An Examination of the Causal Relationship between Revenue and Expenditure of Panchayati Raj Institutions (PRIs) in Punjab

Dr. Rashpaljeet Kaur
Assistant Professor,
PG Deptt. of Commerce,
Mata Gujri College, Fatehgarh Sahib.

Abstract

The purpose of this paper is to investigate the causal relationship between total revenue and total expenditure of Panchayati Raj Institutions (PRIs) (with their levels i.e.Gram Panchayats, PanchayatSamitis and ZilaParishads) in Punjab using Granger causality test given by Toda and Yamamoto (1995). Augmented Dickey Fuller (ADF) unit root test is used to test thestationarity of data. The overall financial position of PRIs with their levels is also analyzed by calculating deficit or surplus position. The empirical results show that the revenue of PRIs causes their expenditure, but expenditure does not cause revenue. Similarly, unidirectional causality is also found at levels: gram panchayats and zilaparishads, which indicates that their revenue causes expenditure due to rejection of null hypothesis but their expenditure does not cause revenue. The implication of this thought is that deficits may be eliminated or avoided by implementing policies which stimulate their revenues. But in case of panchayatsamitis, bi-directional causality is found which exhibits interdependence among its revenues and expenditures.The policy implication of this result is that the fiscal authority of panchayatsamitis should raise revenues and reduce expenditure simultaneously in order to control the budget deficits.

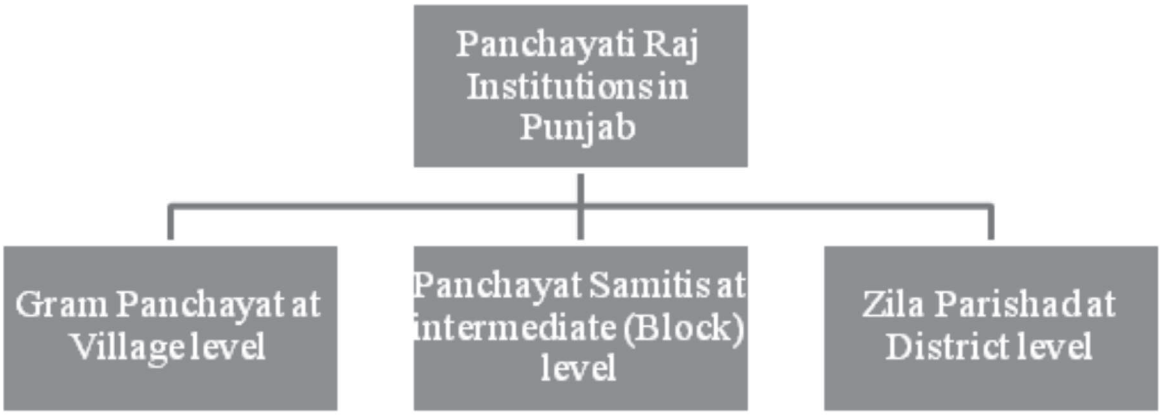
Keywords: Panchayats, Revenue, Expenditure, Granger causality, Toda-Yamamoto, PRIs.

Introduction

The rural local bodies in India, popularly called as Panchayats, have been in existence in different forms since ancient times, but they failed to give better output for various reasons mainly due to lack of constitutional mandate and non-devolution of resources and functions. Before 1991, Panchayats suffered from various serious issues like no regular elections, no reservation for the weaker sections (scheduled castes and tribes) and for women, lack of devolution of powers and insufficient financial resources with them.The 73rd Amendment Act incorporated many provisions with the intention of making Panchayats as self-governing institutions. The important provisions of these amendments included regular elections once in every five years, reservation of seats for women, scheduled castes and tribes, and giving adequate finance to the Panchayats through proper channel from the State legislature.The rural local bodies- Panchayati Raj Institutions

play a very important role in the growth and development of a Punjab state by delivering the basic services to rural population of Punjab. There is a need to focus on the improvement of Panchayati Raj institutions. The Punjab government has been tried various measures from time to time to give proper and definite role to the Panchayti Raj System, but the 73rd Amendment of the Constitution of India empowered the Panchayati Raj Institutions (PRIs) and established a system of uniform structure, regular flow of funds through Finance Commissions, regular elections etc. The Punjab government passed an enactment in the state legislature called the Punjab Panchayati Raj Act, 1994 following the 73rd constitutional amendment. This act replaced the Punjab Gram Panchayat Act, 1952 and the Punjab PanchayatSamitis and ZilaParishads Act, 1961. This new Act has provided a three tier rural local bodies in Punjab with elected bodies at the village, block and district levels, which are collectively known as Panchayati Raj Institutions, which is diagrammatically presented below:

