Chapter 2

Budgetary Trends and Plan Financing in the States

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In the federal set up of India, states are usually taken to be equal partners to the centre in the overall development effort. Since planning has been integral to such efforts, it is natural to presume that states would be equal partners in planning as well. The brief analysis in the introductory chapter shows this to be true as far as plan expenditures are concerned. It also brings out the complementary role that the centre and the states play in the promotion of economic development.

Given that planning was expected to provide the initial thrust of economic development, the states' plan efforts are important for both the overall economic development of the country (due to spillover of benefits across states) and, of course, for the individual states concerned. One of the avowed objectives of planning was to bring about balanced regional development by accelerating the process of economic development in the relatively less developed states. This

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does not seem to have taken place even after seven Five Year Plans have been implemented. Taking one of the indicators of development, per capita State Domestic Product (SDP), the coefficient of variation was estimated to be 0.26 for the period 1973-76, 0.33 for the period 1976-79, and 0.30 for 1982-85 (Bagchi, 1988). Taking the averages for the periods 1980-85 and 1985-89, we estimate it to be 0.35 for both the periods using the latest available data. This indicates the persistence and even accentuation of regional disparities. Has this happened despite planning, or has planning been at least partly responsible for this? *Prima facie* evidence shown in Table 2.1, which provides data on states' plan expenditure and per capita SDP, points to the fact that state plan expenditures more or less followed the pattern exhibited by per capita SDP and were not inversely related to this indicator of economic development as one would expect from planning aimed at balanced regional development.

So much is well known now as several studies have reached the same conclusion [e.g. George (1988) and Dandekar (1987)]. What is not always emphasized is the decline in the states' share in total public sector plan expenditure and in total capital expenditure (as brought out in the preceding chapter) during the last decade. The phenomenon of resource constraints assuming primary significance is no longer confined to the relatively less developed states. This in fact has affected the absorption of external assistance available for state projects in several states in recent years.[2] The question of what underlies the decline in the role of states in planning and capital formation in the public sector and the failure of planning to bring about a reduction in regional disparities calls for some investigation into the way plan expenditures have been incurred and their financing.

The aim of this chapter is to initiate this task. The chapter is divided into six sections. Section II presents an overview of plan performance of the states in terms of targets of outlays and achievements in the aggregate as well as under the main sectoral heads. In Section III, we analyse the financing pattern of the plans as originally envisaged and the actuals, for the states as a whole and for a few major states individually, in an attempt to identify the factors influencing levels of plan outlay. Section IV reviews budgetary trends for the states in the context of plan financing during the Sixth and Seventh Plans. Section V attempts an econometric exercise to assess the relative impact of various determinants of actual plan expenditure during the two plans. The concluding section (Section VI) draws

2. Discussed in Chapter 5 of this volume.

Table 2.1

Annual Averages[1] of Plan Outlay and SDP (in current prices)

(Rs.)

State	SIXTH PLAN PERIOD (1980-85)				SEVENTH PLAN PERIOD (1985-90)			
	Plan Expend.		S.D.P.		Plan Expend.		S.D.P.[3]	
	Per Capita	Index	Per Capita	Index	Per Capita	Index	Per Capita	Index
	1	2	3	4	5	6	7	8
Andhra Pradesh	117	86	1785	95	190	93	2659	93
Bihar	81	60	1152	61	148	72	1893	66
Gujarat	218	160	2637	140	258	126	3750	131
Haryana	235	173	2892	154	327	160	4338	152
Karnataka	139	102	2035	108	173	84	3078	108
Kerala	123	90	1785	95	149	73	2641	92
Madhya Pradesh[2]	141	104	1463	78	229	112	2263	79
Maharashtra	200	147	2907	155	295	144	4363	153
Orissa	115	85	1496	80	222	108	2255	79
Punjab	217	160	3409	181	356	174	5345	187
Rajasthan	108	79	1563	83	150	73	2293	80
Tamil Nadu	140	103	1883	100	227	111	3134	110
Uttar Pradesh	112	82	1517	81	168	82	2307	81
West Bengal	88	65	1974	105	137	67	2907	104
Correlation Coefficient of columns 2 and 4			=0.8940		of columns 6 and 8		= 0.8561	
Average	136	100	1878	100	205	100	2861	100

Notes: 1. Average of per capita SDP for different years.
2. Based on 1970-71 series SDP, while all other SDP figures are based on the 1980-81 series.
3. For the period 1985-89.

Sources of data:
(i) Central Statistical Organisation.
(ii) Planning Commission.

together the main findings and their policy implications. The focus is on the finances of the fourteen non-special category states, the aim being to address the issue of what constrained their capacity to finance their plans in the recent past. The reference period is the decade of the 1980s, covering the Sixth and the Seventh Plan.

PLAN EXPENDITURE

Taking all states together, the annual growth rate of real total plan expenditure for the period 1980-90 works out to a little above 5 per cent, more or less in line with the growth in GDP. There were, however, substantial shortfalls if actual plan expenditures are compared to the plan targets in base year prices. For the Sixth Plan, the shortfall was a hefty 26 per cent, while it was lower at 11 per cent for the Seventh Plan. These facts together imply that though the planners desired the states to channel an increasing part of GDP through state plans, the states barely managed to keep their plan size constant relative to GDP.

The overall growth of real plan expenditure of all states together does not quite convey the variation in achievement of targets in different sectors and by individual states. Tables 2.2 and 2.3 show this quite clearly. Taking the sectorwise picture first, two striking developments should be pointed out. First, among the quantitatively significant sectors, rural development exhibits the lowest shortfall during the Sixth Plan and a large excess during the Seventh. The annual growth rate of real plan expenditure under this head for the whole ten year period, however, is lower than that in agriculture and social services. Conversely, two sectors -- irrigation and power -- show the highest shortfalls among all sectors for both plans; the ten year growth rates are also low (in fact, negative in the case of irrigation and flood control). The bulk of expenditure under rural development is accounted for by the anti-poverty programmes and is revenue expenditure by nature. Most of the plan expenditures under irrigation and power are, on the other hand, capital expenditures. This, then, partly explains the decline in the states' share in total capital expenditure by government. The trends observed above can perhaps be explained by the following facts:

i) for a large part of the plan expenditure on anti-poverty schemes, the contribution of the center is substantially higher than for other plan projects/schemes, and this creates a bias in favour of these schemes in the states;

Table 2.2

Plan Performance by Major Heads of Development
All States (Sixth and Seventh Plan)

(Rs. lakh)

	Heads	Sixth Plan			Seventh Plan			Real Annual
		Plan Outlay	*Actual Expenditure*[a]	*Shortfall (%)*	*Plan Outlay*	*Actual Expenditure*[a]	*Shortfall (%)*	*Growth Rate 1980-90 (%)*
I.	Agriculture*	311902	249321	20.1	573210	647723	13.0	11.1
	a. Animal Husbandry and Dairies	43056	31895	25.9	62264	59120	5.0	4.3
	b. Forestry	55954	48695	13.0	134008	130599	2.5	12.1
	c. Investment in Agricultual Financial Institutions	15668	8229	47.5	15856	13415	15.4	0.0
II.	Rural Development*	302003	280978	7.0	449100	568908	-26.7	6.2
	a. Cooperation	56600	45797	19.1	87018	82829	4.8	2.5
III.	Special Area Programmes	148000	114501	22.6	280359	293833	-4.8	10.7
IV.	Irrigation & Flood Control	1139548	752398	34.0	1594977	1186826	25.3	-0.6
V.	Energy	1429356	943694	34.0	2278615	1728425	24.1	3.0
	a. Power	1429356	942976	34.0	2268676	1721325	24.1	2.9

Heads	Sixth Plan			Seventh Plan			Real Annual
	Plan Outlay	Actual Expenditure@	Shortfall (%)	Plan Outlay	Actual Expenditure@	Shortfall (%)	Growth Rate 1980-90 (%)
VI. Industry and Minerals	218586	188099	14.0	378588	389779	-3.0	5.8
a. Village & Small Industries	81511	66825	18.0	137852	134320	2.6	5.7
VII. Transport#	370734	296719	20.0	577250	532289	7.8	2.3
VIII. Communications, Information and Broadcasting#	2861	3614	-26.3	9933	9186	7.5	11.6
IX. Science and Technology	1705	2366	-38.8	15728	13394	14.8	26.1
X. Social Services#	883088	708656	19.8	1769212	1614640	8.7	8.7
a. Education	162407	144485	11.0	348871	386200	-10.7	13.6
b. Health (incl. Medical)	109119	93736	14.1	224033	203244	9.3	7.6
c. Housing	106595	97949	8.1	192891	190501	1.2	3.8
d. Urban Development	78077	56240	28.0	135218	137443	-1.6	9.0
e. Water Supply & Sanitation	312365	205697	34.2	484806	401225	17.2	5.0
XI. Others	52217	46412	11.1	142828	200671	-40.5	21.1
XII. Total	4860000	3602228	25.9	8069800	7185674	11.0	5.1

Note: Negative signs under "shortfall" signify excess over the estimates.
Data for the Seventh plan period have been adjusted to roughly correspond those for the Sixth plan period.
@ Total of the values for five years, each converted to values at prices comparable to the original estimates.
Basic data source: Planning Commission, *Annual Plan*, various issues, and the two plan documents.

ii) due to technological and other reasons, the responsibility for investment in the power sector is increasingly being assumed by the center; and

iii) large irrigation/multi-purpose projects now face increasing public resistance due to possible environmental degradation as well as problems of resettlement, and also dry farming techniques requiring less capital expenditure are now increasingly being considered more important than the traditional large irrigation projects.

Agriculture and social services exhibit relatively large shortfalls in both the plans, but the annual growth rates of plan expenditure on these two heads are well above the overall growth rate. In fact, agriculture and education (included in social services) actually show the highest growth rates among sectors involving large amounts of plan expenditure. Thus, the shortfalls in these sectors probably indicate only the states' reluctance to attach the same amount of weight to these sectors as the Planning Commission does and are not serious problems. Another sector which shows relatively large shortfalls for both the plans is transport; the low annual growth of plan expenditures in this sector indicates genuine neglect.

