Development Discussion Papers

The State of State Government Finances in India

Nirupam Bajpai and Jeffrey D. Sachs

Development Discussion Paper No. 719
September 1999

Harvard Institute for
International Development
HARVARD UNIVERSITY

HIID Development Discussion Paper no. 719

The State of State Government Finances in India

Nirupam Bajpai and Jeffrey D. Sachs

Abstract

The financial condition of the state governments in India has been a cause for concern for sometime now. Over the years, the consolidated financial position of the state governments has shown a marked deterioration in some of their major deficit indicators. One of the fundamental weaknesses of state government finances in India can be attributed to the increases in non- developmental expenditure, particularly the revenue component of the non-developmental expenditure, and interest payments as a proportion of revenue receipts. Structural imbalances in the form of large revenue deficits, rising interest burden, increasing distortions in the pattern of expenditure, and very slow growing non-tax revenues are major problem areas for state finances.

These problems have been aggravated a great deal over the past few years because of a variety of reasons. The resource constraints in state finances have been accentuated by a near stagnant tax-GDP ratio, rising share of non-developmental outlay in the total expenditure, large volumes of hidden or implicit subsidies and increasing financial losses of state enterprises. A growing pressure on state finances has also stemmed from the rising demand for public services. Furthermore, the fiscal situation in the states is likely to come under much greater pressure with the acceptance of the Report of the Fifth Pay Commission by several state governments in India. Be that as it may, the critical problem in state finances is not only one of high levels of expenditure, but also one of increasing distortions in the pattern of expenditure.

The three different methods of intergovernmental fiscal transfers have resulted in an inefficient transfer mechanism that has increased bureaucracy at the state level, accommodated numerous interest groups, and delinked plan requirements of states from actual transfers. Similarly, better fiscal performance is not acknowledged with higher transfers, instead the gap filling approach of the Finance Commission discourages fiscal discipline in the states.

In the area of expenditure reduction, we have identified several potential areas for controlling expenditure of the state governments. In our view, by raising user charges on water in accordance with the costs incurred in providing water, and aligning tariff rates of the SEBs in line with their costs, the state governments could significantly cut their budgetary losses. In addition, a freeze on state government employment can help save scarce resources to be used for productive purposes elsewhere in the states.

JEL Code: H72, H77

Keywords: Indian states, sub-national finances, intergovernmental transfers, expenditure reform

---

Nirupam Bajpai is an Associate at the Harvard Institute for International Development (HIID) and the Director of HIID's India Program.

Jeffrey D. Sachs is the Director of Center for International Development (CID) at Harvard University, the Galen L. Stone Professor of International Trade at the Department of Economics, and a Faculty Fellow at HIID.

The State of State Government Finances in India

Nirupam Bajpai and Jeffrey D. Sachs

Introduction:

The financial condition of the state governments in India has been a cause for concern for sometime now. Over the years, the consolidated financial position of the state governments has shown a marked deterioration in some of their major deficit indicators. One of the fundamental weaknesses of state government finances in India can be attributed to the increases in non-developmental expenditure, particularly the revenue component of the non-developmental expenditure, and interest payments as a proportion of revenue receipts. Structural imbalances in the form of large revenue deficits[1], rising interest burden, increasing distortions in the pattern of expenditure, and very slow growing non-tax revenues are major problem areas for state finances. Table 1 provides data on basic profile of Indian states, and figure 1 shows a map of India with state boundaries.

These problems have been aggravated a great deal over the past few years because of a variety of reasons. The resource constraints in state finances have been accentuated by a near stagnant tax-GDP ratio, rising share of non-developmental outlay in the total expenditure, large volumes of hidden or implicit subsidies and increasing financial losses of state enterprises. A growing pressure on state finances has also stemmed from the rising demand for public services. Furthermore, the fiscal situation in the states is likely to come under much greater pressure with the acceptance of the Report of the Fifth Pay Commission by several state governments in India. The slow growth in revenue mobilization at the state level has posed serious difficulties for the state governments to meet their expenditures. Be that as it may, the critical problem in state finances is not only one of high levels of expenditure, but also one of increasing distortions in the pattern of expenditure as we would discuss in the section below.

Despite reduction in the ratio of state expenditure to GDP from 17 percent in 1990-91 to 16.6 per cent in 1996-97 and further to 15.7 percent in 1997-98, signs of structural weaknesses persist and therefore can be seen in the estimates of revenues and expenditures for 1997-98. The revenue expenditure on non-developmental heads is expected to rise by about 20 per cent over an increase of 14.8 percent in 1996-97; interest payments and administrative services would account for over 60 percent of the total increase in revenue expenditure in 1997-98. Partly as a result of such inflexibility, revenue expenditure has increased from an average of around 11.3 percent of GDP during the first half of 1990s to over 12.5 percent in 1997-98. Further, states' tax revenue, as a proportion of GDP in 1997-98, is likely to remain virtually stagnant at the level of 5.7 percent achieved in the second half of 1980s. On the other hand, states' non-tax revenue, is likely to decline to 1.6 percent of GDP in 1997-98 from the low level of 1.9 percent in 1996-97 due mainly to increase in implicit subsidies and largely negative or at best very low rates of return on states' investment in public enterprises.

[1] The revenue deficit is the difference between revenue receipts and revenue expenditure. In Indian budgetary parlance, current expenditure is termed as revenue expenditure.

The consolidated fiscal deficit of the states for 1997-98 is estimated at 2.9 percent of GDP (Table 2). This has supposedly been financed to the extent of 51.3 percent via loans from the center, and the remaining 48.7 percent through market borrowings and capital receipts of the states (Table 3). It may be noted here that loans from the center to the states constitute an expenditure item in the central government's budget, and thus are included in the center's fiscal deficit. On the other hand, they constitute a financing source for states' fiscal deficit. The impact of state fiscal deficit on the combined fiscal deficit of the center and the states is a significant issue relating to state government finances[2]. While a few selected budgetary variables of the state governments (aggregate of all states) are shown in Table 4, state-wise receipt and expenditure items as a proportion of net state domestic product (NSDP) are given in Table 5. The gravity of the fiscal situation in the different states can also be assessed from the data in Tables 5a, 5b, and 5c that show deterioration in state level finances.

The revenue deficits of the state governments have been rising since 1987-88. Large and persistent revenue deficits have implied diversion of high-cost borrowings for consumption purposes, leading to a declining share of investment expenditures. As a consequence, the investment outlays of states as a ratio of GDP have declined from 2.8 percent in 1990-91 to 2.3 percent in 1996-97 and further to 2.2 percent in 1997-98. An expenditure pattern of this type has had, and continues to have, wide ranging implications, such as for the adequacy and quality of infrastructure, given the scarcity of resources for fresh investment as well as for maintenance of capital assets.

The aggregate revenue deficit of all state governments for 1996-97 was placed at Rs. 156 billion or 1.2 percent of GDP, and the same for 1997-98 is marginally lower at Rs. 125 billion or 0.9 percent of GDP. In particular, high fiscal deficit of the states is primarily on account of five states. These are Uttar Pradesh, Tamil Nadu, West Bengal, Andhra Pradesh, and Kerala. Together they account for as much as 85.6 percent of the consolidated revenue deficit of the states. A very high proportion of the fiscal deficit is caused by revenue deficit for the states of Uttar Pradesh (69.8 percent), Kerala (51.9 percent), Tamil Nadu (49.8 percent), Punjab (45.1 percent), and West Bengal (42.3 percent). In these states, a major portion of the borrowings is pre-empted in financing the current expenditure, which naturally affects the quantum of resources available for developmental capital outlay. On the other hand, Maharashtra and Madhya Pradesh are two states where the increase in fiscal deficit, to a large extent, is due to a greater level of developmental expenditures.

Although the debt burden of states in relation to GDP has remained fairly stable at around 20 percent, (refer to Table 3) the interest payment burden has shown a steady rise from an average of 11 percent in the second half of the 1980s to 16.9 percent in 1996-97, and is estimated to rise further to 17.7 percent in 1997-98. While this increase is partly attributable to the market orientation of state borrowings and reduction in the interest subsidies on central government loans, the downward rigidity in the state debt to GDP ratio has precluded the possibility of any offsetting adjustment in the incremental debt to contain the interest burden.

[2] The interrelationship between the center and state fiscal deficits is evident from the inter-governmental loan transfer between these two tiers of the government.

A shift of policy focus towards changing the pattern of resource allocation and improving the resource base of states is critical for improving the state of State finances given the current situation. While efforts to introduce state level VAT and other tax reform measures have begun, their implementation across all states is necessary in order to enhance the revenue productivity of the state tax system and to reduce its distortionary implications for the economy.

Expenditure adjustment at the state level should take into account its implications for the critical sectors such as social services. A significant portion of the expenditure on social services comes under the purview of the state governments, because of the federal set-up of the constitution, which places the responsibility of undertaking human resource development primarily on the state government. The social service expenditure of the state governments as a percentage to GDP showed a rising trend during the 1980s, from 4.8 percent of GDP in 1980-81 to 5.6 percent in 1990-91. In the first half of 1990s, however, there was a decline in the ratio owing to the resource crunch faced by a number of states. It came down to 5.3 percent in 1992-93 and further to 5.1 percent in 1994-95 and remained thereafter in the range of 5.1 to 5.5 percent.

A significant portion of social service expenditure is appropriated by education, which followed a trend similar to that of the total social services; it was 2.3 percent of GDP in 1980-81 (excluding loans and advances) and rose to 3.0 percent in 1990-91, but came down to 2.9 percent in 1995-96 and remained more or less stagnant thereafter. Expenditure on medical public health and family welfare revealed a declining trend in the 1980s and the early 1990s. It was 1.2 percent of GDP in 1980-81, fell to 0.9 percent in 1990-91 and since then has stayed below 1.0 percent. For data on social and economic service expenditure, refer to Table 6.

The development of human resources for an all-round development of the economy is extremely essential. Efforts must therefore be made not only to increase the level of outlay on social services, but also to ensure a proper end-use of these expenditures. Given the deterioration in the overall fiscal situation of state governments, sustaining an improvement in the social sector expenditures would entail efforts to recover a reasonable part of the cost and to raise additional resources for financing these expenditures. A viable public expenditure policy would also need to be pursued, taking into account the explicit and implicit subsidy burden on state finances, and their implied distributional impact. While subsidies need to be targeted to the desired sections of society, a system of proper pricing of public utilities should go hand in hand with redistributive policies in order to improve the states' resource base.

The central government brought out a discussion paper in May 1997 on Government Subsidies in India, which provides a comprehensive estimate of the explicit and implicit subsidies. The paper reports that the total magnitude of subsidies given by central and state government was Rs.1373 billion during 1994-95 constituting 14.4 percent of GDP, comprising Rs.430 billion of central subsidies and Rs.942 billion of state subsidies. The subsidies of center and states on non-merit goods and services (such as agriculture and allied activities, irrigation, power, industries, transport etc.) amounted to 10.7 percent of GDP. Data on statewise merit and non-merit subsidies is given in Table 7. The average all-India current recovery rate for non-merit goods and services was placed at 10.3 per cent in 1994-95, with the recovery rate for center being slightly higher at 12.1 percent than 9.3 percent for states. Statewise recovery rates are shown in Table 8.

