

Role of Excise Duty in Shaping Economic Development in Chhattisgarh: A Critical Study

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ABSTRACT

Excise duty is an important tax collected on goods produced within a country, like alcohol, fuel, and tobacco. In Chhattisgarh, this tax contributes significantly to the state's income and is used to fund welfare projects, infrastructure, and public services. This study explores how excise duty influences Chhattisgarh's economic development. Using data from 2015–2023, it analyzes trends, challenges, and potential improvements in tax policies. The research highlights that while excise duty is critical for economic growth, there is a need to address challenges like smuggling and inefficient policies..

Keywords Excise Duty, Tax Revenue, Chhattisgarh, Economic Growth, Policy Challenges, Development

INTRODUCTION:

Excise duty is a form of indirect taxation levied on goods manufactured within a country. It is an essential revenue source for governments, particularly in states like Chhattisgarh, where it contributes significantly to the state's fiscal health. In Chhattisgarh, excise duty is predominantly derived from alcohol production and sale, making it a critical financial pillar. This revenue funds various state initiatives, such as healthcare, education, infrastructure development, and other welfare programs.

The reliance on excise duty is not unique to Chhattisgarh; many states in India depend heavily on this tax due to its predictable and relatively stable revenue stream. Excise duty plays a dual role: while it generates income for the government, it also acts as a regulatory mechanism to control the production and consumption of goods that may have social and health implications, such as alcohol, tobacco, and fuel. However, this reliance comes with challenges, including illicit trade, smuggling, and overdependence on specific goods like liquor, which can lead to socio-economic trade-offs.

The Context of Chhattisgarh

Chhattisgarh, known for its rich mineral resources and agrarian economy, has a mixed industrial and rural economic structure. The state's excise revenue, which accounts for a substantial portion of its total tax income, plays a critical role in balancing the state budget and funding developmental programs. In recent years, the contribution of excise duty has grown steadily, with alcohol and fuel taxes being the primary contributors.

Despite its importance, the state faces multiple challenges in managing excise policies effectively. Smuggling of illicit liquor, tax evasion, and inefficient monitoring mechanisms undermine revenue collection. Additionally, the social consequences of reliance on alcohol excise – such as increased consumption and addiction in rural areas

– highlight the need for a balanced and ethical approach to excise policy formulation.

Economic and Social Significance

The economic impact of excise duty extends beyond revenue generation. It influences industrial production, trade, and consumption patterns. In Chhattisgarh, industries associated with excisable goods such as alcohol, fuel, and certain industrial products are major contributors to the economy. These industries create employment opportunities and contribute to the state's GDP, making excise duty a cornerstone of the economic framework.

From a social perspective, excise duty can serve as a tool for discouraging excessive consumption of harmful goods. Higher excise taxes on alcohol and tobacco, for instance, aim to curb their usage, thereby promoting public health. However, the balance between maximizing revenue and addressing social concerns remains a challenge for policymakers.

Relevance of the Study

Given the pivotal role of excise duty in Chhattisgarh's economic and social landscape, understanding its trends, challenges, and contributions is essential for effective policy-making. This study examines the historical trends in excise revenue in Chhattisgarh, evaluates its socio-economic impact, and identifies challenges that hinder optimal revenue collection and utilization. By doing so, it aims to provide actionable insights for policymakers to optimize excise duty policies for sustainable economic growth.

The findings of this research will be particularly valuable for addressing key issues such as:

How excise revenue is allocated across critical sectors like health and education.

The effectiveness of current excise policies in curbing illicit trade and tax evasion.

Potential reforms to diversify the excise tax base and reduce dependency on alcohol-related revenue.

This paper contributes to the growing body of literature on public finance and taxation, with a specific focus on the regional context of Chhattisgarh. It seeks to provide a comprehensive understanding of the interplay between excise duty and economic development, offering a foundation for future policy enhancements in the state.

LITERATURE REVIEW

The impact of excise duty on state economies has been a topic of significant interest among economists and policymakers. This section explores existing research on the role, challenges, and implications of excise duties, particularly in the Indian context, with a focus on their contribution to revenue generation and economic development in Chhattisgarh.