The statewise picture of overall shortfalls in reaching plan targets coupled with the annual compound growth rates of total plan outlay in constant prices depicted in table 2.3 reveals interesting facts. In the Sixth Plan, while for the states as a whole the shortfall worked out to almost 26 per cent, three states failed to reach the targets by 30 per cent or more. In the case of West Bengal, the shortfall was nearly 50 per cent. The other two states which recorded large shortfalls were Haryana (36 per cent) and Bihar (33 per cent). States with less than the average shortfall were Karnataka (14 per cent), Tamil Nadu (18 per cent), Assam (17 per cent), Himachal Pradesh and Tripura (14 per cent).

Performance was appreciably better in the Seventh Plan for practically all of the states. There were, however, shortfalls of varying magnitudes in all major states except Orissa. These were relatively large in two states, Gujarat and Haryana (28 per cent). While better performance in terms of achieving targeted outlays was aided considerably by the modest increase aimed at in the Seventh Plan, in some states the improvement was indeed remarkable. Bihar is a case in point. Contrasting with its dismal Sixth Plan performance, Bihar came close to achieving its target in the Seventh Plan. The targeted plan outlay for the state was raised by 58 per cent in the Seventh Plan

Table 2.3

Approved and Actual Plan Expenditure

(Rs crore)

State	*6th Plan (Approved)*	*6th Plan (Total Actual)**	*3/2 (per cent)*	*7th Plan (Approved)*	*7th Plan (Total Actual)**	*6/5 (per cent)*	*Annual Real Growth(%) 1980-90*
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*
Andhra Pradesh	3100	2331	75.2	5200	4871	93.7	5.9
Bihar	3225	2159	66.9	5100	4981	97.7	6.5
Gujarat	3680	2829	76.8	6000	4292	71.5	0.7
Haryana	1800	1148	63.8	2900	2078	71.7	2.7
Karnataka	2265	1938	85.6	3500	3115	89.0	1.5
Kerala	1550	1209	78.0	2100	1773	84.4	-0.6
Madhya Pradesh	3800	2814	74.1	7000	5711	81.6	6.3
Maharashtra	6175	4740	76.8	10500	8894	84.7	4.2
Orissa	1500	1140	76.0	2700	2716	100.6	8.3
Punjab	1957	1384	70.7	3285	2850	86.8	5.1
Rajasthan	2025	1572	77.6	3000	2550	85.0	3.3
Tamil Nadu	3150	2602	82.6	5750	5072	88.2	5.7
Uttar Pradesh	5850	4738	81.0	10447	8982	86.0	4.5
West Bengal	3500	1787	51.1	4125	3547	86.0	3.7
Arunachal Pradesh	--	--	--	--	446	N.C.	N.C.
Assam	1115	928	83.3	2100	2101	100.0	7.1
Goa	--	--	--	--	299	N.C.	N.C.
Himachal Pradesh	560	487	86.9	1050	1057	100.6	6.7
Jammu & Kashmir	900	672	74.6	1400	1653	118.0	8.9
Manipur	240	178	74.0	430	424	98.6	8.6
Meghalaya	235	190	80.8	440	450	102.3	8.8
Mizoram	--	--	--	--	303	N.C.	N.C.
Nagaland	210	167	79.7	400	391	97.8	8.9
Sikkim	122	109	89.0	230	240	104.1	9.0
Tripura	245	212	86.7	440	560	127.4	10.9
All States	47204	35334	74.9	78097	69259	88.7	4.9

N.C. Not computed.

* Total of five years' outlay after deflating each to the prices of the year prior to the first year of the plan using wholesale price index for all commodities.

Basic data source: Planning Commission.

over that of the Sixth, as compared to 65 per cent for the states taken together. The actual plan outlay of Bihar in comparable prices, however, increased by about 140 per cent. In West Bengal, on the other hand, the targeted outlay showed an increase of only 18 per cent. Even so, the state could not achieve the plan target and registered a shortfall of over 15 per cent. The relatively large shortfalls in Haryana and Gujarat during the Seventh Plan could perhaps be due to the fact that their targets were relatively high in the Sixth Plan and increases of the order aimed at in the Seventh Plan were possibly not achievable.

To put the shortfalls in plan expenditures in proper perspective, we have computed the annual average growth of plan expenditure in constant prices for the two plan periods together. Going by these growth rates, the best performance was that of Orissa. The fact that it was the only non-special category state to have exceeded its plan expenditure target is, therefore, not due to a modest target. Bihar also was successful in raising plan expenditures by a large margin. Both of these are relatively poor states and hence it can probably be said that even if the initial distribution of plan expenditure across states was not equitable, there has been a trend toward a more equitable distribution during the last decade. This observation is reinforced by the fact that all of the relatively poor states except Kerala (which experienced a fall in real plan expenditure) and Uttar Pradesh had above-average growth in plan expenditure while the relatively rich states like Haryana, Gujarat and Maharashtra had below average growth rates. It should, however, be noted that population growth rates were higher in the states enjoying high growth rates of plan expenditure, and the picture in per-capita terms can be quite different, as we have already seen in table 2.1.

There were marked variations in sectorwise shortfalls/excesses in plan performance and in growth of plan expenditure among the states in the Sixth as well as in the Seventh Plan. Tables 2.4 and 2.5 show the shortfalls and average annual growth of plan expenditures under major heads of development for selected states in the Sixth and Seventh Plan periods. In the Sixth Plan, while heavy shortfalls occurred in agriculture and allied services, irrigation and flood control, power and transport in most of the states, there were exceptions to the pattern. For instance, shortfalls in agriculture were actually negative (implying excess expenditure) in Maharashtra and Uttar Pradesh, while the shortfall was not too large in Gujarat. Shortfalls in irrigation and flood control were large in all states, but none as large as in West Bengal at above 60 per cent. Similarly, shortfalls in the power sector were relatively small in Andhra Pradesh, Karnataka, and Punjab. Rajasthan and Uttar Pradesh had excess plan expenditure under transport, while all other states had large shortfalls. In West Bengal, the state with the largest overall shortfall, large shortfalls occurred in all sectors, but in medical and public health the shortfall was relatively small at 16.5 per cent. Another state with large shortfalls in all the quantitatively significant sectors was Haryana.

In the Seventh Plan, the extent of shortfall varied across the states as between different sectors. Bihar, Orissa, Tamil Nadu and Uttar Pradesh overshot the target for agriculture, while in West Bengal and Haryana there was a deficiency of over 30 per cent. Shortfalls in irrigation were small and significantly lower than for the Sixth Plan in Maharashtra, Orissa and West Bengal. Plan expenditure in the transport sector picked up significantly in Andhra Pradesh, Kerala, Tamil Nadu, and West Bengal, with Andhra Pradesh showing an excess of 54 per cent. In energy, Haryana had the largest shortfall of 44 per cent, while in the other states also, shortfalls were fairly large. In the Seventh Plan there was an excess of actual expenditure under communications, information and broadcasting in several states. This category really includes only information and publicity, as the other functions in the broad group are in the exclusive domain of the central government. The "other" item also showed large excesses in quite a few states. This consists of general economic services and general services, with "district planning" acccounting for the bulk of the excess, probably due to the added emphasis on this function after the finalization of the plan document.

It is instructive to juxtapose real growth rates of plan expenditure with shortfalls, as this shows up, to some extent, genuine shortfalls as opposed to those due mainly to overambitious targets. Conversely, low targets can result in excess expenditure or small shortfalls, so shortfalls can be viewed in a proper perspective with the help of the growth rates computed. The Sixth Plan targets were clearly too ambitious, as is borne out by the fact that all states had substantial overall shortfalls, including states like Tamil Nadu, Uttar Pradesh, and Maharashtra where real total plan expenditures grew at average annual rates of 12, 9.1 and 8.6 per cent respectively (see table 2.4). The shortfalls in West Bengal and Kerala, however, may be genuine to a large extent, as real total plan expenditures did not grow at all. The scenario is different for the Seventh Plan, as can be seen from table 2.5. Shortfalls are by and large inversely related to growth rates and thus are genuine. There are three exceptions -- Andhra Pradesh,

Table 2.4

Shortfalls and Average Annual Growth in Real Plan Expenditure During the Sixth Plan (in 1979-80 prices)

(Per cent)

State/Item	Agriculture and Allied	Rural Development	Cooperation	Irrigation & Flood Control	Power	Industry and Minerals	Transport	Scientific Services and Research	Social & Community Services	Education#	Medical & Public Health#	Sanitation and Water Supply#	Housing #	Urban Development#	Economic Services	General Services	Total
Andhra Pradesh																	
Shortfall	16.7	27.9	27.5	22.1	9.6	22.5	26.4	0.0	13.5	19.3	-0.9	11.2	19.1	-26.5	33.1	44.7	24.8
Average Growth	18.5	29.3	11.6	13.2	0.5	19.9	2.5	78.3	14.1	7.5	8.9	23.0	43.0	-3.4	26.5	19.6	8.2
Bihar																	
Shortfall	34.8	20.6	25.2	36.6	44.2	19.6	12.5	0.0	26.2	23.3	19.4	32.1	29.0	12.3	8.2	-0.3	33.1
Average Growth	9.2	20.9	-22.1	7.9	-3.8	4.3	1.9	-27.0	3.6	6.3	9.3	-1.7	-6.5	-11.0	9.6	33.1	4.1
Gujarat																	
Shortfall	4.4	36.8	-2.3	33.2	27.8	0.1	12.8	0.0	9.6	25.1	20.7	18.7	-26.6	23.8	-440.1	46.1	23.1
Average Growth	7.0	0.7	30.6	5.9	10.9	5.2	-9.0	0.0	6.2	11.0	9.8	21.5	-9.2	642.5	804.4	-22.4	5.0
Haryana																	
Shortfall	25.7	14.2	4.3	44.6	35.8	25.3	41.5	0.0	28.6	21.4	28.8	35.9	38.4	8.8	30.2	43.3	36.2
Average Growth	19.5	12.8	7.0	2.7	3.1	-4.2	-5.2	0.0	12.9	25.6	4.8	13.2	2.2	26.5	13.8	10.6	3.8
Karnataka																	
Shortfall	11.8	-40.4	29.5	28.8	13.2	-14.8	3.3	-85.4	22.5	-18.3	33.0	0.8	26.0	60.1	-387.3	-398.0	14.5
Average Growth	12.1	16.5	1.8	2.5	1.9	9.3	6.3	51.8	17.4	31.4	39.1	10.4	9.4	382.3	376.5	477.7	7.5
Kerala																	
Shortfall	42.2	5.0	-0.3	30.8	22.3	24.9	23.2	-6.7	6.5	-37.1	13.8	24.0	7.2	16.4	30.2	3.2	22.0
Average Growth	5.7	-0.4	-7.1	2.3	1.1	-2.6	4.8	-0.6	1.7	27.1	6.7	12.2	-8.5	-4.6	10.3	10.4	0.4

