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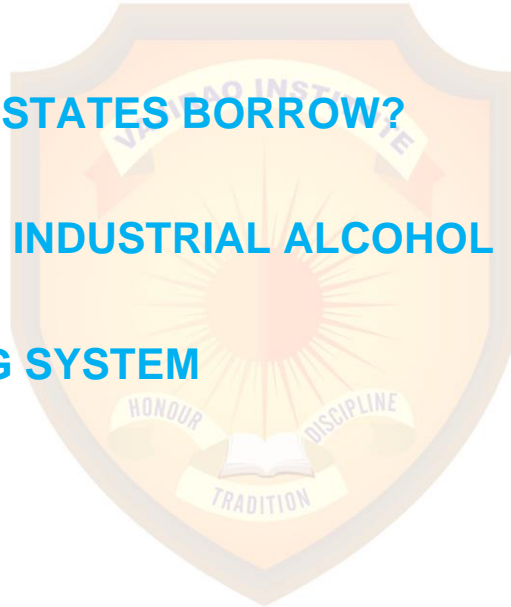
[info@vajiraoinstitute.com](mailto:info@vajiraoinstitute.com)

# TODAY'S ANALYSIS

## (05 April 2024)

### TOPICS TO BE COVERED

- HOW MUCH CAN STATES BORROW?
- EXCISE DUTY ON INDUSTRIAL ALCOHOL
- PAIRA CROPPING SYSTEM



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## HOW MUCH CAN STATES BORROW?

The **financial relation** between the **Union and various State governments** has been a matter of vigorous debate.

In a recent development, the **Government of Kerala** has approached the **Supreme Court** for a resolution of the following question: **how much can the State government borrow from the market to bridge the excess of its expenditures over receipts?**

The Union government says that the **borrowing should be limited to 3% of the State's income or Gross State Domestic Product (GSDP)**. Kerala contends that by curtailing its borrowing powers, the Centre is undermining the State's ability to fulfil some of its basic financial commitments and violating the principle of federalism.

### SOURCES OF INCOMES FOR THE STATES

State governments receive funds from **three sources**:

- Own revenues (tax and non-tax)
- Transfers from the Union government as shares of taxes and as grants
- Market borrowings.

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## DO STATES SPEND MORE?

It is well known that in India **the power to raise taxes rests largely with the Union government** while a greater part of the overall government spending is done by the State governments.

More importantly, **when it comes to spending** on sectors which **affect people's daily lives**, the **overwhelming responsibility** lies on the shoulders of the State governments.

## THE STATISTICS

On social services, which include **health and education**, the expenditure incurred in 2022-23 was **₹2,230 billion (1 billion = ₹100 crore)** by the Union government while the **combined expenditure by all State governments was ₹19,182 billion**.

The **expenditures of all the States put together was bigger than the expenditure of the Union** by 8.6 times in social services as a whole; 2.6 times in education; and by 3.8 times in health.

## DEVELOPMENTAL & NON DEVELOPMENTAL EXPENDITURES

The **Reserve Bank of India (RBI)** has categorised the **budgetary expenditures** by the Union and the State governments as '**developmental**' and '**non-developmental**'.

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## WHAT IS DEVELOPMENTAL EXPENDITURES?

It includes expenditures on social services and economic services (such as on agriculture and industry)

## WHAT IS NON DEVELOPMENTAL EXPENDITURES?

It refers to interest payments, pensions, subsidies, and so on.

It is remarkable that developmental expenditures, and within that, the expenditures on social services incurred by the State governments have risen significantly over the last two decades.

(8.8% of GDP in 2004-05 to 12.5% of GDP in 2021-22.)

## KERALA'S CASE

The **expenditure on education, health and other social sectors as a proportion of the total budgeted expenditures** by the State government in Kerala ranged between **40% and 50% for four decades**, from the **1960s until the end of the 1990s**. The proportion of **social sector spending in Kerala was way ahead of the corresponding average of all other States until the middle of the 2000s**.

**From the mid-2000s**, while the average proportion of **all other States rose** upward, the **proportion for Kerala stagnated**. A substantial part of Kerala's budget (**6% in 2022-23**) is now devolved to **Local Self-Governments (LSGs)**.

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If the spending by the LSGs on social sectors is taken into account, the proportion for Kerala could still be higher than the average of all other Indian States

- In 2020-21, the **Kerala government had sharply increased its spending to 18% of its GSDP**, to provide **economic relief in the wake of the COVID-19** pandemic, aided by the relaxation in borrowing norms then.
- As ratios of GSDP, the **Union government's transfers to Kerala declined to 2.8% in 2023-24, significantly lower than previous years**, even as the State's own revenues remained at around 8.0%.
- This meant that, in **2023-24**, the State government could meet its modest budget expenditure, equivalent to 14.2% of GSDP, only by raising the borrowing to **3.4% of the GSDP** — which, however, **would cross the borrowing limit set by the Centre**.

**The Supreme Court has now referred Kerala's plea for additional borrowing to a Constitution Bench.**

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# EXCISE DUTY ON INDUSTRIAL ALCOHOL

**Excise duty** levied on alcohol is a **key component of a state's revenue**, with states often adding an **additional excise duty on alcohol consumption** to drive its income up. For example, in 2023, Karnataka hiked the Additional Excise Duty (AED) on Indian Made Liquor (IML) by 20%.