Figure 1: Structure of PRIs in Punjab



The above figure 1 represents the Panchayati Raj System. This system motivates the greater participation of the people and more efficiency of rural development and Panchayati Raj system. There are elected bodies at the different levels (i.e, village, block and district), in compliance with the provisions of the Constitution (Seventy-third Amendment) Act, 1992. Out of the total population of Punjab, 62.52 percent population is living in rural areas (Economic Survey of Punjab, 2015-16). In Punjab, there are 12581 Gram panchayat at the village level, 147 PanchayatSamiti at the block level and 22 ZilaParishads at the district level (Economic Survey of Punjab 2015-16). PRIs are the institutions which are established for fulfilling the requirements of the rural population through the elected bodies at the different levels. The objective of the 73rd constitutional amendment was to make the PRIs effective institutions of self-government in rural areas. For achieving this objective, adequate financial resources are required. The sources of finance of Panchayati Raj Institutions at the various levels i.e. Gram Panchayats, PanchayatSamitis and ZilaParishads are not of a uniform pattern. The Punjab Panchayati Raj Act 1994 governs the finances and functioning of PRIs in Punjab. In this paper, an attempt has been made to review the overall financial position of PRIs through the empirical analysis of their revenue and expenditure.

Review Of Literature

Thomas (2002) conducted in depth analysis of rural local finance in Kerala. It was a case study of the finances of all Gram Panchayats falling within Champakulam block in Alleppey district during the period from 1990-91 to 2000-01. It was found that direct taxes form an important source of own revenue of Gram Panchayats and panchayats in Kerala received huge amounts of plan funds from the State Government. He concluded that in order to have fiscal autonomy of local bodies, the own revenue must be enhanced considerably. At last, He has given some suggestions like Gram Panchayats should be able to exploit the tax sources available to them to the maximum extent, the State Government should devolve additional sources of revenue to the local bodies and allocate them new taxes etc. Singh (2003) evaluated the working of Panchayati Raj Institutions (PRIs) in Punjab with special reference to their finances. He examined the trends in revenue and expenditure of PRIs in Punjab covered the period from 1990-91 onwards. He selected three districts like Patiala, Ludhiana, Faridkot for analyzing the finances at different levels of PRIs. He highlighted that the existing system of grants-in-aid was based on neither on the principle of need