State/Item	Agriculture and Allied	Rural Development	Cooperation	Irrigation & Flood Control	Power	Industry and Minerals	Transport	Scientific Services and Research	Social & Community Services	Education#	Medical & Public Health#	Sanitation and Water Supply#	Housing #	Urban Development#	Economic Services	General Services	Total
Madhya Pradesh																	
Shortfall	12.6	23.1	16.7	34.6	32.3	-11.0	11.4	0.0	4.1	7.9	28.5	3.3	24.7	-28.3	52.5	12.5	26.0
Average Growth	16.0	10.0	0.3	5.1	2.1	27.6	-4.9	0.0	19.9	36.9	17.3	11.9	17.9	22.6	4.8	111.4	6.6
Maharashtra																	
Shortfall	-2.0	-206.4	8.1	21.3	40.4	15.3	29.6	0.0	20.6	10.4	-7.3	30.2	15.8	-1.4	63.1	-152.4	23.2
Average Growth	28.4	128.7	126.0	6.1	-5.5	14.7	3.1	0.0	11.9	36.2	15.3	31.7	4.3	12.6	17.0	109.1	8.6
Orissa																	
Shortfall	16.4	26.7	25.7	30.5	27.6	-15.6	24.6	0.0	14.1	12.2	17.0	27.1	34.7	-190.6	3.2	43.8	24.0
Average Growth	7.9	31.3	14.2	-0.7	-2.2	22.5	21.4	0.0	11.4	23.6	-3.8	5.9	5.3	20.5	26.7	53.3	5.8
Punjab																	
Shortfall	32.5	16.6	31.2	46.7	15.4	33.7	24.8	0.0	38.7	27.6	23.2	54.7	33.4	24.4	67.5	27.4	29.2
Average Growth	3.2	3.4	3.2	-4.4	11.7	11.4	-8.3	0.0	-1.4	19.8	7.3	-9.9	-4.9	9.0	29.4	6.7	2.3
Rajasthan																	
Shortfall	15.9	16.8	17.5	22.4	37.6	26.1	-37.4	0.0	20.0	7.0	3.9	30.8	18.7	28.4	12.5	4.4	22.4
Average Growth	-0.4	15.0	-22.9	1.5	-6.0	3.6	11.6	0.0	11.4	35.0	14.5	2.2	2.9	0.9	17.6	-13.2	0.3
Tamil Nadu																	
Shortfall	16.6	-35.1	8.8	24.2	31.5	-11.0	12.7	0.0	19.8	-19.9	-16.1	54.3	-7.1	8.0	-46.1	-99.2	17.4
Average Growth	23.1	13.3	23.9	29.9	3.4	28.5	8.5	0.0	18.5	20.8	14.0	25.3	0.6	39.8	210.2	2.7	12.0
Uttar Pradesh																	
Shortfall	-4.2	-59.5	-14.6	33.6	35.8	4.3	-11.7	-42.6	2.6	-31.1	0.1	3.9	-23.6	39.6	-10.9	-21.5	19.0
Average Growth	11.4	21.5	27.2	-2.6	6.5	33.3	14.7	47.2	19.8	27.9	30.5	1.9	12.0	38.7	148.5	95.6	9.1
West Bengal																	
Shortfall	49.3	37.3	66.3	61.6	49.9	59.1	44.9	28.3	40.1	46.3	16.5	54.5	38.5	42.7	44.0	41.0	48.9
Average Growth	5.9	9.2	-0.8	-6.0	-2.1	5.6	7.7	16.5	1.3	19.2	0.8	25.8	17.7	-9.1	-3.5	5.2	0.0

#. Included in Social Services.

Basic data source: Planning Commission.

Table 2.5

Shortfalls and Average Annual Growth in Real Plan Expenditure During the Seventh Plan (in 1984-85 prices)

(Per cent)

State/Item	Agri-culture	Rural Develop-ment	Irrigation & flood control	Energy	Indus-try and Minerals	Trans-port	Comm., info.& Brodcastg	Science & Techno-logy	Social Servi-ces	Educa-tion #	Medical & Public Health #	Sanitation & Water Supply #	Housing #	Urban Develop-ment #	Others	Total
Andhra Pradesh																
Shortfall	19.7	-41.8	18.9	24.1	17.9	-54.0	24.8	40.6	-0.6	-13.9	29.5	7.0	-17.6	-28.3	-125.1	6.3
Average Growth	3.9	9.2	-2.2	2.4	-10.6	-6.7	41.7	18.9	4.2	18.3	13.0	5.8	-0.6	-0.6	148.0	0.9
Bihar																
Shortfall	-30.3	-5.0	12.2	20.1	-17.0	3.7	-22.7	3.6	4.6	5.0	-8.6	13.8	-7.5	30.1	-272.0	2.3
Average Growth	8.5	9.1	-3.9	9.7	2.6	-2.8	22.1	49.6	6.9	26.2	11.6	-3.5	-17.8	-23.4	31.6	2.6
Gujarat																
Shortfall	9.5	-19.1	44.2	26.5	-38.2	18.1	36.2	79.4	32.1	-7.8	18.1	-49.6	31.6	51.4	47.7	28.5
Average Growth	1.4	6.7	5.3	2.7	3.0	-1.9	25.4	57.8	4.0	36.2	5.3	-3.0	6.3	7.7	7.1	2.7
Haryana																
Shortfall	30.5	-24.0	13.6	43.9	31.2	33.5	44.5	76.6	4.0	18.3	34.8	43.5	3.7	31.4	73.1	28.3
Average Growth	-1.2	7.8	-20.6	0.4	4.4	-2.8	-6.0	35.3	28.3	20.0	-0.3	-3.8	11.2	-3.0	23.9	0.9
Karnataka																
Shortfall	15.9	-50.6	12.0	16.7	7.6	24.6	34.3	14.8	11.2	14.6	22.2	34.0	0.8	29.4	17.8	11.0
Average Growth	4.7	15.2	4.5	-1.3	0.1	-11.5	-11.8	4.3	4.8	16.6	1.6	3.5	-7.1	13.6	21.8	1.0
Kerala																
Shortfall	23.8	13.0	25.3	21.0	13.6	-13.9	34.7	-4.6	9.9	21.9	14.1	-1.9	26.9	30.2	9.9	15.5
Average Growth	-2.4	-0.3	-6.0	9.5	1.2	1.6	9.5	-7.6	2.5	-1.9	3.5	3.8	4.1	-5.0	-6.0	0.2

State/Item	Agri-culture	Rural Develop-ment	Irrigation & flood control	Energy	Indus-try and Minerals	Trans-port	Comm., info.& Brodcastg	Science &Techno-logy	Social Servi-ces	Educa-tion #	Medical & Public Health #	Sanitation & Water Supply #	Housing #	Urban Develop-ment #	Others	Total
Madhya Pradesh																
Shortfall	1.1	5.0	28.3	31.6	-25.2	26.8	32.3	-45.2	-5.5	-87.4	0.2	22.8	32.9	-3.8	-597.3	18.4
Average Growth	12.0	9.4	1.6	9.4	5.2	2.6	19.6	15.4	10.1	22.5	10.9	0.3	0.6	-1.4	1169.1	8.5
Maharashtra																
Shortfall	20.3	-146.2	3.9	32.2	10.3	37.3	29.9	19.2	33.5	16.8	38.9	26.6	7.8	-26.5	-142.9	15.3
Average Growth	3.0	-7.5	-0.5	1.4	7.8	-2.6	10.4	41.9	7.4	35.4	12.3	-8.6	17.1	70.4	178.9	0.8
Orissa																
Shortfall	-22.9	-12.3	3.5	34.2	-43.8	1.0	-105.0	-31.8	-31.2	-21.6	-12.2	-24.8	10.9	-589.7	-88.0	-0.6
Average Growth	18.0	6.1	5.3	14.8	1.6	-1.0	24.7	5.6	11.8	21.2	11.5	10.3	-4.7	6.1	41.1	9.1
Punjab																
Shortfall	27.1	29.8	21.0	6.0	0.9	33.4	-52.5	38.0	33.4	27.3	50.3	41.8	27.5	7.4	-284.9	13.2
Average Growth	8.4	-3.5	-0.5	4.5	5.2	0.6	20.5	23.0	13.1	31.1	23.6	9.4	-4.1	4.6	207.6	7.9
Rajasthan																
Shortfall	9.4	1.7	29.7	13.3	39.1	25.6	19.5	72.7	6.6	-16.1	-21.6	25.3	21.9	58.9	-202.1	15.0
Average Growth	13.3	12.4	-2.5	7.9	13.5	5.2	-2.3	14.4	20.7	28.5	17.2	21.1	-2.7	22.3	241.6	9.1
Tamil Nadu																
Shortfall	-30.5	18.6	11.6	26.2	-32.9	-2.8	74.9	11.1	13.6	10.6	19.3	25.3	-19.5	-4.3	4.5	11.8
Average Growth	5.9	2.0	-9.5	-0.3	10.6	3.6	23.3	42.4	2.5	6.6	11.1	2.1	10.2	7.7	-1.0	1.6
Uttar Pradesh																
Shortfall	-12.9	-27.9	23.9	35.5	8.9	15.1	-6.8	-18.9	-6.0	-30.9	-19.8	9.6	-1.1	31.6	-149.6	14.0
Average Growth	15.4	13.6	-0.2	-7.8	-5.3	-4.4	20.5	-12.6	15.0	25.8	-0.9	23.6	27.1	24.2	4.0	1.5
West Bengal																
Shortfall	30.6	22.9	5.2	17.8	2.2	-8.1	-43.5	45.1	5.0	25.2	21.2	-26.9	10.3	-14.7	45.8	14.0
Average Growth	2.6	-2.8	4.2	12.7	9.2	2.8	-0.6	48.8	2.6	13.7	2.0	11.7	-18.1	-2.4	6.0	5.0

#. Included in social services.