The paper suggests reforms in present regime of subsidies with the objective of reducing the overall scale of subsidies, making them transparent, and using them for well defined economic objectives and focussing on final goods and services with a view to maximizing their impact on the target population at minimum cost, instituting systems for periodic reviews and setting clear limits on the duration of any new subsidy schemes. The existing subsidy rate for non-merit goods and services for center and states together is nearly 90 percent of the cost. Bringing this down to 50 percent could reduce subsidies on non-merit goods and services from 10.7 percent of GDP to about 6.0 percent of GDP and reduce the combined fiscal deficit of center and states from 6.5 percent of GDP in 1996-97 to less than 2 percent of GDP. The Report suggests setting a target for reducing the subsidy rate for non-merit subsidies to 50 percent in a three-year period and further to 25 percent in the next two years. The key to subsidy reduction lies in phased increase in user charges in sectors such as power, transport, irrigation, agriculture and education.

In view of the need to significantly step-up investments in the infrastructure sector, (power, ports, telecommunications, highways and roads) state governments are required to undertake appropriate policy reforms so as to attract a high order of private sector participation. Also, it may be pointed out here that serious infrastructure constraints can only be overcome if the central government creates a regulatory and economic environment conducive to large-scale inflows of foreign investment. Most importantly, the central government needs to empower the state governments to negotiate infrastructure projects with prospective foreign investors according to basic norms, but without central government interference that now contribute to long and cumbersome approval procedures. While a process of empowering state governments in this regard began under the 13-party United Front government, there still is a long way to go in this direction.

Responding to the emerging fiscal challenges, in recent years, a number of states have moved towards introducing long-term structural reforms in their finances in order to broaden the tax base and redress the imbalances in their expenditure patterns. It may be pointed out, however, that these reforms have yet to make any significant improvement in the state of state finances since they have been partially implemented, and are extremely slow moving. A number of state governments, including Kerala, Maharashtra, Rajasthan, Punjab, and Uttar Pradesh have undertaken measures to reform their sales tax system and simplified their administrative structure to mobilize higher levels of revenue. A number of states like Tamil Nadu, Karnataka, Himachal Pradesh, Goa, Haryana, Kerala and Orissa have sought to encourage private sector participation in the transport and power generation sectors.

Some states have also provided a certain degree of autonomy to the power sector by setting up an independent State Electricity Regulatory Commission. We discuss the state electricity boards and their impact on state finances later on in the paper. Some states, such as Maharashtra, Rajasthan, and Punjab have privatized octroi tax collection in order to ensure revenue buoyancy. A more efficient tax system based on value-added taxation rather than turnover taxes, and inefficient internal trade taxes such as the Octroi could raise tax revenues while lower effective tax rates. Against the overall backdrop of deteriorating financial position of states, the budget estimates of states for 1997-98 reflect corrective efforts by some state governments. This is evident from the scaling down, in nominal terms, of some major deficit indicators, especially the consolidated revenue deficit and a step-up in their direct capital outlay.

Intergovernmental Transfers in India:

In India, as in any federation, the assignment of expenditure responsibilities and the division of tax powers form the basic foundation of intergovernmental fiscal relations. One of the significant features of financial transfers from the center to the states in India is that there exist a number of channels for such transfers to take place. While the Finance Commission[3] makes recommendations for transfers which are restricted to the states' non-plan requirements in the current (revenue) account, the Planning Commission, on the other hand, makes recommendations for transfers to the states by way of grants and loans to meet their plan requirements. In addition to these two channels, various central ministries of the central government make specific purpose transfers with or without matching requirements. In this section, we propose to raise some issues relating to restructuring of India's complex system of intergovernmental transfers. Restructuring of center-state fiscal relations, in our view, is essential in order to achieve sound fiscal consolidation.

The Seventh Schedule of the Constitution of India, Article 246, provides for three lists: these are the Union List, the State List, and the Concurrent List. In the Union list, or under the exclusive domain of the center are all matters relating to currency, banking and finance, defense, foreign affairs, including economic relations with foreign entities, matters affecting the country as a whole, and those relating to interstate relations. Under the State List are matters closely connected with the life and welfare of the population, such as local government, public health, infrastructure, land, agriculture, and water management. Finally, on the Concurrent List are matters relating to law, marriage, succession, personal law, transfer of property other than agricultural land, economic and social planning, trade unions, social security, education, electricity, and production of, and trade in, products of any industry deemed by the Parliament as best controlled by the center.

In practice, however, this classification does not describe the real picture as it exists. By and large, the center ultimately prevails in several important areas where central control or intervention is considered to be expedient in the public interest by the Parliament. For instance, although industries is a category on the state list, the center is given power to legislate over industries - the control of which by the Union is declared by Parliament by law to be expedient in the public interest[4]. Similarly, in the areas where concurrent powers are to be exercised, if a law is enacted by a state which is contradictory to any provision of law enacted by the center in the same area, then, the former will become null and void and the latter will prevail. In effect, the Concurrent List is used by the center to abridge the freedom of action of the states.

[3] A five member Finance Commission, to be appointed every five years, was to make recommendations on: a) distribution between the center and the states of proceeds of taxes collected by the center; and b) the principles which should govern the grants-in-aid of revenues of the states.

[4] Through the Industrial Development and Regulation Act, the center has assumed control over almost all-important industries, leaving the states with very limited initiative.

With regard to the assignment of tax powers, the Constitution gave the center the power to levy income tax on non-agricultural income, both individual and corporate, customs duties, and all excise taxes on production, except those on liquor. On the other hand, the states were assigned tax revenues related to land revenue, agricultural income tax, sales tax, except those on interstate trade, excises on liquor, taxation of inland transport, except railways, property tax, and the entry tax. Since the most important and productive taxes were assigned to the center, the Constitution provided for sharing of central taxes between the center and the states. Provision was also made for giving grants-in-aid to states in need of assistance. Accordingly, income tax and excise duties collected by the center were to be shared with the states on the basis of the recommendations of the Finance Commission.

Beginning in 1952, ten Finance Commissions have been appointed so far. Gross revenue transfers during 1990-95 from the center to the states, under the aegis of the Finance Commission, have constituted about 60 percent of the total transfers. Tables 9 gives the shares to states of the shareable taxes as recommended by the different Finance Commissions. In the recent years, state finances have been helped by improved buoyancy in the central transfers. In 1997-98 gross transfer of resources from the center would finance 41.7 percent of aggregate disbursements of states as compared with 41.2 percent in 1996-97 and 39.1 percent in 1995-96. This trend would be further strengthened with the proposed change as recommended by the TFC. Table 10 gives data on the devolution and transfer of resources from the center to the states.

The Tenth Finance Commission (1995-2000) has recommended an alternative scheme for pooling of central taxes for devolution to the states. Some of the main features of the proposed alternative scheme are: a) the states should be allocated a share of the aggregated pool comprising the gross tax revenue of the center as against the earlier practice of allocating specified shares of center's revenue from only income tax and excise duties; b) taxes listed in Articles 268 and 269 of the Constitution, other than central sales tax and consignment tax, shall form part of the proposed central pool; c) the share of the states be fixed at 29 percent; and d) the proposed ratio of 29 percent on the basis of which the states allocation will be determined out of the central pool shall be reviewed after 15 years. The Tenth Finance Commission (TFC) arrived at the figure of 29 percent keeping the following in view: first, shares in income taxes, basic excise duties, and the grant in lieu of the tax on railway passenger fares have together amounted to an average of 24.3 percent during the quinquennium, 1990-95; second, including the potential from taxes envisaged in Articles 268 and 269, it will be reasonable to mark up this proportion to 26 percent; and finally, the share of additional excise duties have together amounted to an average of 2.9 percent during 1990-95[5].

The recommendations of the TFC are a major departure from what the earlier Finance Commissions had been recommending. The idea of pooling of central taxes, and allocating a share of the aggregated pool for devolution to the states seems to be a sensible one. It will not only allow the states to share the aggregate buoyancy of central taxes, but will also be instrumental in partly removing the disincentives for the center to collect on the particular taxes

[5] The Commission recommended that an additional 3 percent be allocated to the states in lieu of the additional excise duties the center is currently obliged to levy in lieu of the sales tax on three commodities (sugar, tobacco, and textiles) that the states have, under a tax rental arrangement, agreed not to impose. Further, as per the TFC, the tax rental arrangement is to be terminated, and the additional excise duties be merged with basic excise duties.

which it has to share with the states, that is, the income tax and the union excise duties[6]. On the issue of debt relief to the states, the TFC has come up with two interesting schemes. The Commission has evolved a scheme of linking debt relief to improvements in the ratio of revenue receipts to revenue expenditures in the states and another which links debt relief to debts retired through the disinvestment of equity in state public enterprises.

The TFC has suggested continuation with the gap-filling system[7]. This approach discourages states to adhere to fiscal discipline. Currently, grants are given to the states under Article 275 to fill the residual gap of state budgets. With growing state expenditure levels on the one hand, and inadequate resource mobilization on the other, more and more states have regressed into the post-devolution deficit category. This is a classic case of a soft-budget constraint at the level of state finances. The gap filling system should be eliminated since as long as the states can fall back upon the center, there won't be any compulsion on the states to manage their finances efficiently. The deficit states should be required to cut inessential government spending so as to bridge the gap on their own resources.

After the establishment of the Planning Commission, and with development planning gaining emphasis, the scope of the Finance Commission's recommendation was reduced. Over the years, the Planning Commission has become a major fund transferring body to the states. Plan grants rose from being Rs. 20.5 billion or 24.4 percent of total transfers to the states during the Fourth Plan (1969-74) to Rs. 320.3 billion or 35.1 percent of total transfers during the Seventh Plan (1985-90). Transfers from the Planning Commission to the states consist of both grants and loans to finance their plan schemes. Since 1969, plan assistance is being made on the basis of the Gadgil formula[8]. Table 11 gives the formula for distributing state plan assistance. According to the formula, 30 percent of the funds available for distribution by the Planning Commission are earmarked for ten special category states[9], and is given on the basis of plan projects formulated by them, with 90 percent of assistance given by way of grants, and the rest as loans. The remaining 70 percent of funds available for the rest of the fifteen states (of which, 70 percent of assistance is given by way of loans, and the rest as grants) is distributed in accordance with the following: 60 percent weight assigned to population, 25 percent to per capita SDP, 7.5 percent to fiscal management, and the remaining 7.5 percent to special problems faced by these states.

It is noteworthy, therefore, that plan transfers given to the states for plan purposes, and also for their grant-loan components, are determined independently of the required plan investments, their sectoral composition, the resources available to the states, or their fiscal performance. Data relating to states' plan resources before statutory transfers (in per capita terms) under the Seventh Plan show that among the major states, except for Maharashtra and Gujarat, the resources available with the states for plan investments were negative. Such deficits

[6] According to the budget for 1997-98, the government has accepted the new devolution formula of the TFC.

[7] Gap filling involves grants from the center to the states in cases where there are revenue deficits in the non-plan accounts of states after the devolution of shareable taxes.

[8] The formula and its periodic modifications are evolved on the basis of consensus in the National Development Council (NDC). The NDC consists of the cabinet ministers of the central government, chief ministers of the states, and the members of the Planning Commission, and is chaired by the Prime Minister.

[9] These are: Arunachal Pradesh, Assam, Himachal Pradesh, Jammu & Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, and Tripura.

were much higher in the low-income states, such as Bihar, Orissa, Uttar Pradesh, Rajasthan, and Madhya Pradesh. The relatively richer states, such as Maharashtra, Gujarat, Punjab, and Haryana had access to larger non-plan loans, and as they could get central plan assistance, per capita plan outlays in these states were almost twice those in the middle and low-income states.

