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CONTENTS

S. No	Title of the Paper	Author Name	Page No
1	A study on consumer Preference towards Laptops in Tiruchirapalli district	Dr. K. Malarkodi T. Vijayalakshmi T. Malathi	1-9
2	A study on challenges and impact of supply chain Management of FMCG in retail sectors in India	Dr. K. Malarkodi T. Vijayalakshmi K.B. Velliyangiri	10-16
3	A chronological assessment of fiscal Health of Tamilnadu state – a comparison of Pre - reform and Post reform Period	L. Noor Asma Dr. P. Prabhakaran	17-21
4	Regional disparities in Higher Education in Kerala	Shanu N Nazar	22-26
5	A study on risk and return analysis of selected stocks in Indian	Dr. R. Bharathi	27-36
6	Problems and prospects of JLGS of women farmers with special reference to Santhanpara Panchayat	Dr. Leena K Cherian Aryamol Rajan	37-47
7	Central Co- operative banks in Tamilnadu – Present status	R. Madhavi	48-50
8	A study on customer satisfaction towards the BSNL services in Kanyakumari district	Dr. S. Rajapriya	51-55
9	The study on the impact of health and safety facilities available to the workers in b-Tex spinning mills, Tirupur	S. Belbin Rubha	56-60
10	A study on investments in stock market with special reference to Kerala	Jesney Antony Dr. Mathew Jose. K	61-72
11	A study on factors affecting buying behavior in m-commerce in Kanyakumari district	Dr. S. Rajapriya	73-77
12	A study on Dynamic investors behavior of individual investors - an empirical study with special reference to Namakkal district	R. Seerangan Dr. N. K. Shanmugam	78-83
13	A study on customer relationship Management with special reference to reliance Supermarket in Thiruchirappalli district	S. Grace Beula Dr. M. Sharmila	84-91
14	Empowerment of women through entrepreneurship Programme in Ksarnataka	Divya. A. N Dr. T. P. Renukamurty	92-99
15	A study on consumer buying behaviour of cosmetic Products in rural and urban women in Salem and Cuddalore districts	S. Mahendran Dr. V. Selvarasu	100-102
16	A study on stress Management among School Teachers in Tamilnadu	R. Annadurai	103-106
17	A study on Problems and Prospectus of sugar industries in Karnataka- a case study of few industries	D. Dhananjaya Dr. T.P. Renukamurty	107-112
18	Marketing strategies and consumer buying behaviour of Organic food with the special reference in Chennai City	M. Ravindran Dr. S. Bama	113-118
19	A study on emotional intelligence and job satisfaction in College Teachers with special reference to Bengaluru	Dr. Vidhya Rajagopalan	119-128
20	Rise of Juvenile Crimes: A Survey	Dr. N. Krishna Kumar	129-150

A CHRONOLOGICAL ASSESSMENT OF FISCAL HEALTH OF TAMIL NADU STATE – A COMPARISON OF PRE - REFORM AND POST REFORM PERIOD

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Abstract

The fiscal health of sub-national Governments forms a subject matter in the field of fiscal federalism. In a democratic federal structure with considerable liberalization and freedom to attract foreign direct investments, the ratings of the economic performance of the state economies assume a considerable importance. To assess the fiscal health of Tamil Nadu Government, certain fiscal devices are used. Revenue performance, resource gap, expenditure pattern and debt burden through which we can assess the performance of a sub-national government like Tamil Nadu. It covers the performance of Tamil Nadu during pre-reform and post-reform periods. Fiscal performance of the finances of other states does not come under the purview of this study. The present study is a small step in this direction in the assessment of fiscal health of Tamil Nadu during the pre-reform and post-reform periods.

I. INTRODUCTION

In a federation like India, healthy state finances may be important for ensuring regional balanced development and for launching the entire economy to a higher growth trajectory. The most important role of states are allocation of resources,

stabilization of the economy and the re-distribution of income and wealth in the economy.

A healthy state finance plays an important role in the economic development of the state. The role of state Governments are voluminous as larger expenditure responsibilities fall on the sub-national Governments as their own revenue and central transfers are invariably incompatible with their requirements. The fiscal health of sub-national Governments forms a subject matter in the field of fiscal federalism.