Basic data source: Planning Commission.

Bihar, and Madhya Pradesh. Both Andhra Pradesh and Bihar show relatively small shortfalls overall, though growth rates are low, while Madhya Pradesh shows a large shortfall despite a high growth rate. In the case of Andhra Pradesh, the low shortfall probably reflects better judgement in fixing the plan size and/or genuine effort by the state. The case of Madhya Pradesh is clearly one of an overly ambitious plan size. In the case of Bihar, the anomaly is explained by the fact that there was a large increase in real plan expenditure in 1985-86 over the figure for 1984-85 (from Rs. 457 crore to Rs. 567 crore in 1979-80 prices); moreover, due to the large initial expenditure base the growth rate for the Seventh Plan period somewhat understates the real achievement. This incidentally explains the fact that the growth rate for the ten year period (as reported in table 2.3) is higher than the growth rates for both the sub-periods.

Despite inter-state variations, a common pattern is that in the Sixth Plan heavy shortfalls occurred in five sectors, namely, agriculture, irrigation and flood control, energy, transport and sanitation and water supply, in most states. Since these five sectors generally had a combined weight of more than 75 per cent in the total plan outlay, shortfalls under these heads largely account for the overall gap between targets and actual expenditures. Though of a much smaller order, shortfalls in these sectors accounted for the bulk of the overall shortfall in plan outlays in the Seventh Plan also.

It is worth noting that shortfalls were relatively small in social services in nearly all states, even though the allocations to this broad category were quite substantial in absolute as well as relative terms. Several states spent almost as much under social services as under energy. This shows the tendency on the part of the states to put in more under the heads where revenue expenditure predominates as compared to those which involve heavy capital expenditure. For the fourteen states taken together, the share of the revenue component in plan expenditure financed through the budget went up from 42 per cent in the Sixth Plan to 51 per cent in the Seventh. The share of capital expenditure was consistently highest in Punjab (70 per cent). At the other extreme is Tamil Nadu (27 per cent in the Seventh Plan -- see Table 2.6). As the table shows, the share of capital expenditure in nonplan expenditure has been much lower and actually falling.

It may not be out of place to note that an NIPFP study on public expenditure trends in India during 1970-85, based on the economic and functional classification of the budget, shows that growth of capital expenditure at the state level suffered a decline in the first half of the 1980s, sharply contrasting with the acceleration in revenue

Table 2.6

Revenue and Capital Expenditure of State Governments as Percentages of Total Expenditure

States	*Plan Expenditure*				*Non-Plan Expenditure*			
	Sixth Plan		*Seventh Plan*		*Sixth Plan*		*Seventh Plan*	
	Revenue Expenditure	*Capital Expenditure*	*Revenue Expenditure*	*Capital Expenditure*	*Revenue Expenditure*	*Capital Expenditure*	*Revenue Expenditure*	*Capital Expenditure*
1. Andhra Pradesh	50.05	49.95	57.71	42.29	89.34	10.66	91.21	8.79
2. Bihar	42.03	57.97	51.92	48.08	82.51	17.49	85.46	13.80
3. Gujarat	34.15	65.85	47.89	52.11	86.63	13.37	87.94	12.06
4. Haryana	36.69	63.31	45.52	54.48	83.21	16.79	87.21	12.79
5. Karnataka	45.95	54.05	53.69	46.31	82.95	17.05	86.45	13.55
6. Kerala	45.26	54.74	48.86	51.14	87.21	12.79	87.98	12.02
7. Maharashtra	35.13	64.87	48.81	51.19	91.71	8.29	91.89	8.11
8. Madhya Pradesh	41.22	58.78	53.09	46.91	86.77	13.23	90.95	9.05
9. Orissa	47.28	52.72	52.32	47.68	83.87	16.13	86.93	13.07
10. Punjab	30.45	69.55	28.28	71.72	74.85	25.15	86.26	13.74
11. Rajasthan	35.27	64.73	52.02	47.98	81.33	18.67	85.21	14.79
12. Tamil Nadu	63.15	36.85	73.27	26.73	74.37	25.63	81.94	18.06
13. Uttar Pradesh	37.07	62.93	46.63	53.37	86.52	13.48	89.63	10.37
14. West Bengal	55.39	44.61	52.82	47.18	83.00	17.00	89.65	10.35
All 14 States	42.05	57.95	51.08	48.92	84.42	15.58	88.26	11.74

Basic data source: *Reserve Bank of India Bulletin*, various issues.

expenditure. In real terms, capital expenditure of the states grew at only 3.9 per cent per annum between 1980-81 and 1985-86, while revenue expenditure grew at 8.8 per cent per annum [Rao and Tulasidhar (1991)]. At the central level, on the other hand, growth of capital expenditure had picked up from negative growth in real terms of 8.75 per cent per annum in the 1970s to 10 per cent in the first half

Figure 2.1 Plan Expenditure on Energy and other Heads
(Rs. 10 crores)

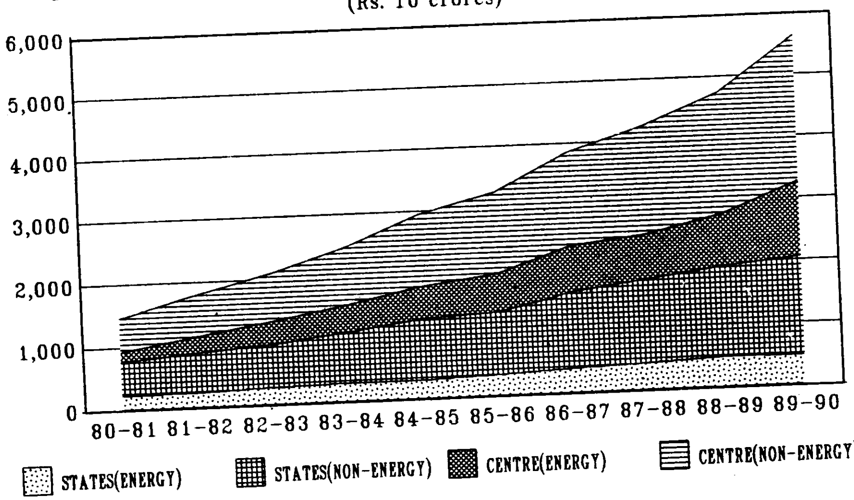
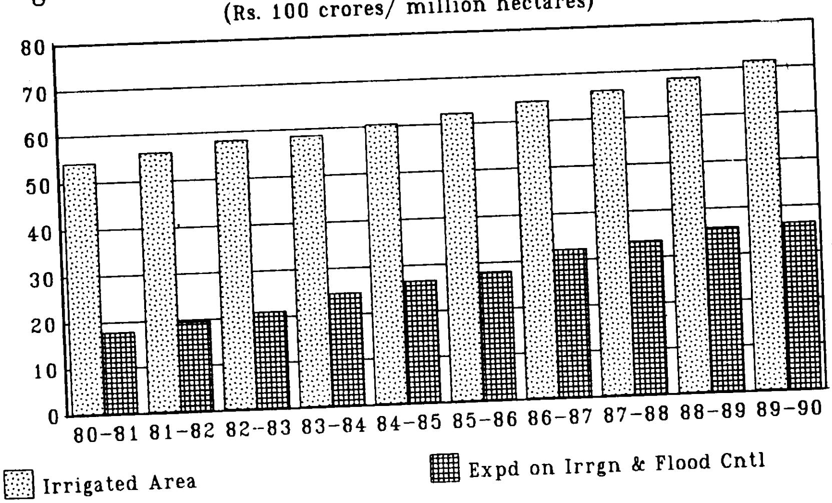


Figure 2.2 Irrigation: Plan Expenditure and Irrigated Area
(Rs. 100 crores/ million hectares)



of the 1980s. One possible reason for this shift could be the gradual centralization of investment in power and other major projects. Central agencies like the National Thermal Power Corporation (NTPC) and National Hydro-electric Power Corporation (NHPC) have been involved increasingly in setting up large power facilities. However, the share of plan expenditure on energy (centre and states combined) seems to be decreasing (Figure 2.1), reflecting perhaps a general tendency to go in for projects and programmes which yield quick results, to the neglect of crucial areas like power.

Shortfalls in outlays on irrigation (and consequent stagnation in growth of irrigation potential created, depicted in Figure 2.2) cannot, however, be explained by intrusion on the part of the central government. Irrigation is primarily in the states' domain, and if they have large shortfalls in expenditure, the reason must lie either in resource constraints or in diversion of resources to other heads. Resource constraints do not fully explain why the states prefer to divert funds to the revenue component of the Plan. Nevertheless, there can be no denying that paucity of resources constitutes a major impediment to plan financing by the states. A look at the financing pattern of the plans as originally envisaged and as it turned out in the end will bear this out and will also help identify the factors responsible.

FINANCING PATTERN

Table 2.7 shows the original and latest estimates of the pattern of financing of the Sixth and the Seventh Five Year Plans by all states together. It is immediately apparent that two of the listed sources of funds have caused the greatest difficulties in financing plans -- balance from current revenue (BCR) and contribution of public sector enterprises (PSEs). The latter caused a huge drain on plan resources during the Sixth Plan; as against the originally estimated negative contribution of Rs 51.6 crore, the price adjusted latest estimates amounted to a negative contribution of Rs 4,620 crore. The shortfall in BCR during the Sixth Plan was 34 per cent; because this was expected to be the major source of funds, the absolute impact of this shortfall was the highest.