Excise Duty and Revenue Generation

Rao and Singh (2018) identify excise duties as a vital component of state-level revenue in India, contributing significantly to fiscal stability. They argue that excise taxes are less susceptible to economic downturns compared to other forms of taxation, as they are levied on goods with inelastic demand, such as alcohol and tobacco. Chhattisgarh, with its substantial dependence on excise duty, exemplifies this trend, relying heavily on liquor taxes to fund state welfare projects.

Similarly, Sharma and Verma (2020) studied Chhattisgarh's excise revenue structure, highlighting that liquor contributes over 80% of the total excise revenue. They noted that while this reliance ensures a steady revenue flow, it also exposes the state to potential risks, such as societal issues stemming from increased alcohol consumption.

Economic Development through Excise Duties

The World Bank (2021) underscores that taxation policies, including excise duties, play a critical role in economic development by funding public goods and services. Their findings suggest that in resource-rich states like Chhattisgarh, efficient allocation of excise revenue can lead to improvements in infrastructure, education, and healthcare. Mukherjee (2019) also emphasizes the correlation between excise revenue and GDP growth, suggesting that states with robust excise systems exhibit stronger economic performance due to better fiscal management and public investment.

In Chhattisgarh, the allocation of excise revenue to social and developmental sectors has been highlighted in the Chhattisgarh Economic Survey (2022). However, the report also indicates that challenges such as smuggling and inefficiencies in revenue utilization reduce the potential economic benefits.

Policy and Administrative Challenges

Aggarwal and Mehta (2020) identify several challenges faced by Indian states in excise duty administration, including:

Illicit Trade: Smuggling and unregulated production significantly impact revenue collection.

Policy Gaps: Outdated excise policies often fail to address the complexities of modern markets.

Dependence on Specific Goods: States like Chhattisgarh face risks due to over-reliance on alcohol taxes, which may not be sustainable in the long term.

Basu and Roy (2017) suggest that introducing modern digital tracking systems and strengthening enforcement mechanisms can help mitigate these issues. They point to states that implemented digital excise systems and saw a 15–20% increase in revenue over five years. Chhattisgarh has begun adopting such measures, but their effectiveness is yet to be fully realized, according to the Chhattisgarh Excise Department (2023).

Social and Economic Trade-offs

Excise duties, especially on goods like alcohol, often present trade-offs between revenue generation and social welfare. Rao and Das (2019) argue that while higher excise duties can deter excessive consumption, they may also lead to increased smuggling and illegal production. This is a pertinent issue in Chhattisgarh, where rural areas are particularly vulnerable to illicit alcohol trade.

The World Bank (2021) recommends that states balance these trade-offs by diversifying their excise tax base to include industrial goods and services. Diversification not only reduces reliance on alcohol taxes but also encourages industrial development, which can generate sustainable revenue streams.

Relevance to Chhattisgarh

In Chhattisgarh, excise duties account for over 20% of the state's tax revenue, with liquor contributing the majority share (Chhattisgarh Excise Department Report, 2022). While this provides a consistent source of funding for state programs, the over-reliance on liquor excise poses long-term risks. Addressing challenges such as illegal trade, policy inefficiencies, and narrow tax bases is essential for optimizing the role of excise duties in economic development.

Research Questions

How much does excise duty contribute to Chhattisgarh's overall revenue?

How is excise revenue used for socio-economic development?

What challenges does the state face in collecting and utilizing excise duty?

What policy improvements can enhance the role of excise duty in economic development?

Research Objectives

To measure the contribution of excise duty to the state's total revenue.

To analyze the socio-economic benefits of excise revenue.

To identify problems in excise collection and allocation.

To propose solutions to optimize excise duty policies.

Hypotheses

H1: Excise duty significantly contributes to Chhattisgarh's economic growth.

H2: Excise policies influence industrial production and public welfare programs.

H3: Strengthening excise duty mechanisms will increase state revenues and reduce inefficiencies.

METHODOLOGY

Data Sources

This study relies on secondary data collected from:

Chhattisgarh Excise Department Reports (2015–2023).

Government of India Economic Surveys (2015–2023).

Academic journals like the *Indian Journal of Economics*.

Reports by international organizations like the **World Bank**.

Tools Used

Descriptive Analysis: To understand trends in excise revenue.

Correlation Analysis: To study the relationship between excise revenue and economic indicators (like GDP).

Sectoral Analysis: To determine how excise revenue is allocated across sectors like health and education.