So, states need to adopt of revenue augmentation and expenditure rationalization measures to end the process of fiscal correction and consolidation as early as possible. This has created new horizons to explore. International institutions and agencies consider fiscal soundness a criterion for the transfer of resources. In a democratic federal structure with considerable liberalization and freedom to attract foreign direct investments, the ratings of the economic performance of the state economies assume a considerable importance. Internally the devolution of revenue from higher level government to a lower level government to a large extent is done on the basis of fiscal performance. Thus the sub-national government

should be fiscally sound so as to attract greater resources at various levels. Thus, ability of a government in the mobilization of revenue heavily depends upon the periodical assessment of fiscal performance. Thus the assessment of the fiscal performance of Tamil Nadu under certain broad criteria forms the subject matter of this study.

The General objectives of the study are to assess the fiscal performance of Tamil Nadu Government during the pre and post – reform period.

II. OBJECTIVES

1. To compare the fiscal performance of Tamil Nadu during pre - reform and post - Reform periods.
2. To verify the improvements in the fiscal structure of Tamil Nadu after the introduction of economic reforms.

To assess the fiscal health of Tamil Nadu Government, certain fiscal devices are used. Revenue performance, resource gap, expenditure pattern and debt burden through which we can assess the performance of a sub –national government like Tamil Nadu. It covers the performance of Tamil Nadu during pre- reform and post- reform periods. Fiscal performance of the finances of other states does not come under the purview of this study.

This study primarily based on the secondary data. Data necessary for the assessment of fiscal health of Tamil Nadu can be obtained through the memorandum to the budget of Tamil Nadu state, Annual statistical Abstract of Tamil Nadu, Government publications of the Department of Economics and Statistics, the publications of Central Statistical Organization (CSO) and the publications of Reserve Bank of India.

Ratios, percentage were used to assess the fiscal health of Tamil Nadu Government. Linear

regression and Compound Annual Growth Rate were also used to assess the influence of the various indicators on the fiscal health of Tamil Nadu.

This study covers a period of 35 years. 1980-81 to 1989-90 forms the pre-reform period and 1990-91 to 2014-15 forms the post-reform period. This period has been chosen to assess the fiscal health of Tamil Nadu Government.

It is believed that liberating the economy from the clutches of the Government control will enable them to overcome the inherent weaknesses in their finance. The present study is designed to verify the fiscal health of a state Government (Tamil Nadu) in the background of introduction of economic reforms since 1991.

The study is not free from limitations. As it utilizes, secondary data, the data are not adjusted for price changes. As a result changes may not have been accommodated in this study.

Methodological issues

Fiscal health of a government is the prime yardstick used by various agencies at different levels for transferring resources. Fiscal health of sub-national government in a federation can be assessed by means of certain ratios. These ratios can be grouped into certain board based indications such as

-) Resources Gap indicators,
-) Revenue performance indicators,
-) Expenditure Pattern indicators and
-) Debt pattern indicators. Simultaneous applications of these ratios will reveal the actual status of fiscal soundness of sub-national government in a federation.

Resource gap indicators

The gap between resources and requirements in the finances of state governments in a federation can better be described through the resource gap indicators. Resource gaps in

government finance can be assessed by ratio of Revenue Deficit to Gross State Domestic Product (RG1), the ratio of Primary Deficit to Gross State Domestic Product (RG2), the ratio of gross Fiscal Deficit to Gross State Domestic Product (RG3), the ratio of Primary Balance to Gross State Domestic Product (RG4), the ratio of Revenue Deficit to Revenue Receipt (RG5), and the ratio of Revenue Deficit to gross Fiscal Deficit (RG6). Resources gaps in government finance can be exhaustively illustrated by means of these ratios. Application of these ratios on the finances of a state government at different time intervals will enable the identifications of fiscal health of sub-national governments.

Revenue performance indicators

Fiscal health of sub-national government to a large extent depends upon its revenue performances. Revenue adequacy is an important feature that determines the fiscal health of a state government. Revenue performance to a larger extent depends upon certain ratios such as the ratio of Own Tax Revenue to Gross State Domestic Product (RP1), ratio of Own Non-Tax Revenue to Gross State Domestic Product (RP2) and ratio of Current transfers from Centre to Gross State Domestic Product (RP3).