During the Seventh Plan, the drain caused by contribution of PSEs was less both in percentage and absolute terms. But the shortfall in BCR actually rose in percentage terms; in absolute terms, instead of an expected contribution of Rs 28,974 crore only Rs 17,368 crore was managed. That the overall plan resources shortfall was only around 8

Table 2.7

Financing Pattern of Plan (Sixth and Seventh) - All States

(Rs. crore)

Items	*6th Plan Estimates*	*6th Plan Latest Estimates[a]*	*Shortfall (Per Cent)*	*7th Plan Estimates*	*7th Plan Latest Estimates[b]*	*Shortfall (Per Cent)*
1. Balance from Current Revenues	22312	14826	33.5	28974	17368	40.1
2. Contribution of PSEs	-516	-4620	795.4	-1969	-3757	90.8
3. Market Borrowing incl. those by PSEs	4500	3406	24.3	9942	9242	7.0
4. Small Savings and Provident Funds	6393	5901	7.7	16566	19070	-15.1
5. Term Loans from Financial Institutions	2722	1887	30.7	4639	4445	4.2
6. Misc. Capital Receipts (net)	-2161	-2012	-6.9	-7191	-5113	-28.9
7. Budgetary Deficit	0	3497	-	-	-	-
8. Total Resources	33250	22885	31.2	50961	41255	19.1
9. Central Assistance to States	15350	13690	10.8	29737	33264	-11.9
10. Resources Available for the Plan	48600	36575	24.7	80698	74519	7.7

Note: Figures given in this table may not tally with those in Table 2.2 as the present table is concerned with "resources" while 2.2 shows the "expenditures", the difference arising from a convention followed in the Planning Commission whereby actual expenditures are determined after taking note of diversions.

a. Calculated by adding up the annual latest estimates, deflated to 1979-80 prices using the wholesale price index.

b. Calculated by adding up the annual latest estimates, deflated to 1984-85 prices using the wholesale price index.

Basic data source: Ministry of Finance, *Indian Economic Statistics (Public Finance)*, various issues and Reserve Bank of India (1991), *Annual Report*.

per cent was due to the fact that small savings and provident funds raised more resources, miscellaneous capital expenditures were lower, and central assistance to states was higher than originally estimated. The obvious problem areas in plan financing thus are BCR and the contribution of PSEs. These are discussed below in greater detail.

Tables 2.8 and 2.9 give the details of the financing pattern for the Sixth and Seventh Plans for the fourteen selected states. A noteworthy feature mentioned earlier is that in all the states, aggregate resources fell short of the stipulated plan targets by substantial margins (see the last column of Table 2.8) for the Sixth Plan. The largest shortfall was in West Bengal (67 per cent). Bihar had a shortfall of 44 per cent, Haryana 36, Kerala 51, Orissa 28, Punjab 30, Rajasthan 23 and Uttar Pradesh 28 per cent. The overall shortfalls do not reveal any clear pattern with respect to plan size or per capita income when all eleven states for which we have data are considered. What seems to have critically affected plan financing in different states is the inadequate generation of public saving, that is, surpluses over revenue expenditure in the budget and the contribution of PSEs.

In fact, of the various sources of funds, BCR[3] and contributions of PSEs recorded large shortfalls in most states. The shortfall in BCR was invariably large while that in PSE contribution was small in only one state (Karnataka). In almost all states, the shortfall in BCR was the single largest factor responsible for the shortfall in aggregate resources. In Haryana, Punjab, and Rajasthan the overall shortfall was almost equal to that in BCR, while in West Bengal, out of a total shortfall of Rs. 2,345 crore about Rs. 1,500 crore, or 64 per cent, was attributable to the deficiency in BCR. In Bihar, all categories suffered from substantial shortfalls, but out of an aggregate shortfall of Rs. 1,422 crore, about Rs. 450 crore was on account of inadequate BCR alone. In relation to the targets, shortfalls in PSE contributions ran high, in some cases as high as 3,200 per cent (Uttar Pradesh), but it is the poor outcomes with respect to BCRs which contributed most to the overall resource constraint in the Sixth Plan. The shortfall in PSE contributions was significant in absolute terms in Bihar, Punjab, Madhya Pradesh, Rajasthan, Uttar Pradesh, and West Bengal, but small in relation to plan size.

Receipts from small savings mostly reached the anticipated levels or fell short of targets by a small margin. Provident funds exhibited a

3. Since a part of the plan resources is spent on current expenditures (e.g., salaries, etc. and other expenses incurred for running schools or health centres set up in the course of a given plan), BCR is not identical with saving of government administration.

Table 2.8

Shortfall in Resources for the States: Sixth Plan

(Rs. crore)

State/Plan	*Balance from Current Revenue*	*Contr. of Public Enter-prises*	*Small Savings*	*Provident Funds*	*Misc. Capital Receipts*	*Adjustment of over-drafts etc.*	*Market Borrowing and Nego-tiated Loans*	*Total State Resou-rces*	*Central Assistance*	*Total Resources*
Andhra Pradesh										
Plan Estimate	1500.8	203.4	137.1	82.4	-268.3	43.8	495.0	2194.3	905.7	3100.0
Latest Estimates	931.7	-38.2	149.0	77.3	-196.8	166.5	284.6	1374.2	785.8	2160.0
Shortfall(%)	37.9	118.8	-8.7	6.3	26.6	-280.3	42.5	37.4	13.2	30.3
Bihar										
Plan Estimate	1078.2	-45.1	359.7	187.1	-420.1	228.4	576.3	1964.5	1260.5	3225.0
Latest Estimates	637.3	-369.4	349.0	126.1	-616.1	165.7	443.2	735.7	1066.9	1802.6
Shortfall(%)	40.9	719.1	3.0	32.6	46.7	27.4	23.1	62.6	15.4	44.1
Gujarat										
Plan Estimate	1931.1	-85.0	370.5	69.9	27.0	330.4	436.5	3080.3	599.7	3680.2
Latest Estimates	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Shortfall(%)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Haryana										
Plan Estimate	1143.0	23.7	106.9	93.0	-10.6	-10.9	220.2	1565.2	234.9	1800.0
Latest Estimates	594.9	-88.4	98.8	77.2	7.8	52.6	166.6	909.4	237.6	1147.0
Shortfall(%)	48.0	472.9	7.5	17.1	-173.0	-580.7	24.3	41.9	-1.2	36.3

State/Plan	*Balance from Current Revenue*	*Contr. of Public Enter-prises*	*Small Savings*	*Provident Funds*	*Misc. Capital Receipts*	*Adjustment of over-drafts etc.*	*Market Borrowing and Nego-tiated Loans*	*Total State Resou-rces*	*Central Assistance*	*Total Resources*
Karnataka										
Plan Estimate	1450.4	-236.1	171.5	116.5	-242.4	112.9	352.9	1725.8	539.2	2265.0
Latest Estimates	1104.4	-257.9	172.0	95.4	-193.7	160.5	229.2	1309.8	416.4	1726.2
Shortfall(%)	23.9	-9.3	-0.3	18.1	20.1	-42.2	35.1	24.1	22.8	23.8
Kerala										
Plan Estimate	640.1	-144.9	47.0	147.3	-119.5	233.7	316.2	1119.8	430.2	2265.0
Latest Estimates	345.2	-59.1	47.6	154.2	-73.4	183.5	182.4	780.4	326.9	1107.3
Shortfall(%)	46.1	-59.2	-1.3	-4.7	38.6	21.5	42.3	30.3	24.0	51.1
Madhya Pradesh										
Plan Estimate	1742.4	45.8	177.1	331.6	-79.7	48.3	521.2	2786.6	1013.3	3800.0
Latest Estimates	1497.3	-296.5	133.2	132.5	-285.3	235.9	342.0	1758.9	786.5	2545.5
Shortfall(%)	14.1	747.2	24.8	60.1	-257.8	-388.8	34.4	36.9	22.4	33.0
Maharashtra										
Plan Estimate	3154.2	559.1	824.2	292.4	-232.2	155.9	545.6	5299.1	875.9	6175.0
Latest Estimates	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Shortfall(%)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Orissa										
Plan Estimate	398.1	-43.6	82.4	80.0	-146.8	140.3	330.1	840.5	659.5	1500.0
Latest Estimates	299.0	-90.8	52.4	77.1	-99.1	55.8	169.9	464.2	525.3	1086.2
Shortfall(%)	24.9	-108.3	36.4	3.6	32.4	60.2	48.5	44.8	20.4	27.6

State/Plan	*Balance from Current Revenue*	*Contr. of Public Enter-prises*	*Small Savings*	*Provident Funds*	*Misc. Capital Receipts*	*Adjustment of over-drafts etc.*	*Market Borrowing and Nego-tiated Loans*	*Total State Resou-rces*	*Central Assistance*	*Total Resources*
Punjab										
Plan Estimate	1134.8	-16.2	175.0	58.3	94.0	-16.6	227.7	1657.0	300.0	1957.0
Latest Estimates	565.4	-198.4	132.5	44.7	384.7	-2.9	198.7	1124.7	249.8	1374.5
Shortfall(%)	50.2	1124.9	24.3	23.4	309.3	-82.7	12.8	32.1	16.7	29.8
Rajasthan										
Plan Estimate	1027.0	-159.3	114.2	99.9	-114.1	-34.0	464.9	1398.7	626.3	2025.0
Latest Estimates	503.5	-238.3	144.0	90.0	-43.6	20.5	401.8	877.8	688.5	1566.2
Shortfall(%)	51.0	49.7	-26.2	10.0	-61.8	-160.2	13.6	37.2	-9.9	22.7
Tamil Nadu										
Plan Estimate	1784.0	-221.8	241.8	87.7	-101.4	245.6	449.3	2485.2	664.8	3150.0
Latest Estimates	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Shortfall(%)	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
Uttar Pradesh										
Plan Estimate	1957.3	-32.2	483.4	160.3	-217.8	494.5	1075.5	3921.0	1929.0	5850.0
Latest Estimates	1399.6	-470.4	441.5	109.4	38.8	401.8	673.7	2594.3	1621.6	4215.9
Shortfall(%)	28.5	-1359.4	8.7	31.8	117.8	18.8	37.4	33.8	15.9	27.9
West Bengal										
Plan Estimate	1619.8	-209.1	842.0	100.7	-151.7	-23.8	641.8	2819.7	680.3	3500.0
Latest Estimates	115.9	-360.8	669.5	110.0	157.5	-611.3	445.2	526.0	629.4	1155.5
Shortfall(%)	92.8	72.6	20.5	-9.3	-203.8	2473.7	30.6	81.4	7.5	67.0

Note: The annual figures for latest estimates are deflated to the 1979-80 prices before summing for the plan period.