The third component of transfers from the center to the states is for specified purposes with or without matching provisions. These are called the central sector or the centrally sponsored schemes. Grants for the central sector schemes are given to the states to undertake certain agency functions and are, therefore, entirely financed by the central government. Centrally sponsored schemes, on the other hand, are initiated in regard to services falling within the states' jurisdiction to ensure that optimal levels of services are provided. These are shared cost programs, and the matching ratios vary from project to project, but are uniform across states. These schemes have attracted a great deal of criticism from the states, and are seen by the states as an unwarranted intrusion into their domain by the central government. Volume of such assistance formed about 36 percent of the total plan assistance and 17 percent of total current transfers in 1992-93.

In sum, the intergovernmental system of financial transfers in India suffers from a number of weaknesses. First, since there are multiple bodies engaged via different routes to transfer funds from the center to the states, naturally there arise jurisdictional problems and unclear objectives. While the transfers from the Finance Commission (after the TFC's recommendations have been incorporated) are meaningful in the present context, those from the Planning Commission are not. With regard to the latter, a tenuous relationship exists between the required plan investments and the plan transfers. Centrally sponsored schemes, on the other hand, have helped the center to have a greater say in the areas totally under the jurisdiction of the states, and has thereby curtailed states from taking independent action.

Expenditure reform:

Although the ratio of state expenditure to GDP has reduced from 17 percent in 1990-91 to 16.6 per cent in 1996-97 and further to 15.7 percent in 1997-98, state government expenditure levels are still very high. In particular, since 1987, expenditure on account of higher wages and salaries (post Fourth Pay Commission recommendations) to state government employees has risen sharply. Such expenditure for the state governments will rise still further since several state governments have accepted the Fifth Pay Commission's recommendations[10]. Although these Pay Commission's recommendations are for the central government employees only, however, once the salaries of the central government employees have been revised, the state governments are under increasing pressure to revise the salaries of their employees. The Fifth Pay Commission's recommendations are expected to raise the non-developmental expenditure of the state governments quite substantially. The state expenditure on administrative services is

[10] The Fifth Central Pay Commission has recommended an over three-fold increase in basic pay, increase in retirement age from 58 to 60 years, 30 percent cut in the workforce over a 10-year period, abolition of 350,000 vacant posts, substantial hike in allowances net of taxes, higher interest payments on provident fund and pensions and employment on contract basis wherever possible for government employees. The commission has recommended revised pay scales with effect from January 1, 1996.

budgeted to rise by 44.3 percent on account of the revision of pay scales of government employees following the Fifth Pay Commission awards.

According to estimates of a study by the Planning Commission, should all the state governments raise the salaries of their employees in line with the Fifth Pay Commission, then the states will have to shell out an additional Rs. 1000 billion as salaries and wages over the next five years.[11] The Planning Commission estimates also include higher salaries for quasi-government employees, including staff of public sector undertakings (PSUs) and local bodies. As mentioned earlier, the state governments' wage bill even without the Fifth Pay Commission awards, is the single biggest expenditure item for almost all state governments. On an average, all state governments, spend around 60 paise of every rupee earned as revenue on wages and salaries. In particular, states like Maharashtra (with 2.2 million employees), Andhra Pradesh (1.1 million employees), West Bengal (950,000 employees), Gujarat (620,000 employees), and Kerala (520,000 employees) are likely to be the hit hard with these awards.

Reducing the size of the public administration could cut state government spending. One way to achieve a reasonable degree of success in this direction might be a freeze on new employment, matched by normal attrition through retirement and death. Existing functions could *easily* be met through modest improvements in computerization and information systems. With a policy of not filling vacancies arising due to retirement, resignation or death, the size of the civil service would reduce on its own. Interestingly enough, the United Front government not only refused to accept the recommendation of a 30 percent cut in the workforce over a 10-year period, but also declined to abolish 350,000 vacant posts. It is noteworthy that recognizing the gravity of the fiscal situation, the Pay Commission, for the first time, recommended cutting governmental workforce, but as it turns out, its acceptance is not yet acceptable to the government. To make matters worse, on the contrary, while the government, in September 1997 not only accepted the Pay Commissions's recommendations on pay increases, but also enhanced them even further.

With respect to public debt of the state governments, there is one important *deux ex machina* that could substantially ameliorate the fiscal situation. Privatization of state-owned public enterprises could raise significant funds as a percent of GDP, which could be used to buy down the state public debt. Not only would the stock of debt itself be reduced, but the interest costs of servicing the debt would surely decline as the debt stock itself was brought under control. Public sector profits are dissipated in poor productivity, over manning, excessive public sector salaries, soft budget constraints, and generally poor public-sector management. For this reason, sales of the enterprises to private sector buyers, if used to buy down the public debt, would substantially ease the burden on state finances on account of interest payments on debt and losses of state public sector enterprises.

In order to prune the state government spending levels further, there is need to reduce subsidies to state public enterprises. In particular, subsidies provided to the irrigation and power enterprises have a strong bearing on the state budgets. In fiscal year 1994-95, the state government's expenditure on account of bridging the gap between their operation and

[11] This estimate includes payment of arrears from January 1, 1996. States like; West Bengal, Orissa, and Bihar have declined to pay these arrears.

maintenance (O&M) expenditure and the recovery of user charges on water was Rs.94.3 billion, about one percentage point of GDP. The gap arises due to the fact that the state governments do not align their water charges in accordance with the rising O&M costs. Besides, a number of state governments levy a fixed, very small amount of water charge (grossly inadequate when compared to the cost of providing water) thereby lacking to achieve high collection rates of water charges.

State Electricity Boards and State Finances:

The Indian power sector has not been able to match the growing need for more power generating capacity. Over the next five years, it needs to add 35,000 to 50,000 MW of capacity depending on the growth rate of the economy, whereas it added no more than 20,000 MW over the last five years. The root cause of this inability to expand capacity is the financial sickness of the state electricity boards (SEBs). SEBs are responsible for generating and distributing power, setting tariffs, and collecting revenues. Almost all of them make losses and some are even unable to pay for coal or the power they purchase. This is due to the fact that SEBs implement social subsidy policies of state governments, leading to inefficient patterns of energy consumption, and even to non-recovery of their own costs. Also, there is a lot of theft of power from the distribution networks, which is classified in the official statistics as transmission and distribution (T&D) losses.

Since SEB electricity charges are set much below cost for the agricultural sector[12], unit revenue realization from the agricultural sector in none of the SEBs covers a reasonable fraction of the unit average costs incurred by the SEBs. As a result, the SEBs make huge losses, and are in complete financial disarray. In addition, the high T&D losses, placed around 21 percent[13] make matters worse. SEBs have huge payment arrears which they owe to the National Thermal Power Corporation (NTPC) - from whom they buy power. Over the years, the outstandings due to NTPC from the SEBs have risen to Rs. 49.5 billion, of which Uttar Pradesh, Delhi, Bihar, and Madhya Pradesh account for the bulk of the dues. According to the revised estimates of 1996-97, in absolute terms, the commercial losses of the SEBs stood at Rs.109 billion[14]. The hidden subsidy for the agriculture and domestic sectors has increased from Rs. 72 billion in 1991-92 (1.2 percent of GDP) to Rs. 192 billion in 1996-97 (1.4 percent of GDP) and is projected to further go up to Rs. 215 billion in 1997-98 (1.5 percent of GDP) The state governments come to the rescue of SEBs by providing them with revenue subsidy along with capital transfers, which include loans and equity.

The present structure of tariffs in electricity, involving extensive cross subsidization for agriculture, has imposed disproportionate burden on paying customers. This has led to decline in consumption of power by high-tension users, with serious financial consequences for the SEBs. With the present level of technical and organizational performance, most SEBs are loosing about

[12] Agricultural and industrial sectors accounted for 28 and 36 percent respectively of SEB electricity sale in 1995-96. While the tariff charged for the agricultural sector was around one-fourth of a rupee per kWh, that for the industrial sector was over two rupees per kWh.
[13] This is much higher when compared to the international average of less than 10 percent for the developed countries.
[14] The revised figure is given in the Economic Survey, 1996-97. This is slightly over one percentage point as a proportion of GDP.

50 paisa to 1 rupee for every KWHR of power sold. There is hardly any cap on operation and maintenance (O&M) expenses and the SEBs seriously lack in managerial direction. Under these circumstances, the SEBs need to revise their tariff rates in line with the costs they incur in the production and distribution of electricity, in particular for the agricultural sector, and minimize the T&D losses[15]. This, in turn, would allow the state governments to withdraw financial support to the SEBs, and would enable private investors to enter the electricity market on a much larger scale. These measures will not only help restore the financial health of the SEBs, but would also relieve the states of a burden that they should not be bearing in the first place.

Despite the tariff revisions recently undertaken by seven SEBs (Andhra Pradesh, Haryana, Karnataka, Madhya Pradesh, Maharashtra, Punjab, and Rajasthan) none of the SEBs qualify for loans from the Power Finance Corporation (PFC)[16] since the SEBs are not in a position to meet PFC′s mandatory requirement of a 3 percent rate of return. In 1995-96, only Tamil Nadu and Himachal SEBs recorded a 3 percent rate of return. In order to meet the PFC′s mandatory requirement, three state governments had taken retrospective measures, such as writing off loans to their respective SEBs[17]. Similarly, the Kerala State Planning Board had decided to make allocations totaling Rs. 310 million to compensate the Kerala SEB for subsidized sale of power to the industrial and agricultural sectors.

Such actions on the part of state governments are *not* solutions for the SEBs financial problems. The state governments have to put an end to the bailing out of the SEBs. These bailouts temporarily relieve the SEBs of their financial problems, but at the same time add significantly to the burden on state finances. At a minimum, what is required is that the SEBs should be converted into corporations and should raise their tariff rates in line with their cost structure[18]. More extensive reforms would involve a regulatory overhaul of the entire system, to allow private electricity producers to enter the grid on a competitive market basis. These changes would be instrumental in helping cut the state governments expenditures.

Concluding remarks:

India's experience with economic reforms undertaken so far has made it quite clear that a sound macroeconomic situation of low inflation along with high growth will not be achieved on a sustainable basis unless substantial fiscal adjustments are undertaken, both by the central and the state governments. Fiscal deficits have remained high in the states, and a large component of these is made up of revenue deficits. Quite evidently, both expenditure and tax reforms have a long way to go in the states. The state expenditure-GDP ratio needs to be brought down considerably. Also, the composition of state government spending is still skewed towards unproductive, current expenditures and away from basic infrastructure as well as vitally needed spending on human resource development (especially basic education and health). To a large

[15] Seven SEBs have raised their tariff rates recently for 1996-97, and have tried to increase the minimum tariff applied to the agriculture sector. Hike in the tariff structure ranges from 12 to 37 %.
[16] The PFC offers a wide range of financial assistance for projects in renovation and modernization, transmission and distribution, and SEB restructuring.
[17] These are Andhra Pradesh, Haryana, and Punjab.
[18] The Orissa government has converted their SEB into corporations, and has set up an independent regulatory and tariff pricing body. The state government also proposes to corporatise and later privatize the distribution of power.

extent, the responsibility of reducing fiscal imbalances lies with the states and a major effort on their part is called for in order to retrieve the situation.

The three different methods of intergovernmental fiscal transfers have resulted in an inefficient transfer mechanism, which has increased bureaucracy at the state level, accommodated numerous interest groups, and delinked plan requirements of states from actual transfers. Similarly, better fiscal performance is not acknowledged with higher transfers, instead the gap filling approach of the Finance Commission discourages fiscal discipline in states.

In the area of expenditure reduction, we have identified several potential areas for controlling expenditure of the state governments. In our view, by raising user charges on water in accordance with the costs incurred in providing water, and aligning tariff rates of the SEBs in line with their costs, the state governments could significantly cut their budgetary losses. In addition, a freeze on state government employment can help save scarce resources to be used for productive purposes elsewhere in the states.