Expenditure pattern indications

Expenditure pattern is also one of the most important indicators for the assessment of the fiscal status of a state Government. The ratio of Development Expenditure to Gross State Domestic Product (EP1), ratio of Non-Development Expenditure to Gross State Domestic Product (EP2), the ratio of Capital Outlay to Gross State Domestic Product (EP3) and the ratio of Social Sector Expenditure to Gross State Domestic Product (EP4) are the indicators to assess the expenditure performance of governmental unit.

Debt Pattern Indicators

Debt of a state also considered as an indicator of the fiscal health of government. To assess the debt pattern of a government, certain parameters such as the ratio of debt to Gross State Domestic product (DP1) and ratio of interest payments to Revenue Receipts (DP2) have been worked out.

Fiscal performance of Tamilnadu – a comparison of pre-reform and post-reform period

A comparison of fiscal performance of Tamil Nadu Government during the pre-reform period and post-reform period will ensure us to understand its fiscal health. Fiscal performance of sub-national Government, in Indian Federation is mostly characterized by growing deficits, sluggishness in central transfers, slow growth of revenue performance and increased expenditure leading to enlargement of Debt obligations, and the interest payment. But it is observed that the fiscal under performance did not show any improvement, rather its inherent weakness got aggravated during the post-reform period. Liberalization serves as a medium through which inherent economic problem of one political entity are getting transmitted into other to whom economic transactions are large and frequent. Therefore, correction of the fiscal imbalances of the sub-national governments became an agenda with higher preference in the recent past. In the year 1991-92, the Fiscal Policy Reform was introduced to correct the growing fiscal imbalances. And again in the year 2003, Fiscal Responsibility and Budget Management Act (FRBMA-2003) enacted to correct the fiscal stress existing in the finances of sub-national Government. Tamil Nadu, a fast growing economy also has undergone fiscal stress in the recent past owing to a host of socio, economic and political reasons.

In this connection a comparison of fiscal performance of Tamil Nadu during the pre-reform period and post-reform period assumes importance. Moreover, the comparison also helps to understand, which aspects of fiscal performance need care and improvement. To serve these ends, the following tables help us to understand, the fiscal performance of Tamil Nadu in the pre-reform period and in the post-reform period has been compared.

Table:1 Efficacy of the fiscal indicators of Tamil Nadu during pre-reform period

Year	RG	RP	EP	DP
1980-81	76.96	15.84	12.78	10.14
1981-82	48.28	14.84	17.1	10.38
1982-83	43.84	16.74	18.89	12.7
1983-84	21.8	16.85	19.68	18.85
1984-85	9.04	16.31	18.73	14.82
1985-86	63.82	16.86	17.71	10.88
1986-87	30.43	16.44	17.87	10.53
1987-88	58.84	14.94	18.13	13.5
1988-89	55.16	15.04	17.93	16.58
1989-90	70.99	15.67	18.4	18.2
CAGR	2.24	-0.38	0.37	4.2

Source: Estimated data

RG- Resource Gap Indicator ($RG1 + RG2 + RG3 + RG4 + RG5 + RG6$)

RP- Revenue Performance Indicator ($RP1 + RP2 + RP3$)

EP- Expenditure Pattern Indicator ($EP1 + EP2 + EP3 + EP4$)

DP- Debt Pattern Indicator ($DP1 + DP2$)

Table:2 Efficacy of the fiscal indicators of Tamil Nadu during post reform period

Year	RG	RP	EP	DP
1990-91	67.82	16.23	27.89	10.35
1991-92	188.89	18.33	32.99	9.35
1992-93	121.04	16.31	29.07	11.13
1993-94	63.34	14.02	23.34	13.21
1994-95	34.68	13.43	21.45	12.73
1995-96	28.42	13.55	21.01	13.04
1996-97	59.01	13.4	22.26	13.08
1997-98	77.65	13.12	21.48	14.01
1998-99	106.34	12.06	21.97	16.73
1999-00	119.9	12.93	23.12	19.34
2000-01	94.08	12.98	22.64	20.33
2001-02	77.67	12.64	21.37	21.47
2002-03	104.83	13.17	22.52	24.67
2003-04	37.39	13.52	22.37	27.3
2004-05	16.48	13.28	20.9	23.2
2005-06	92.14	13.17	20.72	18.13
2006-07	74.12	13.18	21.54	16.69
2007-08	-136.83	13.55	21.76	15.76
2008-09	-19.06	13.71	24.30	14.45
2009-10	39.83	11.64	19.45	15.86
2010-11	24.2	12	19.83	14.41