Table 2.9

Shortfall in Resources for the States: Seventh Plan

(Rs. crore)

State/Plan	Balance from Current Revenue	Contr. of Public Enter-prises	Small Savings	Provident Funds	Misc. Capital Receipts	Adjustment of over-drafts etc.	Market Borrowing and Nego-tiated Loans	Total State Resou-rces	Central Assistance	Total Resources
Andhra Pradesh										
Plan Estimate	1818.7	404.9	671.6	289.8	-397.8	-230.0	1022.6	3579.7	1620.3	5200.0
Latest Estimates	1371.6	447.5	663.2	323.0	-209.7	338.7	N.A.	N.A.	N.A.	N.A.
Shortfall(%)	24.6	-10.5	1.2	-11.5	-47.3	-247.3	N.A.	N.A.	N.A.	N.A.
Bihar										
Plan Estimate	1386.3	-294.8	1007.4	434.3	-922.1	-46.7	1245.7	2810.0	2290.0	5100.0
Latest Estimates	1301.6	-585.4	1023.2	654.2	-1045.7	14.5	N.A.	N.A.	N.A.	N.A.
Shortfall(%)	6.1	98.6	-1.6	-50.6	13.4	-131.0	N.A.	N.A.	N.A.	N.A.
Gujarat										
Plan Estimate	2507.7	174.2	1220.0	109.7	152.8	-6.8	790.6	4948.3	1051.7	6000.0
Latest Estimates	1219.7	-199.2	1598.7	126.8	604.8	56.4	N.A.	N.A.	N.A.	N.A.
Shortfall(%)	51.4	214.4	-31.0	-15.6	-295.7	-934.7	N.A.	N.A.	N.A.	N.A.
Haryana										
Plan Estimate	1883.5	55.0	235.1	151.5	-138.3	-83.3	407.4	2511.0	389.0	2900.0
Latest Estimates	677.9	-395.5	447.9	263.0	-193.9	70.1	N.A.	N.A.	N.A.	N.A.
Shortfall(%)	64.0	819.1	-90.5	-73.6	40.2	-184.2	N.A.	N.A.	N.A.	N.A.

State/Plan	Balance from Current Revenue	Contr. of Public Enter-prises	Small Savings	Provident Funds	Misc. Capital Receipts	Adjustment of over-drafts etc.	Market Borrowing and Nego-tiated Loans	Total State Resou-rces	Central Assistance	Total Resources
Karnataka										
Plan Estimate	2974.3	-1179.1	493.2	285.4	-385.4	-245.9	683.7	2626.3	873.7	3500.0
Latest Estimates	1360.8	-464.4	722.3	363.5	-182.6	247.7	N.A.	N.A.	N.A.	N.A.
Shortfall(%)	54.3	-60.6	-46.5	-27.4	-52.6	-200.8	N.A.	N.A.	N.A.	N.A.
Kerala										
Plan Estimate	263.4	-52.7	141.0	332.6	-308.3	-174.5	761.5	963.1	1136.9	2100.0
Latest Estimates	-341.3	0.7	320.2	433.8	-242.7	150.5	N.A.	N.A.	N.A.	N.A.
Shortfall(%)	229.5	-101.3	-127.1	-30.4	-21.3	-186.2	N.A.	N.A.	N.A.	N.A.
Madhya Pradesh										
Plan Estimate	2108.3	658.9	402.9	1075.6	-189.7	-30.5	1095.4	5120.9	1879.1	7000.0
Latest Estimates	1922.0	316.9	536.4	768.4	-297.3	136.6	N.A.	N.A.	N.A.	N.A.
Shortfall(%)	8.8	51.9	-33.1	28.6	56.7	-548.2	N.A.	N.A.	N.A.	N.A.
Maharashtra										
Plan Estimate	5903.3	-429.1	2283.0	610.1	-694.9	0.0	1051.0	8723.3	1776.7	10500.0
Latest Estimates	4050.7	357.9	2526.1	507.4	-808.0	449.4	N.A.	N.A.	N.A.	N.A.
Shortfall(%)	31.4	-183.4	-10.7	16.8	16.3	-	N.A.	N.A.	N.A.	N.A.
Orissa										
Plan Estimate	760.4	73.8	213.7	183.2	-297.0	-50.1	672.3	1556.2	1143.8	2700.0
Latest Estimates	329.8	-76.1	251.2	343.5	-106.6	-29.4	N.A.	N.A.	N.A.	N.A.
Shortfall(%)	56.6	203.2	-17.6	-87.6	-64.1	-41.4	N.A.	N.A.	N.A.	N.A.

State/Plan	Balance from Current Revenue	Contr. of Public Enterprises	Small Savings	Provident Funds	Misc. Capital Receipts	Adjustment of overdrafts etc.	Market Borrowing and Negotiated Loans	Total State Resources	Central Assistance	Total Resources
Punjab										
Plan Estimate	2079.6	-228.6	310.3	77.9	264.0	-78.2	393.0	2818.1	466.9	3285.0
Latest Estimates	-156.9	-248.0	757.4	274.7	-512.4	179.6	N.A.	N.A.	N.A.	N.A.
Shortfall(%)	107.6	8.5	-144.1	-252.6	294.1	-329.7	N.A.	N.A.	N.A.	N.A.
Rajasthan										
Plan Estimate	719.6	-402.2	503.6	397.9	-247.2	0.0	888.4	1860.2	1139.8	3000.0
Latest Estimates	-6.0	-9.0	511.2	579.5	-620.1	-22.8	N.A.	N.A.	N.A.	N.A.
Shortfall(%)	100.8	-97.8	-1.5	-45.6	150.9	-	N.A.	N.A.	N.A.	N.A.
Tamil Nadu										
Plan Estimate	3097.9	-320.6	436.5	145.9	-140.9	-19.6	1112.9	4312.1	1437.9	5750.0
Latest Estimates	1877.3	-581.2	487.6	402.2	-160.9	-28.2	N.A.	N.A.	N.A.	N.A.
Shortfall(%)	39.4	81.3	-11.7	-175.7	14.1	43.5	N.A.	N.A.	N.A.	N.A.
Uttar Pradesh										
Plan Estimate	3740.8	-10.9	1343.1	261.9	-274.6	-372.4	2151.5	6839.5	3607.6	10447.0
Latest Estimates	597.5	-365.7	2109.9	1074.1	-59.3	326.6	N.A.	N.A.	N.A.	N.A.
Shortfall(%)	84.0	3267.0	-57.1	-310.1	-78.4	-187.7	N.A.	N.A.	N.A.	N.A.
West Bengal										
Plan Estimate	844.1	-111.5	1749.0	370.0	-885.4	-228.9	1173.8	2911.1	1213.9	4125.0
Latest Estimates	139.3	-113.0	1640.7	289.0	-1109.8	328.8	N.A.	N.A.	N.A.	N.A.
Shortfall(%)	83.5	1.3	6.2	21.9	25.3	-243.7	N.A.	N.A.	N.A.	N.A.

Note: The annual figures for latest estimates are deflated to the 1984-85 prices before summing for the plan period.

similar pattern, though in a few states the shortfalls were larger than in small savings. Miscellaneous capital receipts (generally expected to be negative) and other budgetary resources (adjustment of opening/ closing balance and overdrafts) showed wide variation. An important source of funds, market borrowings and negotiated loans, showed shortfalls in all states, varying between 12 and 50 per cent. What is surprising is that even central assistance varied, ranging from a shortfall of 24 per cent in Kerala to an excess of 9 per cent in Rajasthan. While the uniformly large shortfalls in real aggregate resources in all states point to some serious weaknesses in projections or estimates made at the time of formulating the plans, at least central assistance could perhaps have been estimated on a firmer basis, and errors should not have occurred in both directions, as a large part of such assistance flows through the Planning Commission. Thus the large aggregate shortfalls in all states probably reflect overestimation of resources on the part of the Planning Commission as much as failure of the states to fulfill promises made to the Planning Commission at the time of setting the plan targets. That at least appears to have been the case in respect of the Sixth Plan.

Table 2.9 shows the planned and actual financing pattern of the Seventh Plan. In the absence of complete data, the reported figures refer to the states' own sources of funds excluding market borrowings and negotiated loans. The data on all states together reported in Table 2.7 indicate that major shortfalls did not occur in any of the excluded sources of funds but only in states' own resources. Hence the partial coverage of the data does not present any problem in locating the sources of shortfalls. While during the Sixth Plan overall shortfalls were universal, in financing the Seventh Plan several states succeeded in meeting the overall target set for states' own resources for the plan in real terms.

Once again, for the states as a whole, shortfalls were caused mainly by deficiencies in two categories, BCR and the contribution of PSEs. With the exception of Bihar and Madhya Pradesh, in most cases shortfalls in BCR accounted for the largest part of the shortfall in states' own resources. In Punjab, the shortfall in BCR alone was almost equal to the state's own aggregate resources estimated at the beginning of the plan. In Rajasthan too, but for excess accrual from other sources, the state's own resources would have reached only about 25 per cent of the plan estimate. Larger shortfalls in BCR were reported in Haryana, Punjab, Karnataka, Kerala, Uttar Pradesh, and West Bengal. Punjab and Kerala had a negative BCR. Despite large shortfalls in BCR, both Punjab and Haryana had the highest per-capita plan outlay for the Seventh Plan.[4] In Bihar, the shortfall in BCR was small, but that in PSE contributions was quite large. West Bengal appears to have made up a large shortfall in BCR (and smaller shortfalls in other items) with increased overdrafts. Accruals to State Provident Funds and small savings also proved helpful in all states. Evidently, states are financing an increasing part of their plans with borrowing, leading to a growing burden of debt. Financing of development through public sector plans cannot possibly be sustained unless the budgets generate surpluses over nonplan current expenditure, that is, a substantial positive BCR.