However, when it comes to **'industrial alcohol'**, **do states have the power to regulate and tax it?** This is the question that a **9-judge bench of the Supreme Court is hearing**.

## WHAT IS INDUSTRIAL ALCOHOL?

Industrial alcohol is **used as a raw material** to create other products, and is not meant for human consumption.

## THE CONSTITUTIONAL PROVISIONS

**Entry 8** in the **State List** under the **Seventh Schedule** gives **states the power to legislate on the production, manufacture, possession, transport, purchase and sale of "intoxicating liquors"**.

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At the same time, **Entry 52** of the **Union List**, and **Entry 33** of the **Concurrent List** mention **industries, whose control is “declared by Parliament by law to be expedient in public interest”**.

Notably, subjects in the Concurrent List can be legislated upon by both states and the Centre, but where a central law exists, the state law cannot be repugnant to it. Industrial alcohol is listed in the **Industries (Development and Regulation) Act, 1951 (IDRA)**.

### **WHAT IS THE QUESTION BEFORE THE COURT?**

Essentially, the question before the apex court is **whether states can regulate industrial alcohol** or whether the **centre exercises exclusive control** on the subject.

### **HAS SC CONSIDERED THIS ISSUE EARLIER?**

In **1989**, a **7-judge Constitution Bench** in **Synthetics & Chemicals Ltd v. State of Uttar Pradesh** held that **states’ powers**, as per **Entry 8** of the **State List**, were **limited to regulating “intoxicating liquors”** which are different from industrial alcohol.

The SC acknowledged that **states’ power to regulate consumable alcohol** must include the power to **“prevent and/ or check industrial alcohol being used as intoxicating or drinkable alcohol”**. The **power to levy taxes** should be with the **Center only**.

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## ARGUMENTS BY THE STATE

**Senior Advocate Dinesh Dwivedi**, appearing for the **State of UP**, said that the phrase “**intoxicating liquors**” in **Entry 8** of the State List includes “**all liquids containing alcohol**”.

He said that ‘**liquor**’, ‘**spirit**’, and ‘**intoxicant**’ were used in excise laws before the Constitution came into force.

He also argued that the **Union’s power** under **Entry 52** of the **Union List** **does not include control over “finished products”** (such as industrial alcohol after the denaturation process), as that is specifically covered by **Entry 33 of the Concurrent List**. In order to exercise exclusive control over regulation of industrial alcohol, the **Centre would first have to issue an order to that effect under Section 18-G of the IDRA**. Without such an order, that control would vest with the states.

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## PAIRA CROPPING SYSTEM

Paira Cropping system is a unique cropping system which has **lost its relevance in the recent times due to Climate Change.**

### WHAT IS PAIRA CROPPING SYSTEM?

It is a **relay cropping method** in which **Pulses & Rices** are grown. **Just before the cultivation of rice, pulses are sown.** The pulses benefit from the soil moisture present due to rice cultivation.

### WHAT IS RELAY CROPPING?

It is a cropping method where one crop is seeded along with a standing crop.

### WHERE IS PAIRA PRACTICED?

Eastern UP, Bihar, Odisha, West Bengal & Chhattisgarh.

### ADVANTAGES OF PAIRA CULTIVATION

- The use of fertilizer & irrigation can be reduced.
- Experimental evidence shows that Paira cropping increases the crop yield.
- It is considered an efficient way of utilizing resources for sustainable crop intensification & land utilization.

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## MCQs

1. Consider the following statements and mark the correct one:

1. The state governments can borrow from any domestic lenders without any capping.
2. The expenditure done by State governments in India is more than the expenditure done by Central govt in the social sector.

- (A) Only 1  
(B) Only 2  
(C) Both 1 & 2  
(D) Neither 1 nor 2

**Ans. (B)**

2. Consider the following statements and mark the correct one:

1. The Ministry of Finance have divided budgetary expenditure into Developmental & Non Developmental expenditures by Central & State govt.
2. Expenditures done to meet the pension disbursements is part of Developmental Expenditure.

- (A) Only 1  
(B) Only 2  
(C) Both 1 & 2  
(D) Neither 1 nor 2

**Ans. (D)**

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3. Consider the following statements:

**Assertion (A):** Excise Duty on Industrial Alcohol is levied by the Central Government.

**Reasoning (R):** Industrial Alcohol is not consumable.

- (A) Both A & R are correct & R is the correct explanation of A.
- (B) Both A & R are correct & R is not the correct explanation of A.
- (C) A is true & R is false.
- (D) A is false & R is true.

**Ans. (A)**

4. Which of the following is/are true about the relay cropping system?

- 1. It increases crop yield.
- 2. It reduces the need for irrigation.
- 3. It contributes in restoring crop health.

- (A) 1 & 3 only
- (B) 2 only
- (C) 1, 2 & 3
- (D) 2 & 3 only

**Ans. (C)**

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5. In which state is Paira Cropping system practiced?

- (A) Gujarat
- (B) Tamil Nadu
- (C) Jharkhand
- (D) Chattisgarh

**Ans. (D)**



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