nor on the self-efforts of the Panchayats. The study stated that as long as the Panchayats were dependent on the grants-in-aid from the State and the Central Governments, it was unlikely that the PRIs would ever get the freedom of operation. He suggested that the Panchayats have to find a way to generate financial resources at their own end too. Singh (2003) made an attempt to analyze the recommendations of the first and the second Punjab Finance Commission and their impact on the financial position of the local government institutions. The study depicted that the setting up of the Finance Commission by the State Governments was a big effort in the right direction for strengthening the financial base of urban/rural local bodies in Punjab. It was concluded that the Punjab Finance Commission should have a major role in ensuring that the democratic decentralization envisaged under the two constitutional amendments becomes operational and effective beyond doubt.Babu (2009) analyzed the structure, growth and composition of revenues of panchayats in India and also examined the role and impact of State and Central Finance Commissions on the panchayat finances. The analysis was based on the secondary sources of information. The study highlighted that in states such as Punjab, Madhya Pradesh, Kerala and Haryana the own revenues of PRIs in their total revenues were more than 20 per cent. In West Bengal and Uttar Pradesh, it ranged between 10 and 15 per cent. In the remaining states own share accounted for less than eight per cent. The study concluded that the panchayats have very little fiscal autonomy. The share of own revenue of PRIs in their total revenues was low and the dependency on transfers from the Centre and State Governments as per the recommendations of the State and Central Finance Commissions was very high. Kaur (2010) analyzed the financial position of PanchayatSamitis of Punjab in terms of their revenues and expenditures during 2001-02 to 2005-06. She has been taken up one PanchayatSamiti of Samana block of district Patiala for in-depth study. The study depicted that there was no consistent pattern in revenue generation of PanchayatSamitis and in context of expenditure, establishment cost remained the major component of expenditure of PanchayatSamitis followed by contingencies in the year covered under study. The study concluded that the grants given to the PanchayatSamitis by the State Government have no direct relevance to the needs, plan proposals and past performance of the PanchayatSamitis and the PanchayatSamitis have no freedom to utilize the funds allocated to them as per their needs, because 60 per cent of the funds go towards meeting salary of the personnel and 26 percent was related to many centrally sponsored schemes with specific norms prescribed.Sahasranaman (2012) studied the panchayat finances and the need for devolutions from the State Government. The study analyzed the monetary resources of three panchayats – Pallavapuram, Pandiyapuram and Cholapuram to understand the institutional and financing arrangements underlyingpanchayat administration in the Tamil Nadu state. The study found that these three panchayats from 2006-07 to 2009-10 made it clear that devolved and assigned revenues constituted a much larger share of total income than the own revenues raised by them. The study showed that the finances of Pallavapuram, Pandiyapuram and CholapuramPanchayatsled to conclude that with judicious increases in their tax and fee regimes, all three would be in a position to self- finance a substantial portion of their infrastructure and service needs.

Objectives

The overall position of PRIs in Punjab has been studied on the basis of following objectives:

To analyze the causal relationship between total revenue and total expenditure of the Panchayati Raj Institutions (with their different levels i.e. Gram Panchayats, PanchayatSamitis and ZilaParishads).

To study the Deficit / Surplus position of PRIs in Punjab.

Research Methodology

The present study is based on the secondary data. The data (for total revenue and total expenditures of PRIs with their levels- Gram Panchayats,PanchayatSamitis, ZilaParishads in Punjab)are obtained from journals, reports of First to Fourth Punjab Finance Commission, Government of Punjab and publications of Economic and Statistical Organization of Punjab Government. The data for the present study is collected during the period from 1991-92 to 2015-16. The analysis is based on the use of two variables i.e. Total Revenue (TR), Total expenditure (TE) of PRIs in Punjab. The deficit/surplus position of PRIs with their levels is calculated on the basis of their total revenue and expenditure. The empirical analysis is done through two steps. Firstly, Augmented Dickey and Fuller (ADF unit root test) is used.Secondly, Toda and Yamamoto (1995) procedure to test for the Granger causality relation is applied.

Augmented Dickey Fuller (ADF) unit root test

Before implementing the granger causality test suggested by Toda and Yamamoto (1995), first of all, the time series of each variable under analysis is tested for stationarity and also determine the maximal order of integration by using Augmented Dickey Fuller (ADF) unit root test.Each variable is converted firstly into natural logarithm before applying the ADF test. The Augmented Dickey Fuller unit

root test is used to empirically examine whether a series has a unit root or not. If the series has a unit root, this indicates that the series is non-stationary. Otherwise, the series will be stationary. The time series may be stationary at levels, first or second difference. If a time series is integrated at levels, then it is denoted by I (0). On the other hand, if a time series is stationary at first difference, it means original series is integrated of order 1 and depicted by I (1). Similarly, if the time series is stationary at second difference, we say that the series is integrated of order two and denoted by I (2). In the present study, Augmented Dickey Fuller Unit Root Test is applied for checking the stationarity of variables. To perform ADF test, the following auto regression equation in most general form is used (Luković and Grbic, 2014):

$$\Delta Y_t = \delta_0 + \delta_1 t + \delta_2 Y_{t-1} + \sum_{i=1}^{m} \alpha_i \Delta Y_{t-i} + \omega_t$$

Where, Y_t= observed variable (TR_t and TE_t).

t = time trend.