2011-12	-7.36	12.77	20.17	13.58
2012-13	-11.21	13.27	20.03	13.8
2013-14	12.4	12.6	22.5	24.67
2014-15	32.32	11.2	20.1	25.2
CAGR	-2.97	-0.75	-1.32	4.03

Source: Estimated data

RG- Resource Gap Indicator ($RG1 + RG2 + RG3 + RG4 + RG5 + RG6$)

RP- Revenue Performance Indicator ($RP1 + RP2 + RP3$)

EP- Expenditure Pattern Indicator ($EP1 + EP2 + EP3 + EP4$)

DP- Debt Pattern Indicator ($DP1 + DP2$)

Resource gap indicators

To assess the fiscal performance of Tamil Nadu, a comparison had been made about its fiscal soundness in the pre-reform and post-reform period, with respect to certain resource gap indicators is made. The rate of growth of deficit indicators in Tamil Nadu at aggregate level was 2.24 in the pre-reform period, and it became -2.97 during the post-reform period. It means that the resource gap indicators display better performance during the post-reform period. The time responsiveness of these overall ratios in the pre-reform period was 0.028 and -0.030 during the post-reform period. This means that, the deficit indicators are on the right path of improvement during the post-reform period. This can be construed as a good sign of improvement in the fiscal soundness of Tamil Nadu.

Revenue performance indicators

Revenue performance indicators are also important variable in the assessment of the fiscal health of Tamil Nadu. The rate of growth of overall revenue performance of Tamil during the pre-reform period was -0.38 and -0.749 in the post-reform period. This means better performance in the pre-reform period. The time responsiveness over years was -0.0004 in the pre-reform period. Time responsiveness of overall revenue performance of Tamil Nadu during the post-reform period was -0.008. This means that the revenue performance of Tamil Nadu at aggregate level has

worsened in the post-reform than in the pre-reform period.

Expenditure pattern indicators

Expenditure pattern is another important variable in the assessment of the fiscal health of Tamil Nadu. The aggregate growth rate of expenditure pattern in Tamil Nadu was 0.371 in the pre-reform period and -1.323 during the post-reform period. The time responsiveness of expenditure pattern ratios in Tamil Nadu was 0.006 in the pre-reform period and -0.013 in the post-reform period. There is a slow improvement in the expenditure pattern indicator because of marginal increase in developmental expenditure and social sector expenditure.

Debt pattern indicators

Debt pattern is also an important variable to assess the fiscal strength of state Governments. By comparing the Debt pattern ratios during the pre-reform period with period with post-reform period the Debt pattern of Tamil Nadu government can be assessed. The overall rate of growth of Debt pattern ratios in Tamil Nadu was 4.199 during the pre-reform period and 4.0277 during the post-reform period. Comparatively the Debt pattern ratios show deterioration in the fiscal health of Tamil Nadu during the post-reform period. The time responsiveness of overall Debt pattern ratios in Tamil Nadu was 0.04 in the pre-reform and 0.39 during the post-reform period. It means that the performance of Debt pattern ratio in terms of time sensitivity had deteriorated at aggregate levels during the post-reform period.

III. CONCLUSIONS

On basis of the above findings it can be concluded that, the growth rate of overall deficit indicators in Tamil Nadu was 2.84 in the pre-reform period and it became -2.97 during the post-reform period. It means that the resource gap indicators displayed better performance during

post-reform period. Overall growth rate of revenue performance during the pre-reform period was -0.38 and -0.75 in the post-reform period. The slight improvement in revenue performance in terms of growth rate was largely due to transfer from the center and not Own Tax Revenue and Own Non-Tax Revenue. The time responsiveness of expenditure pattern ratios in Tamil Nadu was 0.006 in the pre-reform period and -0.013 in the post-reform period. There is a slow improvement in the expenditure pattern indicator, because of marginal rise in the developmental expenditure and social sector expenditure. The overall rate of growth of Debt pattern ratios in Tamil Nadu was 4.199 during the pre-reform period and 4.0277 during the post-reform period. Comparatively the Debt pattern ratios show deterioration in the fiscal health of Tamil Nadu during the post-reform period.

IV. REFERENCE

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