References

Ahluwalia, I. J. And I. M. D. Little, (eds), ‘India’s Economic Reforms and Development - Essays for Manmohan Singh’, Oxford University Press, New Delhi, 1998.

Bagchi, A., J. L. Bajaj, and W. A. Byrd, ‘State Finances in India’, National Institute for Public Finance and Policy, Vikas Publishing House Pvt Ltd, New Delhi, 1992.

Center for Monitoring Indian Economy, ‘Profiles of States’, Economic Intelligence Service, Bombay, March 1997.

Doing Business with India, Resource Directory and Reference Guide, Revised 1997 edition, US-India Enterprises Inc. and Business Times, December 1996.

Dreze, J, and A. Sen, ‘India Economic Development and Social Opportunity’, Clarendon Press Oxford, 1995.

Government of India, ‘Government Subsidies in India’, Discussion Paper, Ministry of Finance, Department of Economic Affairs, May 1997.

Government of India, Reports of Finance Commissions, I to X.

International Monetary Fund, India: Economic Reform and Growth, Occasional Paper, 134, Washington, D. C., December, 1995.

Mundle, S., (ed.) ‘Public Finance - Policy Issues for India’, Oxford University Press, New Delhi, 1997.

Reserve Bank of India, Annual Report, various issues.

Reserve Bank of India, Bulletin, January 1995.

Reserve Bank of India, Report of Policy Group and Task Force on External Debt Statistics of India, 1992.

Reserve Bank of India, Report on Currency and Finance, various issues.

Srivastava, D. K. And Tapas K. Sen, ‘Government Subsidies in India’, National Institute for Public Finance and Policy’, New Delhi, 1997.

World Bank, Economic Developments in India- Achievements and Challenges, A World Bank Country Study, Washington, D.C., 1995.

World Bank, India- Recent Economic Developments and Prospects, Report No. 12940-IN, May, 1994.

Table 1
Basic Profile of States

State	Population 1991 Millions	Area sq. km 000's	Density Persons/ sq. km	Gender Ratio F/1,000 M	Literate Population (% total)	Sectoral Share 1996-97 (%) in NSDP		
						Agriculture	Manuf.	Others
1. Andhra Pradesh	66	275.1	241	972	44	34.82	9.36	55.82
2. Arunachal Pradesh	1	83.7	-	-	45	26.04	6.56	67.39
3. Assam	2	78.4	285	922	52.9	35.29	5.61	59.1
4. Bihar	86	173.9	496	910	38.5	31.17	14.22	54.61
5. Goa	1	3.7	-	-	76	9.15	32.63	58.21
6. Gujarat	41	196	210	934	61.3	20.51	35.9	43.59
7. Haryana	16	44.2	372	865	55.9	41.91	20.42	37.67
8. Himachal Pradesh	5	55.7	92	975	63.9	-	-	-
9. Jammu & Kashmir	8	222.2	34	922	30.1	-	-	-
10. Karnataka	45	191.8	234	959	56	32.59	18.31	49.10
11. Kerala	29	38.9	748	1036	89.8	31.15	13.46	55.40
12. Madhya Pradesh	66	443.5	149	931	44.2	41.40	15.31	43.29
13. Maharashtra	79	307.7	256	933	64.9	17.41	28.84	53.75
14. Manipur	2	22.3	-	-	61	-	-	-
15. Meghalaya	2	22.4	-	-	48	23.55	4.17	72.28
16. Mizoram	1	21.1	-	-	81.2	-	-	-
17. Nagaland	1	15.6	-	-	61.3	-	-	-
18. Orissa	32	155.7	203	970	49.1	26.50	14.69	58.80
19. Punjab	20	50.4	402	881	58.5	45.21	21.51	33.28
20. Rajasthan	44	342.2	128	909	38.6	44.52	8.70	46.78
21. Sikkim	0.4	7.1	-	-	56	-	-	-
22. Tamil Nadu	56	130.1	429	973	62.7	19.14	22.14	58.71
23. Tripura	3	10.5	-	-	60	35.91	2.27	61.83
24. Uttar Pradesh	139	294.4	472	878	41.6	42.52	13.84	43.64
25. West Bengal	68	88.8	767	917	57.7	32.24	14.35	53.41
Union Territories								
26. Andaman & Nicobar	0.3	8.3	-	-	73.7	-	-	-
27. Chandigarh	0.6		-	-	-	-	-	-
28. Dadra & Nagar Haveli	0.1	0.5	-	-	39.5	-	-	-
29. Daman & Diu	0.1	0.1	-	-	73.6	-	-	-
30. Delhi	9	1.5	-	-	76.1	-	-	-
31. Lakshadweep	0.05	-	-	-	-	-	-	-
32. Pondicherry	0.8	-	-	-	-	-	-	-

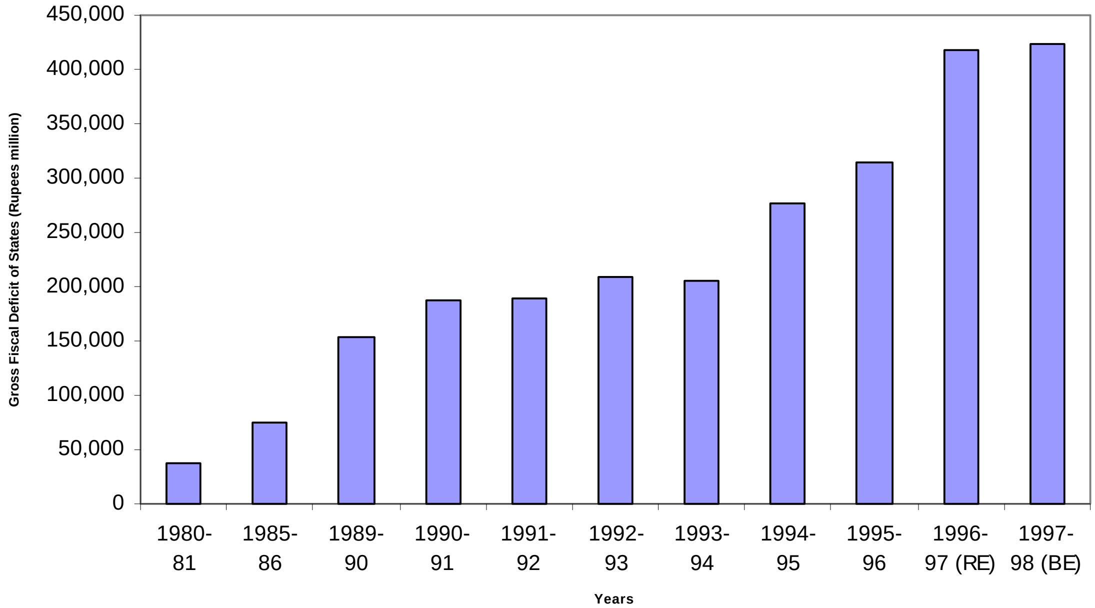
Sources: Ahluwalia and Little, Oxford University Press, 1998
Doing Business With India, Resource Directory and Reference Guide, 1997
Profiles of States, Centre for Monitoring Indian Economy Pvt Ltd, 1997
Dreze and Sen, Oxford University Press, 1995

India — State Boundries
Figure 1

SOME INDIAN STATES ARE AS BIG AS SOME COUNTRIES IN AREA BUT NOTE THE COMPARATIVE POPULATION

STATES	AREA (thousand sq kms)	POPULATION 1995 (m)	COUNTRIES	AREA (thousand sq kms)	POPULATION 1998 (m)
1. Madhya Pradesh	443.4	72.4	Sweden	449.9	8.9
2. Rajasthan	342.2	48.4	Norway	324.2	4.4
3. Maharashtra	307.7	83.3	Poland	312.6	38.7
4. Uttar Pradesh	294.4	150.7	Italy	301.2	57.4
5. Karnataka	191.8	48.2	Syria	185	15.3
6. Bihar	173.9	95.4	Uruguay	176.2	3.3
7. Orissa	155.7	34.4	Tunisia	164	9.3
8. Tamil Nadu	130.1	58.4	Greece	131.9	10.6
9. West Bengal	88.7	73.5	Austria	84	8.1

Gross Fiscal Deficit of States
Figure 2



* Figure for the year 1996-97 is Revised Estimate and for 1997-98 is Budget Estimate.

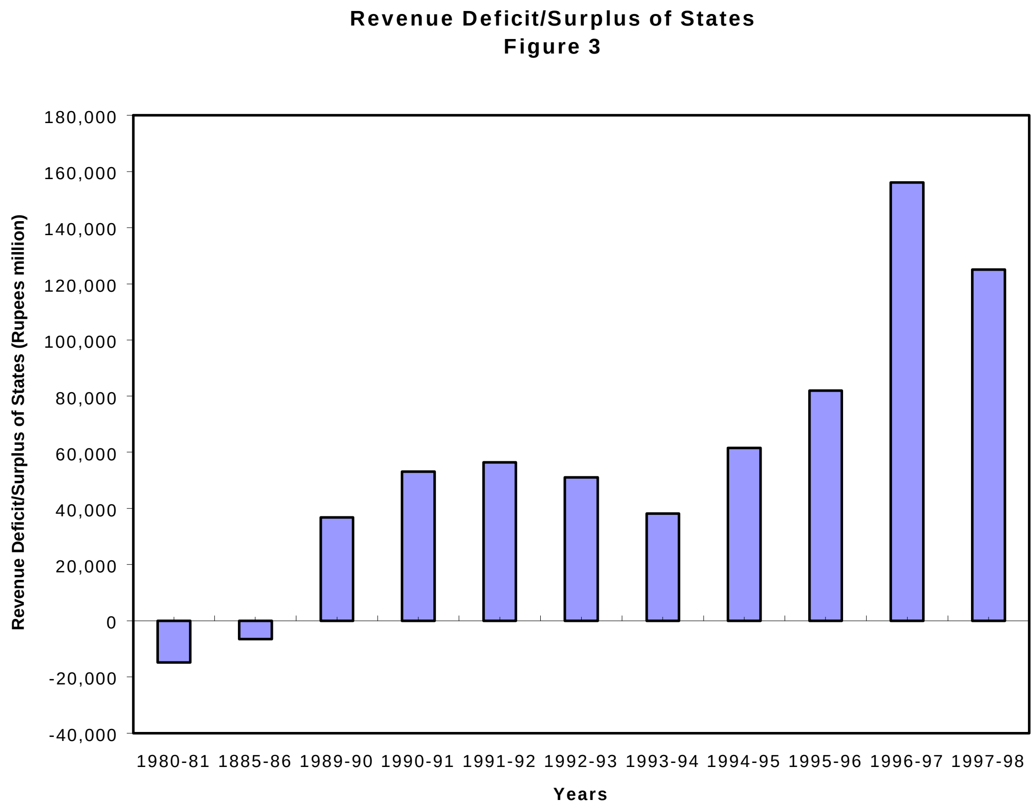
Table 2
Budgetary Operations of State Governments

(Rupees million)