δ_0, δ_1, δ_2, α_i = a set of parameters that are estimated.

ω_t = a white noise error term.

The null hypothesis (i.e. time series has a unit root) is tested by using ADF unit root test. The test is carried out by using McKinnon test statistic at the various significance levels i.e. 1 percent, 5 percent and 10 percent.

Toda and Yamamoto Granger Causality Test

Granger causality test is mainly used to test the causal relationship among the two variables. We know that the regression analysis deals with dependence of one variable on another independent variable, but it does not involve causation. So, Granger causality test is very useful because it shows the direction of causality or we can say that it shows cause and effect relationship.

The various granger causality tests are present to check the causality between variables like Granger (1969), Engle and Granger (1987), Johansen and Jesulious (1990). These tests are not free from limitations because they have some pre-requirements. While applying these tests, it is compulsory to pretest the unit root property and cointegration and even these are very sensitive to model specification. To overcome these limitations, the present study applies a more robust granger causality test given by Toda and Yamamoto (1995). This approach is very simple to apply and it also follows an asymptotic Chi-squared distribution. This technique is very useful because it is not necessary to conduct the tests for co-integration among variables before applying this test.This test is essentially performed in two steps. The first step includes the determination of optimal lag length (k) and the maximum order of integration (dmax) of variables in the model. In the present study, Akaike Information Criterion (AIC) has been used to determine the optimum lag length (k) and ADF unit root test has been applied to achieve the maximum order of integration (dmax). Once a VAR (k) and dmax is obtained, then a VAR in levels is estimated with the optimal lag length of p= [k+dmax]. The second step is to apply the Wald test (also called as modified Wald (M Wald)) on the first (k) VAR coefficient matrix to make inference on Granger causality. Above discussions can be represented arithmetically in form of following equations (Narayan and Narayan, 2006):

$$In\,TR_t = \alpha_0 + \sum_{i=1}^{k+dmax} \alpha_i\, In\,TR_{t-i} + \sum_{i=1}^{k+dmax} \beta_i In\,TE_{t-i} + \varepsilon_{1t}$$

$$In\,TE_t = \gamma_0 + \sum_{i=1}^{k+dmax} \varphi_i\, In\,TE_{t-i} + \sum_{i=1}^{k+dmax} \delta_i In\,TR_{t-i} + \varepsilon_{2t}$$

Here, In TR means natural logarithm of total revenue and In TE means natural logarithm of total expenditure of PRIs.ε_{1t}, $\varepsilon_{2t}$and $\varepsilon_{3t}$are serially independent random errors with a mean of zero and a finite covariance matrix (Narayan and Narayan, 2006). E-Views software is used to perform the above mentioned tests in present study.

Empirical Analysis Of Relationship Between Total Revenue And Total Expenditure Of The Panchayati Raj Institutions With Their Levels

Results from Augmented Dickey Fuller unit root test

Table 5.1presents the results of Augmented Dickey Fuller unit root testfor total revenue and total expenditure of the gram panchayats, panchayatsamitis, zilaparishads and combined total revenue and expenditure of PRIs in Punjab state.

Table 5.1 : Augmented Dickey Fuller Unit Root Test

Variables	Calculated value of t - Statistic	t-critical value at 1%	t-critical value at 5%	t-critical value at 10%	P-value	Acceptance /Rejection of Null Hypothesis	Order of difference of the series
Total Revenue of PRIs	-4.74*	-3.77	-3.00	-2.64	0.00*	Reject H0	First order Stationary
Total Revenue of Gram Panchayts	-3.46**	-3.79	-3.01	-2.65	0.02**	Reject H0	First order Stationary
Total Revenue of PanchayatSamitis	-4.11*	-3.86	-3.04	-2.66	0.01*	Reject H0	First order Stationary
Total Revenue of ZilaParishads	-3.98*	-3.81	-3.02	-2.65	0.01*	Reject H0	First order Stationary
Total Expenditure of PRIs	-5.18*	-3.75	-3.00	-2.64	0.00*	Reject H0	First order Stationary
Total Expenditure of Gram Panchayats	-4.94*	-3.75	-3.00	-2.64	0.00*	Reject H0	First order Stationary
Total Expenditure of PanchayatSamitis	-4.55*	-3.77	-3.00	-2.64	0.00*	Reject H0	Level order Stationary
Total Expenditure of ZilaParishads	-6.05*	-3.77	-3.00	-2.64	0.00*	Reject H0	First order Stationary

Source: Researcher's own calculations.

