2	9.2
	-33.5	-24.8	-20.7	10.1	-39.4	-5	-7.6	-14.3	-15.8	-5.4
c. Social Services	4.8	5.7	5.5	6.7	7.8	8.8	8.3	9.6	10.7	12.4
	-9	-9.8	-7.3	-5.6	-5.8	-6.8	-5.2	-7.6	-7.3	-7.4
d. Economic Services	27.8	34.7	50.8	94.3	64.4	99.4	105.4	81	100.2	130.9
	-52.8	-59.8	-67.2	-78.6	-48.2	-76.3	-66.4	-64	-68.3	-77.9

Note: Figures in parentheses represent per cent to total

Source: Annual Financial Statements, Government of Mizoram

Receipts from social services include broadly the following items: (a) Education, sports, arts and culture, (b) Medical and public health, (c) Family welfare, (d) Water supply and sanitation, (e) Housing, (f) Urban development (g) Information and publicity, (h) Labour and

employment, (i) Social security and welfare, and (j) Other social services. The receipts from these services include tuition fees realised from educational institutions, user charges of medical facilities, water tariff, rental receipts from government buildings and quarters etc. Substantial

portion of the receipts from social services is coming from water supply and sanitation services. Other important contributors are education, sports, art and culture services, medical and public health services, and housing.

Receipts from economic services include a wide range of services provided by the State in the field of agriculture, industries, infrastructure etc. Economic services covered more than 21 activities. It may be surprising to note that while economic services contribute significantly to economic development of the state, recovery of costs from these services is quite low. Power sector is the main contributor of revenue from economic

services. The road transport sector, despite its potential, is an insignificant contributor. Contribution from tourism sector is also only marginal.

Buoyancy of Own Revenue Receipts

One indicator of a good tax system is that the revenue receipts must be responsive to the change in economic condition. Over the last decade, the state economy registered a robust growth rate. The revenue effort of the State is examined by estimating the relationship between the different sources of own tax and own-non tax revenue and the State Gross Domestic Product during 2002-02 to 2011-12. The results of the exercises are given in Table 7.

Table 7: Revenue Buoyancy of Own Tax and Own non-tax Revenue (2001-02 to 2011-12)

Own taxes	Coefficients	Own Non-Taxes	Coefficients
Professional tax	0.8	Interest Receipts	1.7
Land revenue	1.3	General Services	-0.2
Stamp & Regd	1.6	Social Services	0.7
State Excise duty	0.5	Economic Services	1.1
Sale Taxes (VAT)	1.6	Total Own Non-Taxes	0.9
Vehicle Taxes	1.2		
Goods & Passengers	1.1		
Total Own Taxes	1.5		

Source: Annual Financial Statements, Government of Mizoram

The regression coefficients are the estimates of the elasticity of the various tax and non-tax revenue receipts of the State with respect to GSDP. Among own tax revenue receipts, professional tax and excise duty have elasticity less than one indicating that these taxes are not responsive to increase in GSDP. In regards

to own non-tax revenue, general services has a negative coefficient (-0.2) representing that, as income increased by one per cent, revenue receipts from general services declined by 0.2 per cent. Revenue receipts from social services also registered elasticity less than one. Revenue receipts having elasticity greater

than one indicated that every unit increase in GSDP is associated with more than a one unit increase in the variables concerned. For instance, land revenue has the coefficient value of 1.3 which indicated that a one unit increase in GSDP brought a 1.3 unit increase in land revenue. Revenue buoyancies of own taxes (1.5) are higher than own non-taxes sources (0.9).

Financing of Aggregate Expenditure by Own Revenue

There was a gradual improvement in the trends of financing aggregate

expenditure by own revenue receipts during 2002-12 (Table 8). The overall own revenue receipts contribution increased from 4 percent to 12 per cent of total aggregate expenditure during 2002-12. Own tax revenue (OTR) contributed 1.4 per cent to 6.4 per cent of aggregate expenditure, while own non-tax revenue 2.7 per cent to 5.8 per cent during 2002-12.

Table 8 : Financing of Aggregate Expenditure by Own Revenue (Per cent)

Items	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12
OTR/AE	1.42	1.56	1.87	2.46	2.95	2.98	6.39	5.65	6.05	3.94
ONTR/AE	2.66	2.7	3.58	5.37	5.81	5.01	5.53	3.45	3.53	3.7
OR/AE	4.08	4.26	5.45	7.84	8.76	7.98	11.92	9.1	9.58	7.64

OTR : Own Tax Revenue; ONTR : Own Non-Tax Revenue; OR : Own Revenue; AE : Aggregate Expenditure.

Source: Annual Financial Statements, Government of Mizoram

Contribution by State Sales Tax/VAT

Value Added Tax (VAT) was implemented in 2006. As a ratio to GSDP, VAT and other sale taxes taken together improved from less than one per cent (0.8) in 2002-03 to more than two per cent (2.1) in 2012-13 (Table 9). State sales tax/VAT as a ratio to OTR has shown an increase from 65 per cent in 2002-03 to 80 percent

in 2011-12, showing a marked improvement of 15 percentage points. As a ratio to total revenue receipts, State sales tax/VAT improved from two percent to almost four percent during 2002-03 to 2011-12. State sales tax/VAT as a ratio of aggregate disbursement increased from one per cent to three per cent during the same period.

Table 9 : Performance of Sales Tax/VAT (Per cent)

Year	VAT/GSDP	VAT/OTR	VAT/TRR	VAT/AE
2002-03	0.84	65.07	1.93	0.92
2003-04	1	68.89	1.82	1.08
2004-05	1.05	70.98	2.02	1.33
2005-06	1.4	75.55	2.81	1.86
2006-07	1.63	79.44	3.04	2.34
2007-08	1.63	80.03	3.39	2.38
2008-09	1.69	81.93	3.23	2.7
2009-10	1.63	79.88	3.15	2.34
2010-11	1.73	80.49	3.38	2.52
2011-12	2.03	79.57	3.88	3.13

VAT: Value Added Tax, GSDP: Gross State Domestic Product, OTR: Own Tax Revenue, TRR: Total Revenue Receipt, AE: Aggregate Expenditure

Source: Budget Documents, Government of Mizoram

Conclusions and Recommendations

The analysis revealed that state's own revenue receipts increased consistently in absolute terms over the study period. However, as a ratio to GSDP, own revenue witnessed a marginal increase indicating that improvement in growth rate has not resulted to increase in resource mobilization. Share of own revenue in the total revenue receipts has almost stagnated, hovering around 7 to 11 percent. It was further observed that the proportion accounted by own tax revenue increased consistently while that of own non-tax revenues gradually declined. Revenue buoyancy of various components of own revenue receipts showed mixed

results. The level of aggregate expenditure financed by own revenue receipts has increased. In conclusion, it may be stated that state government provides various services which are crucial for welfare and development but cost recovery from these services is very low. In order to improve revenue collection, it is highly recommended that the State Government shall make an effort to hike the user charges to various services provided to the people, and also to upward revision of existing tax rates such as entertainment, stamp and registration and widening of tax base by introducing toll tax, entry tax and environmental taxes.

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