Year	Fiscal Deficit		Primary Deficit		Monetised Deficit*	Conventional Deficit	Revenue Deficit
	Gross	Net	Gross	Net			
1	2	3	4	5	6	7	8
1980-81	37,130	17,150	24,880	13,140	4,870	8,970	-14,850
1985-86	75,210	47,990	45,810	32,240	-18,620	-16,880	-6,540
1989-90	154,330	116,450	82,470	70,930	2,550	1,610	36,820
1990-91	187,870	145,320	101,320	82,800	4,200	-720	53,090
1991-92	189,000	157,460	79,560	101,230	-3,400	1,560	56,510
1992-93	208,920	157,700	76,810	64,970	1,760	-18,290	51,140
1993-94	205,960	162,630	48,180	52,100	5,910	4,620	38,120
1994-95	276,970	235,070	84,840	94,590	480	-44,680	61,560
1995-96 @	314,260	266,950	94,940	101,920	160	-26,150	82,010
1996-97 (RE) @	418,450	350,720	152,810	158,240	8,980	42,460	156,140
1997-98 (BE) @	423,300	345,530	112,420	89,580	..	-1,330	125,110
As Percentage to GDP at current Market Prices							
	GFD	**NFD**	**GPD**	**NPD**	**MD**	**CD**	**RD**
Average							
1985-90	3.1	2.2	1.7	1.6	-0.1	-0.1	0.3
Annual							
1990-91	3.5	2.7	1.9	1.5	0.1	–	1.0
1991-92	3.1	2.6	1.3	1.6	-0.1	–	0.9
1992-93	3.0	2.2	1.1	0.9	–	-0.3	0.7
1993-94	2.5	2.0	0.6	0.6	0.1	0.1	0.5
1994-95	2.9	2.5	0.9	1.0	–	-0.5	0.6
1995-96@	2.9	2.4	0.9	0.9	–	-0.2	0.7
1996-97 (RE) @	3.3	2.8	1.2	1.3	–	0.3	1.2
1997-98 (BE)@	2.9	2.4	0.8	0.6	–	–	0.9

RE Revised Estimates. BE Budget Estimates. - Negligible
…Not Available
(-) Indicates Surplus
* Data pertain to 23 State Governments having accounts with the Reserve Bank of India.
@ Provisional data relate to the budgets of 26 State Governments including the National Capital Territory of Delhi.

Note: The Monetised deficit of State Governments refers to loans given to them by the RBI net of their deposits with the RBI.
Source: RBI data on State Government finances



* Figure for the year 1996-97 is Revised Estimate and for 1997-98 is Budget Estimate.

Table 3
Financing of State Governments' Gross Fiscal Deficit

(Rupees million)

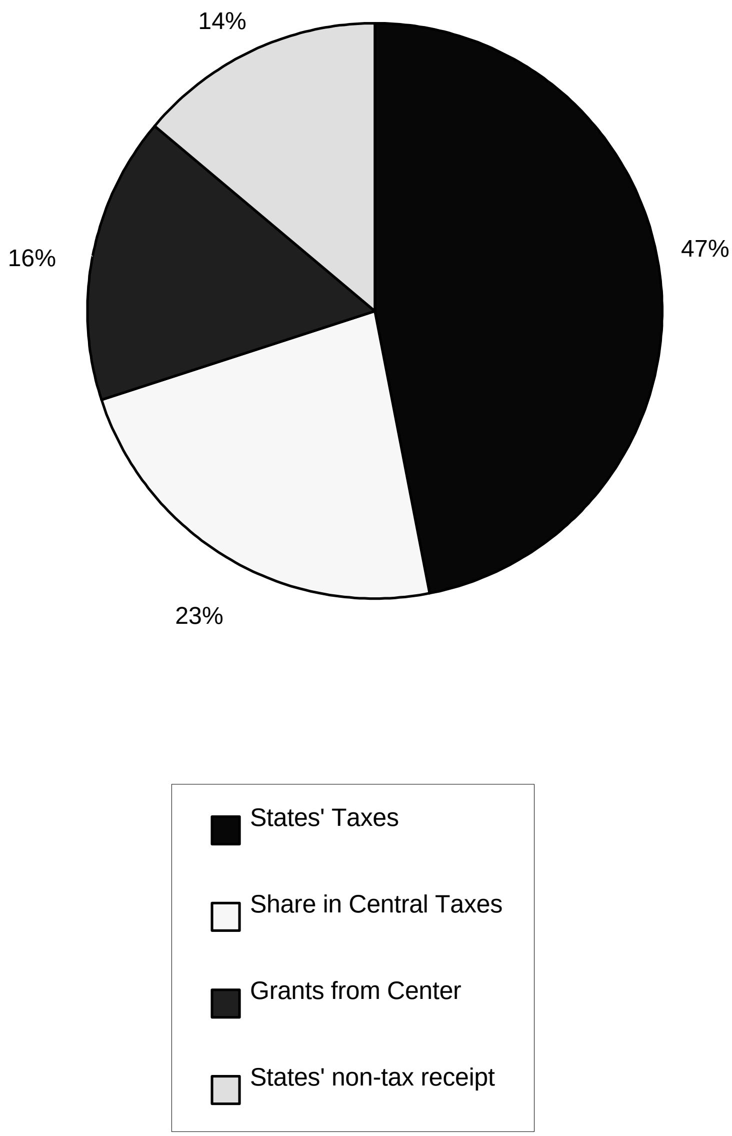
Year	Loans from the Central Government (net)	Market Borrowings (net)	Others #	Gross Fiscal Deficit (2+3+4)	States Outstanding Liabilities (end March)			States' Outstanding Liabilities as per cent to GDP at the current market prices
					Total $	Loans & Advances from Centre	Market Loans	
1	2	3	4	5	6	7	8	9
1980-81	15,640	1840	19,650	37,130	239,590	169,800	29,880	17.6
	(42.1)	(5.0)	(52.9)	(100.0)				
1985-86	57,570	10,100	7540	75,210	536,600	387,860	61,040	20.5
	(76.6)	(13.4)	(10.0)	(100.0)				
1989-90	79,170	22,980	52,180	154,330	942,240	641,390	130,630	20.6
	(51.3)	(14.9)	(33.8)	(100.0)				
1990-91	99,780	25,560	62,530	187,870	1,102,890	741,170	156,180	20.6
	(53.1)	(13.6)	(33.3)	(100.0)				
1991-92	93,730	33,050	62,220	189,000	1,263,380	834,910	189,230	20.5
	(49.6)	(17.5)	(32.9)	(100.0)				
1992-93	89,210	35,000	84,710	208,920	1,421,780	924,120	224,240	20.1
	(42.7)	(16.8)	(40.5)	(100.0)				
1993-94	95,330	36,200	74,430	205,960	1,600,750	1,019,450	260,560	19.8
	(46.3)	(17.6)	(36.1)	(100.0)				
1994-95	147,600	40,750	88,620	276,970	1,845,270	1,167,050	301,330	19.3
	(53.3)	(14.7)	(32.0)	(100.0)				
1995-96 *	148,010	49,590	116,660	314,260	2,107,870	1,315,060	350,920	19.2
	(47.1)	(15.8)	(37.1)	(100.0)				
1996-97 (RE) *	190,630	54,950	172,870	418,450	2,445,190	1,505,690	405,870	19.4
	(45.6)	(13.1)	(41.3)	(100.0)				
1997-98 (BE) *	217,010	59,250	147,040	423,300	2,830,890	1,722,700	465,120	19.5
	(51.3)	(14.0)	(34.7)	(100.0)				

RE Revised Estimates. BE Budget Estimates.
Include loans from Financial Institutions, Provident Funds, Reserve Funds, Deposits and Advances, etc.
$ Include internal debt, loans and advances from the Central Government and Provident funds, etc.
* Provisional data relate to the budgets of 26 State Governments including the National Capital Territory of Delhi.

Note:
1. Figures in parentheses are percentages to the Gross Fiscal Deficit. 2. Data on outstanding loans and advances from the Centre take into account medium-term loans of Rs. 1,743 crore in 1982-83, Rs. 400 crore in 1983-84 and Rs. 1,628 crore in 1985-86 given by the Centre to States to clear their overdrafts. 3. Data on outstanding liabilities of the State Governments have been revised taking into account the latest available information.

Source: Budget Documents of State Governments and Combined Finance and Revenue Accounts of the Union and State Governments.

Revenue Receipts of States (in percent): 1997-98
Figure 4



Revenue from States' Own Taxes (in percent): 1997-98
Figure 5

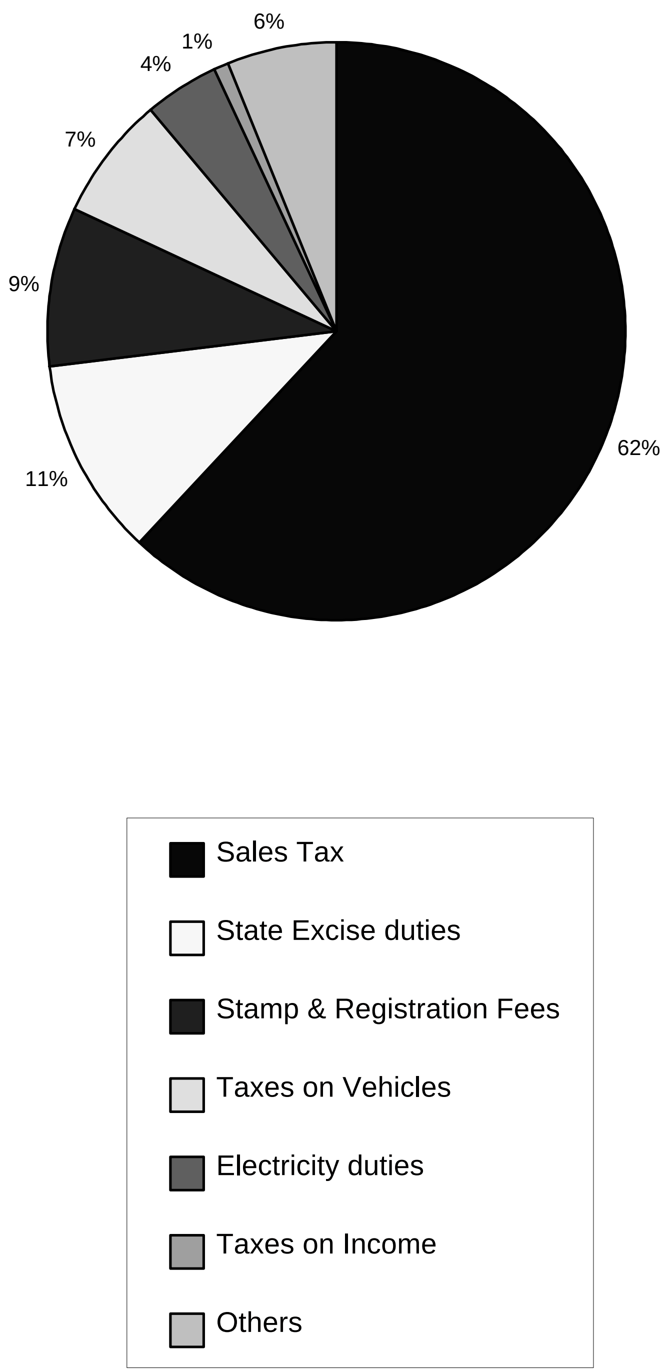


Table 4
Select Budgetary Variables of States Governments

(Per cent)

Item	1997-98$ (BE)	1996-97$ (RE)	1995-96$	1990-95 (Average)	1985-90 (Average)
1	2	3	4	5	6
1. GFD/GFD Expenditure	19.4	21	18.7	14.9	19.6
2. Revenue Deficit/Revenue Expenditure	6.7	9	5.7	5.6	1.9
3. Conventional Deficit/Aggregate Disbursements	-0.1	2	-1.5	-0.7	-0.6
4. Revenue Deficit/GFD	29.6	27.3	26.1	24.8	7.7
5. Non-Dev. Exp./Revenue Receipts	44.4	41.4	41.3	35.4	29.8
6. Interest Payments/Revenue Receipts	17.7	16.9	16	14.4	11
7. States' Tax Revenue/GDP	5.8	5.7	5.8	5.7	5.7
8. States' Non Tax Revenue/GDP	1.6	1.9	2.1	2	2

RE Revised Estimates. BE Budget Estimates.