Notes: a) Null Hypothesis (H0): Series has a unit root
b) The revenue and expenditure of all PRIs have been converted in natural logarithm
c) *Significant at 1 per cent level and ** significant at 5 per cent level.

The table 5.1 shows that the value of Augmented Dickey fuller test statistics and p-value of each variable in column I against which the null hypothesis is to be tested. It is found that the value of test statistic and p-value in all cases is significant at 1 per cent, 5 per cent and 10 per cent level of significance except in case of total revenue of gram panchayats which is significant at 5 per cent and 10 per cent level of significance respectively. It is clear from the table that the total revenue and total expenditure of all cases of PRIs are integrated of the first order stationary I(1) except the total expenditure of panchayatsamitis are integrated of the level order stationary I(0) over the study period. It means a maximal order of integration is one (dmax=1). The results exhibit that the null hypothesis is rejected in all cases and it can be concluded that there is an absence of unit root in the variables which provides the evidence of stationarity.

Results from Toda- Yamamoto Granger Causality Test

Table 5.2 presents Granger Causality test is carried out on total revenue and total expenditure of gram panchayats, panchyatsamitis, zilaparishads and combined total revenue and expenditure of PRIs of Punjab state.

Table 5.2: Results from Toda - Yamamoto Granger Causality Test

Null Hypothesis (H0)	M Wald statistics	Probability Value
Total Revenue of PRIs does not granger cause Total Expenditure of PRIs	7.53	0.05**
Total Expenditure of PRIs does not granger cause Total Revenue of PRIs	4.70	0.20
Total Revenue of Gram Panchayats does not granger cause Total Expenditure of Gram Panchayats	4.43	0.10***
Total Expenditure of Gram Panchayats does not granger cause Total Revenue of Gram Panchayats	0.67	0.72
Total Revenue of PanchayatSamitis does not g ranger cause Total Expenditure of PanchayatSamitis	7.69	0.05**
Total Expenditure of PanchayatSamitis does not granger cause Total Revenue of PanchayatSamitis	8.82	0.03**
Total Revenue of ZilaParishads does not granger cause Total Expenditure of ZilaParishads	10.12	0.04**
Total Expenditure of ZilaParishads does not granger cause Total Revenue of ZilaParishads	6.26	0.18

Source: Researcher's own calculations.

Notes: (a) **Reject at 5% level and ***at 10% level of significance.

(b) The optimal lag length (k) has been selected on the basis of Akaike Information Criterion (AIC).

The table 5.2 demonstrates the empirical results of granger causality test suggested by Toda-Yamamoto (1995). The results from table indicate that there is a significant unidirectional causal movement from total revenue to expenditure of PRIs due to the rejection of the null hypothesis at 5 per cent significance level only in one case. This result shows that the revenue of PRIs causes their expenditure, but expenditure does not cause revenue. Similarly, unidirectional causality is also found at levels: gram panchayats and zilaparishads, which indicates that their revenue causes expenditure due to rejection of null hypothesis but their expenditure does not cause revenue. These results are consistent with the revenue-spend hypothesis propounded by Friedman (1978) who argued that increasing tax revenues would lead to more spending.The implication of this thought is that deficits may be eliminated or avoided by implementing policies which stimulate their revenues. But in case of panchayatsamitis, bi-directional causality is found which exhibits interdependence among its revenues and

expenditures. This result is in accordance with fiscal synchronization hypothesis advocated by Musgrave (1966), later by Meltzer and Richard (1981) which explains that the decision to spend and decision to taxation are taken simultaneously. This result suggests that there is an existence of feedback mechanism between revenue and expenditure for panchayatsamitis. In other words, both revenue and expenditure levels affect each other. The policy implication of this result is that the fiscal authority of panchayatsamitis should raise revenues and reduce expenditure simultaneously in order to control the budget deficits.