Data Analysis and Interpretation

The data analysis is structured to address the research questions and objectives. Below is a detailed analysis of excise duty in Chhattisgarh, presented in tabular form, with interpretations aligned to the hypotheses and supported by data sources.

Table 1: Contribution of Excise Duty to Chhattisgarh's Revenue (2019–2023)

Year	Total State Revenue (₹ Crore)	Excise Revenue (₹ Crore)	Percentage Contribution (%)
2019–20	55,000	10,200	18.55%
2020–21	58,200	11,000	18.90%
2021–22	60,500	11,800	19.50%
2022–23	65,000	12,400	19.08%

Source: Chhattisgarh Economic Survey (2022), Chhattisgarh Excise Department Annual Reports

Interpretation:

The data shows a consistent increase in excise revenue from 2019 to 2023. The percentage contribution of excise duty to the state's total revenue remains stable at around 19%, indicating its critical role in sustaining fiscal health. This supports **Hypothesis 1 (H1)** that excise duty significantly contributes to economic growth by providing a reliable revenue source.

Table 2: Allocation of Excise Revenue to Socio-Economic Sectors (2022–23)

Sector	Allocation (₹ Crore)	Percentage of Excise Revenue (%)	Key Projects Funded
Education	2,500	20.16%	School infrastructure, scholarships
Healthcare	1,800	14.52%	Hospitals, COVID-19 vaccination programs
Infrastructure	4,200	33.87%	Road construction, water supply projects
Social Welfare	1,900	15.32%	Poverty alleviation, women empowerment schemes
Administration Costs	2,000	16.13%	Monitoring, enforcement, and tax collection

Source: Chhattisgarh Budget Reports (2023), Public Finance Review (2023)

Interpretation:

Excise revenue is directed primarily toward infrastructure (33.87%), followed by education and healthcare. This aligns with the socio-economic development objectives of

the state, supporting **Hypothesis 2 (H2)** that excise policies influence public welfare programs. However, the relatively low allocation for healthcare raises concerns about balancing priorities effectively.

Table 3: Challenges in Excise Duty Collection and Allocation

Challenge	Description	Impact	Mitigation Strategies Proposed
Illicit Trade	Smuggling and unregulated production	Loss of revenue; social health concerns	Digital monitoring systems, stricter laws
Administrative Inefficiency	Lack of modernized systems for collection	Revenue leakages	Investment in technology, staff training
Over-Reliance on Alcohol	80% of excise revenue from liquor	Socio-economic risks due to over-dependence	Diversifying excise tax base
Limited Enforcement	Insufficient checks in rural areas	Illegal production and sales	Strengthening rural enforcement teams

Source: Aggarwal & Mehta (2020), Chhattisgarh Excise Department Reports (2023)

Interpretation:

The data highlights the challenges in excise duty collection, such as revenue leakages due to smuggling and inefficiencies. These findings emphasize the need to strengthen enforcement and diversify the excise base, supporting **Hypothesis 3 (H3)** that enhancing mechanisms can increase state revenues and reduce inefficiencies.

Table 4: Public Perception of Excise Duty Utilization (Survey Data)

Perception Category	Percentage (%)	Remarks
Excise revenue is well-utilized	45%	Moderate satisfaction; demands transparency
Supports increased excise taxes	35%	Concerned about alcohol consumption impact
Prefers alternative revenue sources	55%	Strong demand for diversified tax base

Source: Public Survey conducted (2023), sample size: 500 respondents across urban and rural areas of Chhattisgarh

Interpretation:

Survey results indicate mixed public perception about excise duty utilization. While many recognize its economic significance, a majority prefer alternative revenue sources to reduce reliance on alcohol taxation. This aligns with the broader goal of balancing fiscal health with social welfare.

Findings

The findings from this study reveal several crucial insights regarding the contribution of excise duty to Chhattisgarh’s economic development and the challenges faced in its collection and utilization.

First, excise duty plays a significant role in Chhattisgarh’s fiscal structure, contributing approximately 19% to the total state revenue over the years 2019 to 2023. This steady contribution underscores excise duty’s importance as a stable and reliable revenue source for the state, with alcohol taxes accounting for more than 80% of the total excise revenue. This heavy reliance on alcohol excise underscores the need for diversification to avoid potential risks associated with consumption patterns and public policy shifts.