$ Provisional data relate to 26 State Governments including the National Capital Territory of Delhi.

(-) Indicates surplus.

GFD Gross Fiscal Deficit. Non-Dev. Exp.Non-Developmental Expenditure.

Source: Budget Documents of the State Governments and RBIdata on state finances.

Table 5
State Government's Receipt & Expenditure as a Percentage of Net State Domestic Product at Current Prices
1994-95

	Andhra Pradesh	Assam	Bihar	Gujarat	Haryana	Himachal Pradesh	*Jammu & Kashmir	Karnataka	Kerala	Madhya Pradesh	Maharashtra	Orissa	Punjab	*Rajasthan	Tamil Nadu	Uttar Pradesh	West Bengal
Total Receipts	21.9	28.7	24.1	19.8	37	41.6	71.2	24.2	28.9	24.3	17.6	31.7	25.0	30.3	20.0	24.2	20.3
Revenue receipt	16.9	22.8	19.0	16.2	31.6	28.7	64.2	19.4	21.4	19.6	13.0	23.3	18.1	23.0	15.7	16.9	14.2
Tax revenue	11.8	10.2	13.0	12.1	9.9	14.8	21.1	14.4	16.6	11.6	9.7	12.6	10.1	12.8	13.5	10.9	10.9
State's own tax revenue	8.2	4.6	5.1	9.9	8.4	6.9	6.5	11.5	12.4	7.1	8.2	5.5	8.8	8.0	10.1	5.9	7.4
Share in Central taxes	3.6	5.6	7.8	2.3	1.4	7.9	14.6	3.0	4.2	4.4	1.6	7.1	1.4	4.8	3.4	4.9	3.5
Non-tax revenue	5.1	12.6	6.1	4.0	21.7	13.9	43.0	5.0	4.8	8.0	3.3	10.8	8.0	10.3	2.2	6.0	3.2
State's own non-tax revenue	2.7	2.6	2.7	2.7	20.4	2.0	3.9	2.6	1.7	3.6	2.4	3.7	6.7	4.9	1.0	2.2	0.8
Grants from the Centre	2.4	10.0	3.4	1.3	1.3	11.9	39.2	2.4	3.1	4.4	1.0	7.1	1.3	5.4	1.3	3.8	2.4
Capital receipt	5.0	5.9	5.1	3.6	5.4	12.9	7.0	4.8	7.5	4.7	4.6	8.4	6.9	7.3	4.3	7.3	6.1
Internal Debt	1.0	1.8	1.3	0.1	0.5	1.6	3.2	0.6	1.8	0.9	0.5	1.9	1.7	1.2	0.8	1.1	0.9
Market loan	1.0	1.1	1.2	-	0.5	0.8	1.3	0.5	1.4	0.8	0.3	1.7	0.6	1.0	0.7	1.0	0.8
Loans & advances from the Centre	3.3	3.9	3.0	2.1	1.9	8.9	4.3	3.2	3.7	2.1	1.4	3.7	4.2	2.7	2.5	4.1	3.7
State plan schedule	2.0	0.6	2.0	1.0	0.9	0.8	3.7	1.2	2.0	1.2	0.7	2.2	0.7	1.4	1.7	1.7	0.9
Central plan schemes	-	0.2	-	-	-	-	-	-	-	-	-	0.1	-	-	-	-	-
Other capital receipts	1.0	0.2	1.0	1.1	2.9	2.5	-	1.1	1.9	1.7	2.7	2.8	1.1	3.3	1.0	2.2	1.5
Total Expenditure	21.9	28.3	24	20.1	37	45.1	74.7	24.1	28.7	23.9	18.0	31.7	24.8	30.6	20.1	23.9	20.2
Education, sports, etc.	3.3	5.5	4.7	3.4	2.5	7.3	10.5	4.0	6.6	3.7	2.7	5.3	2.6	5.1	3.8	3.8	3.8
Medical & public health	1.0	1.4	1.4	0.9	0.6	2.9	4.4	1.3	1.9	1.2	0.7	1.5	0.8	1.6	1.2	1.2	1.1
Water supply & sanitation	-	0.5	0.5	0.5	1.1	2.3	4.1	0.4	0.4	0.6	0.3	0.7	3.3	1.9	0.5	0.3	0.3
Housing	-	0.1	-	0.2	0.1	0.3	0.6	0.2	0.2	0.1	0.1	0.2	0.1	0.1	0.1	-	0.1
Urban development	-	0.1	0.1	0.1	0.1	0.1	0.7	0.1	0.1	0.2	0.1	0.1	0.1	0.1	0.1	-	0.6
Agri. & allied services	1.0	2.4	1.1	0.9	0.9	4.9	5.1	1.7	2.2	2.0	1.5	2.0	1.2	1.6	1.8	0.9	1.0
Rural development	1.2	1.2	1.7	0.7	0.3	1.1	1.5	1.5	1.0	2.1	1.0	2.8	0.1	1.3	0.5	1.5	1.4
Irrigation & flood control	2.5	1.2	1.1	2.3	3.1	0.8	2.3	2.8	1.0	1.6	1.6	1.9	0.8	2.9	0.5	1.9	0.7
Energy	0.2	-	1.2	1.7	2.1	2.1	7.9	0.6	0.1	0.9	1.6	1.8	0.1	1.6	-	-	1.3
Transport & communication	0.6	1.5	0.5	0.7	1.7	2.8	1.1	0.8	1.0	0.8	0.9	1.5	1.0	1.1	0.7	1.0	0.5
Interest payments	2.5	3.8	4.4	2.6	2.4	5.2	8.0	2.5	3.6	2.7	2.0	4.5	4.1	3.6	2.3	4.1	2.7
Others	9.1	10.5	7.3	6.0	22.1	15.4	28.8	8.1	10.8	8.1	4.8	9.5	13.5	9.5	8.6	9.2	6.8

* State Government's Receipt & Expenditure and NSDP figures are for the year 1993-94

Sources: Economic Survey: Government of India, Ministry of Finance, Economic Division, 1996-97
Profiles of States, Centre for Monitoring Indian Economy Pvt Ltd, March 1997

Table 5a
Statewise Major Fiscal Indicators

(Per cent)

States	State Agg Dis/Agg Dis				G F D/G F D Exp.				Revenue Deficit/ G F D			
	1985-90 Avg	1990-95 Avg	1996-97 (R.E.)	1997-98 (B.E.)	1985-90 Avg	1990-95 Avg	1996-97 (R.E.)	1997-98 (B.E.)	1985-90 Avg	1990-95 Avg	1996-97 (R.E.)	1997-98 (B.E.)
I Non Special Category												
1. Andhra Pradesh	6.1	7.5	7.0	7.4	16.0	17.6	16.7	20.2	7.7	11.5	25.0	37.2
2. Bihar	6.6	6.2	5.3	5.3	16.6	20.7	22.2	13.5	-47.6	51.3	67.4	27.8
3. Goa	0.4	0.4	0.5	0.5	22.2	18.3	13.3	16.6	0.6	-38.3	-4.7	14.1
4. Gujarat	6.4	6.2	5.9	5.7	23.2	20.2	17.9	18.7	21.5	11.3	13.4	1.9
5. Haryana	2.8	3.0	3.8	3.0	16.6	13.4	14.3	18.5	-25.0	14.1	64.3	42.2
6. Karnataka	5.9	5.7	5.8	6.2	17.4	16.7	11.4	11.6	10.5	11.2	34.8	25.5
7. Kerala	3.9	3.7	4.2	4.2	20.9	20.7	23.9	20.3	36.4	44.0	49.7	51.9
8. Madhya Pradesh	6.6	6.3	6.5	6.3	18.5	14.7	15.9	13.7	-1.7	10.1	69.1	33.1
9. Maharashtra	12.3	11.8	12.2	12.2	18.5	16.0	21.1	14.8	11.5	8.8	28.6	11.0
10. Orissa	3.3	3.3	3.1	3.5	25.5	23.2	24.6	28.6	15.3	22.4	46.4	40.0
11. Punjab	4.0	4.1	4.3	3.6	32.4	30.0	25.2	27.1	9.9	45.9	51.3	45.1
12. Rajasthan	5.0	5.3	5.2	5.2	22.0	18.2	21.6	19.4	17.6	3.4	22.5	1.8
13. Tamil Nadu	7.1	7.8	7.0	7.0	15.4	16.5	17.2	19.3	12.5	72.3	52.7	49.8
14. Uttar Pradesh	11.9	12.9	12.1	12.4	22.8	24.1	33.7	37.9	9.3	34.2	56.8	69.8
15. West Bengal	6.6	5.9	6.2	6.5	16.6	21.7	30.5	28.5	18.0	52.0	52.9	42.3
16. NCT Delhi	-	0.4	1.8	1.7	-	9.1	27.3	16.9	-	-33.4	-58.9	-126.2
Non-Special Category States	**90.4**	**90.6**	**90.9**	**90.8**	**19.8**	**19.5**	**22.0**	**21.5**	**11.0**	**29.8**	**43.0**	**38.6**
II. Special Category												
1. Arunachal Pradesh	-	0.4	0.4	0.5	10.5	2.7	7.3	7.6	-1,928.5	200.5	-350.1	-384.8
2. Assam	2.9	2.7	2.5	2.6	20.0	12.0	12.6	14.1	8.9	442.1	8.5	15.8
3. Himachal Pradesh	1.3	1.4	1.2	1.3	17.5	21.7	23.9	23.3	-72.9	6.9	39.1	43.1
4. Jammu and Kashmir	2.0	2.1	1.9	1.9	31.5	14.0	4.3	5.2	8.9	468.4	-476.4	-401.1
5. Manipur	0.5	0.5	0.5	0.4	7.9	6.4	13.3	21.0	-9.1	-45.1	-101.9	-30.4
6. Meghalaya	0.5	0.4	0.4	0.4	2.0	12.9	4.1	3.6	-298.3	-80.0	-431.3	-507.8
7. Mizoram	0.4	0.4	0.4	0.3	2.7	4.6	13.8	7.2	379.7	-1,318.5	-42.9	-172.1
8. Nagaland	0.7	0.6	0.5	0.5	11.8	21.2	17.4	6.6	60.4	14.6	-4.8	-152.0
9. Sikkim	0.2	0.2	0.6	0.6	8.9	12.7	4.4	4.6	-803.7	-93.8	-103.4	-114.2
10. Tripura	0.7	0.6	0.6	0.6	12.5	12.1	13.0	12.1	-122.5	-56.2	-59.5	-75.6
Special Category States	**9.6**	**9.4**	**9.1**	**9.2**	**18.4**	**13.4**	**11.6**	**11.6**	**-30.1**	**-74.5**	**-57.8**	**-61.5**
All States	**100.0**	**100.0**	**100.0**	**100.0**	**19.7**	**19.0**	**21.0**	**20.6**	**7.7**	**24.6**	**37.9**	**33.6**

Agg Dis : Aggregate Disbursements
GFD : Gross Fiscal Deficit
GFD Exp : Gross Fiscal Deficit Expenditure
R.E. : Revised Estimates
B.E. : Budget Estimates
NCT : National Capital Territory
Avg : Average

Source: RBI, Finances of State Governments

Table 5b
State-wise Major Fiscal Indicators

(Per cent)