The upshot of the above analysis is that one must look into BCR and contribution of PSEs further to find major problem areas in plan financing. An important factor affecting the availability of resources for the plan is the losses of PSEs. In both plan periods, these losses turned out to be much larger thar assumed in the formulation of the plans. However, in absolute terms these figures are much less significant than the shortfalls in BCRs, though their role in determining the availability of resources for the plans should not be belittled, for the simple reason that poor returns from PSEs affect the revenue of the states (interest and dividends from PSEs form an important component of non-tax revenues) and their losses constitute a drain on the budget. That the poor running of PSEs can have a bearing on resource constraints for state plans is suggested also by the fact that the two states with the lowest per-capita plan outlay (Bihar and West Bengal) figure at the bottom of the rankings in the performance of state electricity boards and state road transport undertakings, the two major areas of investment in PSEs by the states. According to a recent Planning Commission study, in physical parameters and compounded grading, West Bengal scored 37 and Bihar 38, whereas Maharashtra topped with 77, followed by Gujarat (64), Punjab (61), and Madhya Pradesh (59). In the rating of state road transport undertakings, Calcutta State Transport Corporation ranked last with 12 in terms of percentage of marks in overall performance, followed by Bihar (13) and South Bengal STC (15). The three undertakings at the top were Haryana (96), Tamil Nadu (89), and Gujarat (82). Ranking in financial performance, however, differs, presumably because of tariff policies. But since poor financial performance of PSEs ultimately shows up in adverse consequences for the budget, it is not surprising that it is BCR which plays a decisive

4. Data from state government sources indicate that the shortfalls in own sources of funds were made up largely with increased transfers from the centre.

role in determining levels of per-capita plan expenditure. Chapter 4 in this volume looks into the returns from public production and supply of social and economic services while discussing subsidies in the overall context of nontax revenues; we go into further details of BCR to find out what exactly has gone wrong. BCR by definition is current revenue minus nonplan current expenditure. Obviously, we should look into various components of both current revenue and current expenditure to identify factors responsible for shortfalls. Since nontax revenues are analysed in Chapter 4, we look into other factors that determine BCR in the next section.

BUDGETARY TRENDS

When formulating the financial part of a Five Year Plan, the balance from current revenues (BCR) is arrived at after projecting revenue receipts at existing rates of taxation and user charges and nonplan revenue expenditures for a given plan period. Similarly, the contribution of PSEs is worked out by projecting their surpluses or losses at existing tariffs/prices of their products or services. Similar projections are made for other categories of receipts. If the aggregate resources so derived fall short of the estimated requirements to meet the physical targets set in the plan, additional resources are sought to be mobilised (ARM) through various measures like upward revision of tax rates and of tariffs/prices of the products of PSEs or improvements in efficiency. For a true picture of what caused the shortfalls in BCRs and in the contribution of PSEs in the Sixth and Seventh Plans, it is necessary to look behind BCR and see to what extent actuals diverged from projections both on the revenue and on the expenditure side, and similarly for ARM measures. It would be even more salutary to look at projections of each of the major heads of revenue and expenditure and compare them with the actuals.

Unfortunately, data are not available in sufficient disaggregation to pinpoint precisely what went wrong in the estimates relied upon in formulating the financial side of the plans. Another complication arises from the fact that the revenue effect of ARM measures is extremely difficult to quantify, as actual revenue realisations (and additional profit generation or reduction in losses in the case of PSEs) are determined by both the efficiency in collecting taxes, etc. at existing rates (tariffs) and the result of ARM effort. Hence it is more realistic to take the BCR and ARM heads together. These two heads have accordingly been merged in Tables 2.7, 2.8, and 2.9. The main problem in investigating the sources of weakness in plan financing,

Table 2.10

**Budgetary Aggregates of All States
(Sixth and Seventh Plan)**

(Rs. crore)

Descriptions	*Average (80-85)*	*Average (85-90)*
1. Total Revenue Receipts	21462.6	44553.8
a. Tax Revenue	14178.6	29533.3
as per cent of 1	66.1	66.3
i. Own Tax Revenue	9469.9	19721.4
as per cent of a.	66.8	66.8
ii. Share of Central Taxes	4708.7	9811.9
b. Non-Tax Revenue	7283.9	15020.4
as per cent of 1	33.9	33.7
i. Own Non-Tax Revenue	3767.0	6846.6
as per cent of 1	17.6	15.4
ii. Grants from centre	3517.0	8173.9
as per cent of 1	16.4	18.4
2. Total Revenue Expenditure	20854.5	45884.2
3. Surplus/Deficit on Rev. A/c.	608.0	-1330.4
as per cent of 1	2.8	-3.0
as per cent of 2	2.9	-2.9
4. Capital Receipts	7760.3	15832.2
i. Loans from the Centre	4274.4	9344.7
as per cent of 4	55.1	59.0
as per cent of 5	46.8	65.7
5. Capital Account Expenditure	9139.9	14223.0
i. Capital Expenditure	3939.3	6654.5
ii. Loans and Advances	2849.1	4220.9
6. Surplus/Deficit on Cap. A/c	-1379.6	1448.3
7. Remittances(Net)	-175.7	-42.9
8. Overall Surplus/Deficit(3+6+7)	-947.3	74.9
Financed by:		
a. Incr./decre. in cash bal.	-619.8	-396.8
b. Withdrawals from/Addt. to cash	-92.8	220.8
c. Incr./decre. in ways & means adv.	-234.6	250.8

Source: Reserve Bank of India Bulletin, various issues.

however, lies in the paucity of disaggregated information on revenue, expenditure, and ARM. In the absence of such data, one can make an overall assessment of state finances in relation to plans only by looking at the revenue and expenditure sides, their trends over time, and inter-state comparisons. This is what is attempted here.

Annual averages of total revenue receipts of all the 14 states combined, with a broad breakup under total tax revenue, nontax revenue, total revenue expenditure and capital receipts together with some further disaggregation under own tax revenue and share of central taxes and grants, are set out in Table 2.10. A striking feature of state finances that emerges from the figures in the table is that although during the Sixth Plan there were large shortfalls in BCR in almost all fourteen states, the revenue or current budgets did not have an aggregate deficit considering the states together. Evidently, much larger surpluses over nonplan revenue expenditure than could be achieved had been stipulated as targets while drawing up the plans. In fact, in the aggregate state finances were still following the prudent course of generating surpluses in the revenue budget to partly finance capital expenditures. In the Seventh Plan, although the overall shortfalls were lower, all the states together had deficits in their current account. This resulted in a reversal of the flow of funds, from the capital budget to the revenue budget. The financing of the budgets shows the asset situation: while the Sixth Plan period saw an accumulation of assets, the Seventh Plan period witnessed a running down of the same. The risks involved in financing revenue expenditure from capital receipts or by running down assets hardly need to be stressed. Unless even revenue expenditures are expected to yield some return (socially productive consumption expenditures), future expenditures to discharge liabilities incurred or to reaccumulate assets run down in the current period, cannot be met easily.

Total revenue receipts and revenue expenditures, along with the surplus or deficit on current account, all as proportions of respective SDP (at comparable prices), are reported in Table 2.11. The revenue surplus of the fourteen states as a whole in the Sixth Plan stood at 0.4 per cent of SDP, while in the Seventh Plan there was a deficit of 0.4 per cent. There was, of course, considerable variation across states. In the Sixth Plan, the revenue surplus ranged from almost two per cent of SDP in Madhya Pradesh to less than 0.1 per cent in Orissa and a deficit of 1.6 per cent in West Bengal. During the Seventh Plan, while there was a deficit for all the states combined, two states had surpluses (Bihar 1.8 per cent and Haryana 1.3 per cent).

It needs to be stressed again that there is no one-to-one

Table 2.11

Total Revenue Receipts, Expenditure and Surplus/Deficit in Revenue Budget of States As Proportion of SDP

(Percentages)

States	As Per Cent of S D P						Planwise Compound Growth rate*			
	Total revenue receipts		Total revenue expenditure		Surplus/Deficit on revenue account		Total revenue receipts		Total revenue expenditure	
	6th Plan	7th Plan	6th Plan	7th Plan	6th Plan	7th Plan	6th Plan	7th Plan	6th Plan	7th Plan
1	2	3	4	5	6	7	8	9	10	11
1. Andhra Pradesh	17.33	21.18	17.03	21.42	0.12	-0.20	12.65	10.19	16.23	11.82
2. Bihar	16.15	18.75	15.72	16.86	0.46	1.84	12.67	10.30	12.69	13.46
3. Gujarat	14.75	17.42	13.58	18.83	1.10	-1.37	11.54	13.10	13.50	13.04
4. Haryana	15.70	18.32	14.32	17.11	1.32	1.07	11.44	12.36	13.68	15.81
5. Karnataka	16.81	18.84	16.14	19.14	0.49	-0.30	12.78	11.18	16.05	10.70
6. Kerala	18.63	21.21	18.43	23.13	0.10	-1.95	11.93	9.71	11.27	12.24

1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*
7. Maharashtra	14.83	16.92	14.39	17.33	0.36	-0.39	12.47	11.73	15.14	11.81
8. Madhya Pradesh	19.17	20.72	17.09	20.81	1.99	-0.18	9.84	12.40	11.28	12.66
9. Orissa	18.01	18.91	17.79	19.87	0.06	-0.99	5.78	15.04	10.66	15.21
10. Punjab	12.93	13.43	12.11	14.19	0.78	-0.92	10.42	10.13	11.37	13.44
11. Rajasthan	17.83	21.26	17.26	22.89	0.44	-1.71	10.27	12.14	13.64	12.85
12. Tamil Nadu	18.22	18.12	17.31	18.35	0.81	-0.39	11.72	8.92	13.92	13.25
13. Uttar Pradesh	14.31	16.31	13.61	16.52	0.54	-0.31	10.62	10.30	13.92	15.80
14. West Bengal	12.33	14.87	13.84	15.32	-1.64	-0.48	10.25	9.86	14.04	13.34
15. All States	15.77	17.88	15.23	18.20	0.43	-0.37	11.29	11.02	13.79	13.12

Note: * Point to point.
Basic data source: Reserve Bank of India Bulletin, various issues.

correspondence between surplus and/or deficit in the revenue account and shortfalls in BCR, since the surplus in the revenue budget and balance from current revenue are not identical, the difference arising from the fact that in the former, the surplus reflects the excess of current revenue over total current expenditure while the latter is the excess of revenue receipts over nonplan revenue expenditure. This is brought out dramatically by the case of Haryana, where the revenue budget had a surplus of 1.3 per cent of SDP but there was a shortfall of 64 per cent in BCR in the Seventh Plan. Even so, the sources of deficiency in BCR lay primarily in the surplus/deficit in the revenue account of the budgets. Hence, while looking for the causes of resource constraints for the plans one has to analyse trends in revenue and expenditure growth.