Deficit / Surplus Position Of Panchayati Raj Institutions With Their Levels In Punjab

The deficit or surplus shows the extent of the overall fiscal position of PRIs in the Punjab. Table 6.1 depicts the fiscal performance of PRIs in terms of deficit or surplus indicator.

Table 6.1 : Deficit / Surplus position of PRIs (Rs. in crore)

Year	Gram Panchayats			PanchayatSamitis			ZilaParishads			PRIs		
	Total Revenue	Total Expenditure	Deficit(-)/ Surplus(+)	Total Revenue	Total Expenditure	Deficit(-)/ Surplus(+)	Total Revenue	Total Expenditure	Deficit(-)/ Surplus(+)	Total Revenue	Total Expenditure	Deficit(-)/ Surplus(+)
1991-92	111.88	134.72	-22.84	14.81	10.96	3.85	2.5	3.39	-0.89	129.19	149.07	-19.88
1992-93	151.2	144.02	7.18	17.63	11.84	5.79	2.89	3.33	-0.44	171.72	159.19	12.53
1993-94	196.96	154.56	42.4	18.46	13.46	5	2.75	3.7	-0.95	218.17	171.72	46.45
1994-95	168.11	131.51	36.6	28.59	19.03	9.56	5.15	4.54	0.61	201.85	155.08	46.77
1995-96	153.68	119.98	33.7	33.65	21.8	11.85	6.35	4.96	1.39	193.68	146.75	46.93
1996-97	146.47	114.22	32.25	36.18	23.18	13	6.95	5.17	1.78	189.6	142.59	47.01
1997-98	139.26	108.46	30.8	38.72	24.6	14.12	7.56	5.38	2.18	185.54	138.44	47.1
1998-99	136.37	94.51	41.86	35.01	30.45	4.56	4.08	7.14	-3.06	175.46	132.1	43.36
1999-00	204.49	140.78	63.71	17.38	31.3	-13.92	10.17	7.68	2.49	232.04	179.76	52.28
2000-01	276.05	245.62	30.43	36.25	40.87	-4.62	7.77	9.07	-1.3	320.07	295.56	24.51
2001-02	347.62	350.46	-2.84	55.13	50.45	4.68	5.38	10.46	-5.08	408.13	411.37	-3.24
2002-03	372.24	240.4	131.84	60.41	42.59	17.82	18.35	10.41	7.94	451	293.4	157.6
2003-04	362.18	373.52	-11.34	42.76	48.72	-5.96	11.26	24.91	-13.65	416.2	447.15	-30.95
2004-05	398.95	307.4	91.55	20.48	58.37	-37.89	5.53	16.55	-11.02	424.96	382.32	42.64
2005-06	437.67	414.28	23.39	96.33	59.59	36.74	18.65	12.46	6.19	552.65	486.33	66.32
2006-07	533.3	526.63	6.67	59.21	52.13	7.08	20.82	18.89	1.93	613.33	597.65	15.68
2007-08	483.99	478.63	5.36	59.42	55.14	4.28	19.68	13.99	5.69	563.09	547.76	15.33
2008-09	471.28	457.22	14.06	66.82	61.29	5.53	16.26	12.74	3.52	554.36	531.25	23.11
2009-10	505.93	500.84	5.09	70.16	60.84	9.32	21.55	19.43	2.12	597.64	581.11	16.53
2010-11	629.39	501.1	128.29	70.42	64.09	6.33	21.8	16.98	4.82	721.61	582.17	139.44
2011-12	704.94	506.4	198.54	73.98	67.45	6.53	23.33	17.8	5.53	802.25	591.65	210.6
2012-13	812.44	512.24	300.2	78.13	71.01	7.12	25.03	18.68	6.35	915.6	601.93	313.67
2013-14	884.74	518.71	366.03	83	74.78	8.22	26.93	19.66	7.27	994.67	613.15	381.52
2014-15	968.22	525.89	442.33	88.7	78.79	9.91	29.05	20.73	8.32	1085.97	625.41	460.56
2015-16	995.38	533.88	461.5	95.41	83.06	12.35	31.43	21.92	9.51	1122.22	638.86	483.36

Source: Calculation on the basis of total revenue and total expenditure figures of PRIs collected from the reports of First Punjab Finance Commission to Fourth Punjab Finance Commission, Government of Punjab, Chandigarh.