States	Non-dev. Rev. Exp./Rev. Receipts				Int. Pay./Rev. Exp.				States' Tax Revenue/Rev. Exp.			
	1985-90 Avg	1990-95 Avg	1996-97 (R.E.)	1997-98 (B.E.)	1985-90 Avg	1990-95 Avg	1996-97 (R.E.)	1997-98 (B.E.)	1985-90 Avg	1990-95 Avg	1996-97 (R.E.)	1997-98 (B.E.)
I. Non Special Category												
1. Andhra Pradesh	25.4	30.5	36.7	37.8	8.8	11.8	15.5	16.2	50.6	47.0	41.4	42.2
2. Bihar	29.8	42.1	48.0	42.5	12.5	18.1	20.5	21.6	26.9	23.5	24.0	29.6
3. Goa	20.8	26.3	42.0	49.8	10.1	14.8	13.0	12.9	25.5	38.7	37.4	37.1
4. Gujarat	26.8	30.6	33.9	36.7	10.7	14.5	16.0	16.9	53.7	57.9	63.7	63.7
5. Haryana	28.2	40.9	58.8	70.0	12.0	12.3	10.6	11.1	55.5	50.0	31.5	30.6
6. Karnataka	29.3	30.9	31.0	33.3	9.2	11.1	11.3	12.1	54.2	58.6	56.2	58.0
7. Kerala	36.2	41.8	44.4	41.9	11.2	14.8	15.1	15.0	51.4	52.2	52.8	56.1
8. Madhya Pradesh	26.7	29.3	33.4	36.0	9.7	11.9	12.3	13.4	38.6	37.3	34.1	37.7
9. Maharashtra	30.7	31.9	33.1	43.5	8.9	11.3	11.6	13.5	56.3	59.4	57.0	64.9
10. Orissa	33.4	35.8	41.7	49.4	15.2	18.4	20.1	21.3	27.6	25.7	26.2	28.0
11. Punjab	33.3	50.2	47.6	60.8	12.1	16.0	22.9	27.1	59.4	47.1	38.3	46.7
12. Rajasthan	31.5	34.7	37.1	37.4	13.9	14.9	18.3	20.4	35.5	35.0	39.5	44.2
13. Tamil Nadu	25.4	28.8	34.8	39.5	7.3	9.0	11.6	12.0	56.9	52.5	59.6	60.1
14. Uttar Pradesh	34.6	44.3	54.7	69.1	12.3	16.4	19.9	18.7	34.8	32.0	29.4	27.5
15. West Bengal	31.0	38.8	45.6	44.0	12.8	15.8	18.5	19.9	48.3	45.0	42.9	45.9
16. NCT Delhi	-	8.4	19.0	18.3	-	-	9.1	13.1	-	25.0	119.7	127.3
Non Special Category States	**29.9**	**35.6**	**40.2**	**45.0**	**10.8**	**13.6**	**15.6**	**16.5**	**46.5**	**44.9**	**44.6**	**47.1**
II. Special Category												
1. Arunachal Pradesh	20.4	19.7	20.1	20.6	6.1	6.9	8.8	10.4	0.9	1.2	1.6	4.1
2. Assam	31.8	32.2	35.0	36.4	13.7	13.9	14.6	14.7	20.9	21.5	19.4	21.3
3. Himachal Pradesh	26.3	35.5	38.5	41.0	8.9	14.4	16.4	17.7	17.7	18.9	17.4	17.1
4. Jammu and Kashmir	35.8	34.1	31.2	30.5	16.9	20.7	16.9	17.8	15.3	11.7	10.0	12.7
5. Manipur	23.8	27.9	27.7	29.7	7.4	10.1	9.0	9.6	4.6	4.4	4.6	5.2
6. Meghalaya	22.7	27.5	25.0	24.2	5.1	6.9	8.8	8.2	11.4	11.2	11.8	10.9
7. Mizoram	26.6	21.7	27.3	28.3	6.2	6.9	7.4	9.8	1.1	1.1	1.0	1.2
8. Nagaland	31.5	40.3	42.1	39.9	7.4	10.5	11.3	12.2	4.4	3.3	3.6	3.5
9. Sikkim	14.8	30.5	73.7	71.7	5.1	9.0	3.1	3.4	9.3	6.5	1.9	2.5
10. Tripura	22.5	29.2	28.4	27.1	6.3	9.8	10.6	9.3	4.9	5.7	6.3	6.4
Special Category States	**28.8**	**31.5**	**35.4**	**35.5**	**11.1**	**13.6**	**12.9**	**13.5**	**13.8**	**13.2**	**11.7**	**12.9**
All States	**29.8**	**32.0**	**39.7**	**44.1**	**10.8**	**13.6**	**15.3**	**16.2**	**43.4**	**42.2**	**41.8**	**44.2**

Rev. Receipts : Revenue Receipts
Int. Pay : Interest Payments
Rev. Exp. : Revenue Expenditure
Non-Dev Rev. Exp.: Non Developmental Revenue Expenditure

Source: RBI, Finances of State Governments

Table 5c
State-wise Major Fiscal Indicators

States	States' Non Tax Rev./Rev. Exp.				Gross Transfers/Agg. Dis.				Debt Servicing/Gross Transfers			
	1985-90 Avg	1990-95 Avg	1996-97 (R.E.)	1997-98 (B.E.)	1985-90 Avg	1990-95 Avg	1996-97 (R.E.)	1997-98 (B.E.)	1985-90 Avg	1990-95 Avg	1996-97 (R.E.)	1997-98 (B.E.)
I. Non Special Category												
1. Andhra Pradesh	15.2	15.5	15.4	13.8	36.9	40.4	43.8	42.2	21.7	19.9	29.3	25.0
2. Bihar	24.1	12.3	10.9	11.0	57.6	58.5	58.0	62.4	22.0	20.6	20.8	20.4
3. Goa	24.3	28.4	43.8	43.3	50.2	40.7	24.5	20.7	21.0	30.0	37.5	43.1
4. Gujarat	18.5	18.0	12.6	13.3	33.5	26.1	28.0	31.6	29.5	42.1	40.2	37.0
5. Haryana	28.2	32.9	45.6	48.2	29.9	21.7	20.8	19.9	38.7	34.6	36.5	38.4
6. Karnataka	16.3	12.7	12.2	9.9	33.0	30.9	32.2	34.3	28.5	24.3	24.1	24.1
7. Kerala	9.3	7.5	7.4	6.3	38.3	37.4	31.1	32.2	33.5	26.6	24.4	23.3
8. Madhya Pradesh	21.2	19.9	16.2	16.4	43.2	42.0	41.2	42.8	20.3	20.1	16.4	16.9
9. Maharashtra	20.6	18.6	17.3	14.6	29.2	26.3	27.3	25.5	27.8	34.3	30.9	39.3
10. Orissa	11.8	11.9	10.9	10.7	54.5	56.2	53.4	53.6	20.4	21.5	19.3	19.4
11. Punjab	14.1	20.5	31.6	15.9	48.4	37.7	30.7	34.3	21.7	38.9	62.4	60.1
12. Rajasthan	16.4	20.2	16.7	16.4	47.4	43.4	42.7	42.3	24.8	22.2	27.7	23.0
13. Tamil Nadu	9.0	8.6	6.8	5.5	34.3	33.8	31.7	30.5	21.2	20.2	25.4	27.6
14. Uttar Pradesh	12.0	11.0	6.3	6.1	53.8	50.8	47.8	44.1	19.9	17.7	25.4	26.7
15. West Bengal	6.3	4.4	4.2	3.8	49.5	48.6	48.1	50.2	32.3	27.8	28.5	28.6
16. NCT Delhi	-	1.4	2.4	2.1	-	25.1	25.4	20.5	-	-	20.1	39.0
Non Special Category States	15.8	14.8	13.9	12.5	41.9	39.5	38.0	38.1	24.5	24.1	27.5	27.8
II. Special Category												
1. Arunachal Pradesh	15.9	17.7	12.5	21.7	79.7	86.4	87.0	80.4	13.6	4.9	1.0	1.3
2. Assam	13.9	13.5	8.8	8.1	72.5	65.0	66.8	65.7	22.8	26.1	22.5	19.8
3. Himachal Pradesh	11.7	7.4	6.5	6.4	69.2	60.2	66.2	62.6	9.2	14.4	14.4	14.8
4. Jammu and Kashmir	11.3	6.8	5.3	6.8	75.4	75.9	91.3	89.4	17.8	18.7	11.2	11.5
5. Manipur	8.0	7.0	11.3	13.3	86.6	81.0	78.0	70.8	9.8	10.2	4.0	4.6
6. Meghalaya	8.7	6.2	7.5	9.4	86.3	77.4	80.9	82.9	4.8	9.0	6.2	5.6
7. Mizoram	3.9	15.2	6.7	7.0	95.2	84.4	82.7	88.2	9.6	12.1	3.5	4.2
8. Nagaland	5.2	6.0	4.7	5.3	82.9	75.7	76.2	87.4	6.4	16.1	4.6	4.5
9. Sikkim	17.6	26.8	72.9	70.8	76.0	64.9	29.9	31.3	2.8	6.6	9.1	5.9
10. Tripura	5.1	3.7	3.9	3.7	83.2	83.1	81.1	85.4	5.2	8.1	5.6	4.6
Special Category States	**11.1**	**10.2**	**12.3**	**12.6**	**76.5**	**71.2**	**73.7**	**73.3**	**14.0**	**16.8**	**12.0**	**11.2**
All States	**15.3**	**15.8**	**13.8**	**12.5**	**45.3**	**40.1**	**41.3**	**41.3**	**22.8**	**24.0**	**25.0**	**25.2**