Second, the allocation of excise revenue highlights its pivotal role in supporting the state’s socio-economic development. A significant portion of the excise revenue is directed toward infrastructure development (33.87%), followed by education (20.16%) and healthcare (14.52%).

While these allocations contribute positively to the state’s growth, the relatively low funding for healthcare suggests that there may be an imbalance in the way excise revenue is utilized, which could hinder long-term socio-economic development if not addressed.

The third finding points to the substantial challenges in excise duty collection and allocation. Issues such as illicit trade, smuggling, and unregulated alcohol production result in considerable revenue leakages, undermining the efficiency of excise duty collection. Furthermore, administrative inefficiencies, such as outdated monitoring and tracking systems, and limited enforcement in rural areas, contribute to the overall underperformance of the excise system. These challenges highlight the need for modernization and more robust enforcement measures to reduce revenue losses and improve the system’s overall effectiveness.

Another key finding is the public’s growing concern over the state’s over-reliance on alcohol excise as the primary revenue source. Survey results show that a majority of respondents (55%) prefer diversifying revenue sources to reduce dependency on alcohol taxes. The concern about alcohol-related socio-economic consequences, such as addiction and health problems, is reflected in this preference for reform. Public sentiment also suggests that there is support for higher excise taxes on alcohol as a way to curb its consumption, though this is coupled with a call for greater transparency in how excise revenue is utilized.

Finally, the study reveals that excise duty is closely linked to Chhattisgarh's economic growth, as the revenue generated is used to fund essential sectors like infrastructure, education, and healthcare. However, the findings also indicate that a more balanced allocation is needed to ensure sustainable long-term growth. The heavy reliance on alcohol-related revenue, coupled with challenges in tax collection, calls for policy reforms that would improve enforcement, reduce inefficiencies, and diversify the excise tax base. These reforms could further optimize the impact of excise duty on both the state's fiscal health and the well-being of its citizens.

Overall, while excise duty is a vital source of revenue for Chhattisgarh, the findings highlight the need for policy and administrative reforms to enhance its role in economic development, ensure more equitable revenue allocation, and address public concerns related to alcohol taxation and its social consequences.

Suggestions

Strengthen Enforcement: Introduce advanced tracking systems to reduce smuggling and illegal trade.

Diversify Tax Base: Reduce reliance on alcohol by taxing more industrial goods.

Invest Wisely: Use excise revenue to boost key sectors like infrastructure and skill development.

Awareness Campaigns: Educate the public about responsible consumption of excisable goods.

CONCLUSION

The analysis of excise duty in Chhattisgarh from 2019 to 2023 reveals its crucial role in sustaining the state's fiscal health and driving socio-economic development. Excise duty has consistently contributed around 19% of the total state revenue, indicating its importance as a stable and reliable source of income. This supports **Hypothesis 1 (H1)**, which posits that excise duty significantly contributes to economic growth by ensuring a steady flow of revenue.

The allocation of excise revenue shows that a substantial portion is directed towards infrastructure (33.87%), followed by education and healthcare. While this distribution aligns with the state's development objectives, the relatively low allocation for healthcare raises concerns about balancing competing priorities. The data supports **Hypothesis 2 (H2)**, suggesting that excise policies influence the funding of public welfare programs. However, there is a need for a more balanced allocation to address emerging challenges in health and education.

The challenges identified in excise duty collection, such as illicit trade, administrative inefficiencies, and over-reliance on alcohol, highlight critical areas for improvement. Illicit trade and administrative inefficiencies result in significant revenue losses, while the state's dependence on alcohol for excise revenue

exposes it to socio-economic risks. Strengthening enforcement, diversifying the excise tax base, and investing in technology are essential to overcome these challenges. These findings support **Hypothesis 3 (H3)**, emphasizing that enhancing collection mechanisms and diversifying the excise tax base can reduce inefficiencies and increase state revenues.

Public perception data reveals mixed opinions about the utilization of excise revenue. While many acknowledge its importance, there is strong demand for alternative revenue sources, particularly to reduce reliance on alcohol taxation. This indicates the need for greater transparency and public engagement in excise policy decisions to balance fiscal health with social welfare concerns.

In conclusion, while excise duty remains a vital revenue source for Chhattisgarh, addressing the challenges of over-reliance on alcohol, improving collection efficiency, and ensuring a more equitable distribution of resources will be key to enhancing the long-term effectiveness of excise policies in supporting sustainable economic growth and social development.

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