Table 6.1 depicts that the fiscal position of gram panchayats, panchayatsamitis, zilaparishads and also depicts the overall position of PRIs in Punjab during the period from 1991-92 to 2015-16. The results show that the gram panchayats were showing a deficit on their account in three years only, i.e. 1991-92, 2001-02 and 2003-04 and remaining years depicted surplus on their account. The reason of deficit in 1991-92 was the annual transfers from state government in lieu of the liquor tax which was not appropriately shared with gram panchayats by panchayatsamitis (First Punjab finance commission). In 2001-02, deficit was comparatively lower that may be due to reduced income from house taxes and deficit in 2003-04 was due to a reduction in transfer of grants in aid from central and state government (Third Punjab Finance Commission). The panchayatsamitis have shown a deficit on their account in four years, i.e. 1999-2000, 2000-01, 2003-04 and 2004-05. The reason of deficit in these years was the higher establishment cost. The panchayatsamitis have to bear the burden of paying of salaries of panchayat secretaries and others includingpensions and retirement benefits. On the other hand, zilaparishadshave also shown deficit on their account in the years 1991-92 to 1993-94, 1998-99, 2000-01, 2001-02, 2003-04 and 2004-05. Punjab Finance Commission reports show that the deficit in these years was occurred mainly due to the lower share of grants in lieu of liquor tax in case of transfers from state government as compared to panchayatsamitis even in 1998-99 and 2004-05 no share of grants in lieu of liquor tax was given. The panchayatsamitis and zilaparishads do not have any tax revenue to meet their deficit. The overall position of PRIs has shown the deficit in years 1991-92 (mainly due to the higher deficit on gram panchayats account), 2001-02 (which was comparatively lower, but occurred due to deficit on account of gram panchayats and zilaparishads) and 2003-04 (which was occurring due to all levels of rural local bodies. But the most of years of study have shown surplus on account of all PRIs. It can be concluded from the results that the PRIs at all levels were largely dependent on share of state taxes and grants from the state and central governments to meet their expenditures. Their deficit was mainly met by the grants from the state government. Their own resources were not sufficient to meet expenditures and deficits. The fourth Punjab Finance Commission report shows that although the 73rd amendment was made in the constitution with the object of making PRIs fully autonomous, but they have not freed from government dependence and interventions. Even for levying any tax or duty, they have to take prior sanction of government. The Commission suggested that the best way to make these bodies more responsible in the field of resource generation would to link the grants to the individual gram panchayats, panchayatsamitis and zilaparishads to their performance.

Conclusion and Suggestions

In case of PRIs, It is found from the results of empirical analysis that the unidirectional causality running from revenue to expenditure of PRIs including gram panchayats, zilaparishads which indicates that their revenue causes expenditure but their expenditure does not cause revenue. The implication of this result is that the deficits may be eliminated or avoided by implementing policies which stimulate their revenues. But in case of panchayatsamitis, bi-directional causality is found which exhibits interdependence among its revenues and expenditures. In other words, both revenue and expenditure affect each other. The policy implication of this result is that the fiscal authority of panchayatsamitis should raise revenues and reduce expenditure simultaneously in order to control the budget deficits. It is found that the PRIs at all levels were largely dependent on share of state taxes and grants from the state and central governments to meet their expenditures. Their own resources were not sufficient to meet expenditures and deficits. The fourth Punjab Finance Commission report shows that although the 73rd amendment was made in the constitution with the object of making PRIs fully autonomous, but they have not freed from government dependence and interventions. Even for levying any tax or duty, they have to take prior sanction of government. The Commission suggested that the best way to make these bodies more responsible in the field of resource generation would to link the grants to the individual gram panchayats, panchayatsamitis and zilaparishads to their performance.At last, it can be suggested from the findings that the gap in the resources has to be covered by the combined efforts of the state government, rural local bodies and the people.

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