Non Tax Rev Exp : Non Tax Revenue Expenditure

Source: RBI, Finances of state governments

Table 6
Developmental Expenditure: Major Heads

Items	1995-96 (Accounts)	1996-97 (Budget Estimates)	1996-97 (Revised Estimates)	1997-98 (Budget Estimates)	Percentage variation		
					Col. 4 over 2	Col. 4 over 3	Col. 5 over 4
1	2	3	4	5	6	7	8
I. Developmental Expenditure Revenue and Capital (A+B)	**1,071,130**	**1,172,050**	**1,270,560**	**1,328,480**	**18.6**	**8.4**	**4.6**
A. Social Services (1 to 11)	**562,280 (49.0)**	**633,720 (50.0)**	**667,170 (48.9)**	**727,200 (51.1)**	**18.7**	**5.3**	**9.0**
1. Education, sports, art and culture	293,650	332,170	345,420	376,390	17.6	4.0	9.0
2. Medical and public health and family welfare	88,470	99,870	103,450	114,230	16.9	3.6	10.4
3. Water supply and sanitation	40,370	44,410	50,090	57,810	24.1	12.8	15.4
4. Housing	10,600	11,630	11,670	14,380	10.1	0.4	23.2
5. Welfare of Scheduled Caste, Scheduled Tribes and other Backward Classes	36,170	46,240	48,280	54,910	33.5	18.7	-99.3
6. Labour and Labour welfare	7,430	8,850	9,100	9,930	22.5	2.8	9.1
7. Social Security and Welfare	24,510	29,890	32,350	36,280	32.0	8.2	12.1
8. Nutrition	21,580	20,250	20,180	19,370	-6.5	-0.4	-4.0
9. Relief on account of Natural Calamities	19,280	15,130	19,790	14,490	2.7	30.8	-26.8
10. Urban development	15,020	20,290	21,590	24,090	43.8	6.4	11.5
11. Others*	5,210	5,000	5,240	5,340	0.6	4.9	1.8
B. Economic Services (1 to 9)	**508,860 (44.3)**	**538,330 (42.5)**	**603,390** (44.2)	**601,280** (42.2)	**18.6**	**12.1**	**-0.4**
1. Agriculture and Allied Activities	107,170	120,800	120,750	124,710	12.7	-	3.3
2. Rural Development	67,620	87,060	91,630	105,990	35.5	5.3	15.7
3. Special Area Programmes	9,030	12,140	12,440	13,230	37.7	2.5	6.4
4. Irrigation and Flood Control	137,340	143,910	149,830	163,590	9.1	4.1	9.2
5. Energy	67,370	41,090	91,100	49,300	35.2	122.1	-45.9
6. Industry and Minerals	26,670	31,560	31,384	28,930	17.7	-0.7	-7.8
7. Transport and Communications	73,350	75,330	80,360	84,870	9.6	6.7	5.6
8. Science, Technology and Environment	760	1,210	1,020	1,320	35.0	-15.3	28.8
9. General Economic Services	19,550	25,280	24,880	29,340	27.3	-1.6	18.0
II. Loans and Advances by State Governments a) Developmental Advances (A+B)	**77,060**	**94,460**	**94,780**	**95,870**	**23.0**	**0.3**	**1.2**
A. Social Services (1 to 3)	**16,080**	**22,830**	**23,340**	**21,290**	**45.2**	**2.3**	**-8.8**
1. Housing	2,300	3,040	3,760	2,310	63.2	23.6	-38.5
2. Government Servants (Housing)	2,820	3,960	4,110	4,350	46.1	3.9	5.8
3. Others @	10,960	15,830	15,470	14,630	41.2	-2.3	-5.5
B. Economic Services (1 to 7)	**60,990**	**71,640**	**71,440**	**74,590**	**17.1**	**-0.3**	**4.4**
1. Co-operation	6,980	4,710	2,830	1,520	-59.5	-40.0	-46.2
2. Crop Husbandry	2,720	3,130	3,070	2,640	12.9	-1.8	-14.0
3. Soil and Water Conservation	170	220	200	190	20.0	-10.6	-5.6
4. Power Projects	39,860	51,730	47,900	59,050	20.2	-7.4	23.3
5. Village and Small Industries	970	1,020	2,430	1,070	149.2	138.1	-55.9
6. Other Industries and Minerals	1,250	2,060	1,920	1,900	52.9	-7.0	-1.0
7. Others +	9,030	8,770	13,100	8,230	45.0	49.4	-37.2
III. Total Development (I+	**1,148,190**	**1,266,520**	**1,365,340**	**1,424,350**	**18.9**	**7.8**	**4.3**

Note:
1. Figures in brackets are percentage to total developmental expenditure.
2. Figures for 1995-96 (Accounts) in respect of Jammu and Kashmir and Nagaland relate to Revised Estimates
* Includes expenditures on information and publicity.
\+ Includes loans and advances for forest, fisheries, animal husbandry, road and water transport services, etc.
@ Includes outlay on education, art and culture, urban development, social security and welfare, etc.
Source: RBI, Finances of state governments

Table 7
State Subsidies: Merit and Non-Merit: 1993-94

State	Total (Millions)	Merit (Millions)	% of Total	Non-Merit (Millions)	% of Total
1. Andhra Pradesh	60240	17120	28.4	43120	71.5
2. Bihar	52550	16090	31.6	36460	69.3
3. Goa	3270	760	23.1	2520	76.8
4. Gujarat	61550	16990	27.6	44560	72.3
5. Haryana	20070	5130	25.5	14930	74.4
6. Karnataka	48390	13410	27.7	34990	72.3
7. Kerala	30130	9870	32.7	20270	67.2
8. Madhya Pradesh	57740	19260	33.3	38470	66.6
9. Maharashtra	96070	28500	29.6	67580	70.3
10. Orissa	27950	9130	32.6	18820	67.3
11. Punjab	27030	5870	21.7	21160	78.2
12. Rajasthan	43730	12300	28.1	31430	71.8
13. Tamil Nadu	63330	19160	30.2	44170	69.7
14. Uttar Pradesh	92870	24900	26.8	67970	73.1
15. West Bengal	46060	11550	25.1	34510	74.9

Source: Government Subsidies in India, National Institute of Public Finance and Policy, New Delhi, 1997

Table 8
Profile of Recovery Rates

State	Sectors/Services				
	All	**Merit**	**Non-Merit**	**Non-Merit Social**	**Non-Merit Economic**
1. Andhra Pradesh	8.11	0.97	10.67	2.56	14.59
2. Bihar	2.29	0.73	2.96	1.15	3.83
3. Goa	26.77	2.73	31.84	7.30	52.74
4. Gujarat	2.21	0.54	2.83	2.71	2.87
5. Haryana	14.19	1.97	17.72	3.82	23.34
6. Karnataka	5.18	0.57	6.84	2.66	9.00
7. Kerala	2.49	0.98	3.21	2.35	4.23
8. Madhya Pradesh	5.34	0.86	7.43	2.66	9.65
9. Maharashtra	9.99	0.62	13.44	4.53	18.24
10. Orissa	1.65	1.29	1.83	2.49	1.49
11. Punjab	7.67	0.78	9.42	2.00	13.72
12. Rajasthan	10.59	0.79	13.92	3.93	21.26
13. Tamil Nadu	4.02	1.39	5.11	2.51	7.37
14. Uttar Pradesh	3.23	1.35	3.90	1.50	5.28
15. West Bengal	3.43	1.22	4.15	1.29	7.60

Source: Government Subsidies in India, National Institute of Public Finance and Policy, New Delhi, 1997

Table 9
Tax Shares of States

Finance Commissions	Income Tax	Basic Excise Duties
First (1952-57)	55	40 a
Second (1957-62)	60	25 b
Third (1962-66)	66.67	20 c
Fourth (1966-69)	75	20 d
Fifth (1969-74)	75	20 d
Sixth (1974-79)	80	20 d
Seventh (1979-84)	85	40 d
Eighth (1984-89)	85	45 d,e
Ninth I (1989-90)	85	45 d,e
Ninth II (1990-95)	85	45 d,f
Tenth (1995-2000)	77.5	47.5 g

Notes:
a: Restricted to excise duties on tobacco, matches and vegetable products.
b: In addition to (a), sugar, coffee, tea, paper, and vegetable
c: All commodities yielding Rs. 5 million of excise revenue per year except motor spirits.
d: All excisable commodities
e: 5 percent earmarked for deficit states.
f: 7.42 percent earmarked for deficit states.
g: 7.5 percent earmarked for deficit states.

Table 10
Devolution and Transfer of Resources from the Centre

Item	1995-96 (Accounts)	1996-97 (Budget Estimates)	1996-97 (Revised Estimates)	1997-98 (Budget Estimates)	Variations					
					Col. 4 over Col. 2		Col. 4 over Col. 3		Col. 5 over Col. 4	
					Amount	Per cent	Amount	Per cent	Amount	Per cent
1	2	3	4	5	6	7	8	9	10	11
I. States' Share in Central Taxes	**290,480**	**343,870**	**346,260**	**401,150**	**55,780**	**19.2**	**2,390**	**0.7**	**54,890**	**15.9**
II. Grants from the Centre (1 to 5)	**209,960**	**257,830**	**263,510**	**275,100**	**53,550**	**25.5**	**5,680**	**2.2**	**11,590**	**4.4**
1. State Plan Schemes	81,340	107,380	116,460	136,880	35,130	43.2	9,080	8.5	20,420	17.5
2. Central Plan Schemes	15,860	19,280	20,060	22,400	4,200	26.5	780	4.0	2,340	11.7
3. Centrally Sponsored Schemes	48,670	71,680	71,300	77,030	22,630	46.5	-380	-0.5	5,730	8.0
4. Special Plan Schemes	4,320	4,100	620	770	-3,700	-85.7	-3,480	-84.9	160	25.2
5. Non Plan Grants (a to c)	59,770	55,390	55,070	38,010	-4,700	-7.9	-320	-0.6	-17,060	-31.0
a) Statutory Grants	39,720	35,700	41,570	23,720	1,850	4.7	5,860	16.4	-17,840	-42.9
b) Grants for Natural Calamities	2,840	2,450	2,660	2,680	-170	-6.1	210	8.5	20	0.7
c) Non-Plan Non-Statutory Grants	17,220	17,230	10,850	11,610	-6,380	-37.0	-6,390	-37.1	760	7.0
III. Gross Loans from the Centre (i+ ii)	**196,000**	**235,550**	**254,170**	**277,360**	**58,180**	**29.7**	**18,630**	**7.9**	**23,190**	**9.1**
i) Plan Loans	88,020	130,050	138,650	166,880	50,630	57.5	8,610	6.6	28,230	20.4
ii) Non-Plan Loans*	107,970	105,500	115,520	110,480	7,550	7.0	10,020	9.5	-5,050	-4.4
IV. Gross Transfer (I + II + III)	**696,430**	**837,250**	**863,940**	**953,610**	**167,510**	**24.1**	**26,700**	**3.2**	**89,660**	**10.4**
V. Repayment and Interest Payments Liabilities (a + b)	**178,350**	**211,560**	**215,890**	**240,200**	**37,540**	**21.0**	**4,330**	**2.0**	**24,300**	**11.3**
a) Repayment of Loans to the Centre	47,990	57,710	63,550	60,840	15,560	32.4	5,830	10.1	-2,700	-4.3
b) Interest Payments on the Loans from the Centre	130,370	153,850	152,350	179,350	21,980	16.9	-1,500	-1.0	27,010	17.7
VI. Net Transfer of Resources from the Centre (IV-V)	**518,080**	**625,690**	**648,050**	**713,410**	**129,980**	**25.1**	**22,370**	**3.6**	**65,360**	**10.1**

@ Figure for Jammu and Kashmir and Nagaland relate to Revised Estimates.
* Includes Ways and Means Advances from the Centre.

Source: Reserve Bank of India

Table 11
Formula for distributing state plan assistance

Criteria	*Share in central Plan assistance (percentage)*	*Share of grants and loans*	*Criteria for distribution to non-special category states*
(1)	*(2)*	*(3)*	*(4)*
A. Special Category States (10	30	90:10	
B. Non-Special Category States (15)	70	30:70	
(i) Population (1971)			60.0
(ii) Per capita income of which			25.0
(a) According to the 'deviation' method covering only the States with per capita income below the national average			20.0
(b) According to the 'distance' method covering all the 15 States			5.0
(iii) Fiscal performance of which			7.5
(a) Tax effort			2.5
(b) Fiscal management			2.5
(c) National objectives			2.5
(iv) Special Problems			7.5
Total			100.0

NOTES:
1) The formula as revised in December, 1991.
2) Fiscal Management is assessed as the difference between states' own total plan resources estimated at the time of finalizing annual plans and their actual performance on the basis of the last five years.
3) Under the criterion of the performance with regard to certain programmes of national priority, the approved formula covers four objectives, namely (I) population control, (ii) elimination of illiteracy, (iii) completion of externally aided projects on schedule and (iv) success in land reforms.

SOURCE: Ahluwalia and Little, Oxford University Press, 1998

Table 12
Number of Sales Tax Rates in Selected States
1991-92

State	Number
Andhra Pradesh	13
Bihar	16
Gujarat	22
Haryana	9
Kerala	15
Madhya Pradesh	16
Maharashtra	10
Orissa	6
Punjab	9
Rajasthan	13
Tamil Nadu	16
Uttar Pradesh	11
West Bengal	16

Source: National Institute of Public Finance and Policy.