Table 2.11 also shows growth rates of total revenue receipts and total revenue expenditure over the two Plans. Given the figures presented in this table, it is not difficult to see what brought about the deterioration in the current budgets of the states.

Whereas, for the states as a whole, total revenue receipts and revenue expenditure in the Sixth Plan comprised 15.8 and 15.2 per cent respectively of SDP, in the Seventh Plan the proportions went up to 17.9 and 18.2 per cent, increases of 2.1 and 3 percentage points respectively. The surplus in the current budget was modest in the Sixth Plan (0.4 per cent of SDP). With revenue expenditure growth overtaking that of current receipts during the latter half of the 1980s, the result was a deficit of 0.4 per cent of SDP in the Seventh Plan. For all states combined, revenue receipts grew at about 11.3 per cent per annum in the Sixth Plan and 11 per cent during the Seventh, while current expenditure grew at 13.8 per cent per annum during the Sixth Plan and at 13.1 per cent during the Seventh. In some states (like Andhra Pradesh and Karnataka) current expenditure grew by more than 16 per cent per annum during the Sixth Plan, while revenue receipts increased by about 13 per cent per annum. In the Seventh Plan, the fastest growth in revenue expenditure took place in Haryana and Uttar Pradesh (about 16 per cent per annum), whereas their revenue receipts grew at a much slower pace (12.4 and 10.3 per cent). The gap between revenue and expenditure growth in the Seventh Plan was the largest (5.5 percentage points) in Uttar Pradesh, followed by Tamil Nadu, West Bengal, Punjab, and Haryana. The position of individual states varies, with some showing current budget deficits of as much as 2 per cent of SDP during the Seventh Plan (Kerala). Evidently, there was an increase in revenue receipts but growth of current expenditures was faster.

Growth of Revenue and its Components

Taking the decade of the 1980s as a whole, total revenue receipts of the states grew at a rate of 14.9 per cent per annum and total tax receipts by 15.1 per cent (see Table 2.12). Similar trends in total revenue receipts and total tax receipts are only to be expected as tax revenues form a predominant part (66 per cent on average during the last decade) of total revenue receipts. Generally speaking, own tax revenues grew a little faster than the share in central taxes, but Bihar and Uttar Pradesh are exceptions. The growth rates are strikingly similar in all the states; they vary over the narrow band of 13.1 to 16 per cent per annum for total tax revenues and between 13.7 and 17 per cent per annum for own tax revenues.

Growth rates for major taxes levied by the states, however, show some variations. Two groups of taxes, agricultural taxes (land revenue and agricultural income tax) and entertainment taxes (basic entertainment tax, show tax, and betting tax), are losing their importance. The undertaxation of agriculture has received a lot of attention in the literature (see Sarma and Rao (1988) for a review; there has been at least one opposing viewpoint (Lipton, 1978) based on the incidence of other taxes). In any case, the agriculture-based taxes exhibit very slow growth. As for entertainment tax, the reason for slow growth probably lies in a fall in the tax base -- the major part of the revenue is derived from sales of cinema tickets, and with the advent of videotapes the sales of cinema tickets have not grown much. Attempts to increase taxes on the cinema industry in any form have met with stiff resistance; the last decade has witnessed two major incidents, one in Maharashtra (the strike in the Bombay movie industry against a hike in the tax rate on cinematograph raw stock) and one in Uttar Pradesh (by cinema theatre owners against a hike in entertainment tax rates).

The most important tax from the revenue point of view for the states is sales tax; it shows reasonably high rates of growth, without much inter-state variation. Growth rates vary between 13.7 per cent (Madhya Pradesh) and 18 per cent per annum (Andhra Pradesh).

Buoyancy of Taxes

Table 2.13 presents the buoyancy estimates for revenue receipts and major taxes of the selected states with respect to SDP during the 1980s. It is remarkable that buoyancy of total revenue receipts and tax revenues of the states is more than one or nearly one in all the states. Total revenue receipts exhibit reasonably high buoyancies in general, though some states -- Tamil Nadu, Punjab, and Orissa -- seem to be slowing down in their current receipts generation. Buoyancy in tax

Table 2.12

Compound Growth Rate of State Taxes (1980-81 to 1989-90)

(Per cent per annum)

States	Total revenue receipts	Total tax receipts	Own tax revenue	Land revenue & AIT	Stamps and registration	Total sales tax	Taxes on goods, passengers and motor vehicles	Entertainment tax	State excise	Electricity duty	Share of Central taxes
1. Andhra Pradesh	15.81	16.04	17.01	-1.86	14.92	18.04	16.15	7.54	16.79	102.62	13.86
2. Bihar	16.94	14.75	14.28	3.58	17.26	13.90	15.21	12.98	18.86	11.71	15.06
3. Gujarat	14.95	14.51	15.97	8.44	12.95	16.70	15.68	4.15	N.C.	18.22	8.62
4. Haryana	15.81	14.74	15.84	-18.68	17.58	15.78	12.26	2.31	21.00	9.74	9.35
5. Karnataka	14.89	15.61	16.42	7.22	19.13	17.99	19.04	5.51	13.51	18.06	13.33
6. Kerala	14.00	15.00	15.83	9.56	16.75	16.17	16.33	N.C.	13.91	19.59	12.91
7. Maharashtra	14.98	14.82	15.72	13.91	22.38	14.99	18.18	-0.51	19.29	19.03	11.15

States	Total revenue receipts	Total tax receipts	Own tax revenue	Land revenue & AIT	Stamps and regis-tration	Total sales tax	Taxes on goods, passen-gers and motor vehicles	Enter-tain-ment tax	State excise	Electri-city duty	Share of Central taxes
8. Madhya Pradesh	14.55	15.49	16.26	8.31	16.96	13.73	16.16	4.42	17.51	34.33	14.39
9. Orissa	13.36	15.70	16.58	29.46	15.32	15.36	16.53	9.02[2]	15.57	18.95	14.90
10. Punjab	13.71	13.09	13.72	1.52	9.67	14.18	10.21	-3.13[2]	15.81	19.63	9.95
11. Rajasthan	15.58	15.96	16.89	7.09	17.32	16.12	13.83	6.12	27.83	22.51	14.50
12. Tamil Nadu	13.52	14.11	14.50	9.83[1]	18.15	14.89	11.54	8.30	19.83[1]	10.43	13.17
13. Uttar Pradesh	14.61	15.32	15.02	2.03	16.94	14.41	12.89	4.92	19.82	31.99	15.71
14. West Bengal	15.39	15.42	16.58	61.10*	15.48	15.43	10.83	6.22	9.75	11.31	13.22
All 14 States	14.92	15.06	15.73	16.79	16.83	15.56	14.65	4.40	17.02	20.64	13.70

Note: * Not comparable with others due to cess on minerals.
1 For the period 1982-90.
2 For the period 1981-88.
N.C. Not computed.

revenue, particularly own tax revenue, shows the emphasis that each state puts on taxes as a source of current receipts. By this measure, the states which seem to be generating substantially greater resources from nontax revenues are Bihar, Gujarat and Haryana.[5]

As noted above, entertainment tax and agricultural taxes are losing their importance in almost all states, as a result of which buoyancy estimates are generally low, not significant statistically, and sometimes even negative. Some notable exceptions are agricultural taxes in Orissa and Tamil Nadu and entertainment taxes in Bihar. The most important tax from the revenue point of view, sales tax, exhibits reasonably high buoyancies in all states except Bihar (0.96), Madhya Pradesh (1.03), and Tamil Nadu (1.08). The highest buoyancy estimate for sales tax is that of Andhra Pradesh (1.51). Bihar exhibits the lowest buoyancy of own tax revenue (1.0), primarily due to low buoyancies of sales tax and electricity duty. Punjab also exhibits relatively low buoyancies for almost all taxes except electricity duty, resulting in a low buoyancy of own tax revenue. Gujarat appears to be doing badly in the case of stamp duties and registration fees, and Tamil Nadu and West Bengal in the case of motor vehicle taxes; West Bengal has less than unitary buoyancy of state excise and electricity duty as well. Despite these exceptions to the pattern, the performance of states in terms of buoyancy of revenue receipts, and particularly taxes, appears to be remarkably uniform and could not possibly be responsible for differences in plan expenditure.

Per-capita Tax Revenue

Average per capita tax burden for the Sixth and Seventh Five Year Plan periods exhibits substantial variations across states (tables 2.14 and 2.15). During the Sixth plan, annual per-capita total tax revenue varied between Rs. 126 (Bihar) and Rs. 331 (Punjab) on average; the spread during the Seventh plan was from Rs. 231 (Bihar) to Rs. 552 (Punjab)[6] implying a reduction in the ratio of minimum to maximum

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5. If West Bengal classified the cess on minerals as non-tax revenue as is done in other states like Bihar and Madhya Pradesh, a similar situation may obtain in West Bengal too. Given buoyancy of other taxes, this adjustment is likely to pull down the buoyancy estimates for own tax revenue and total tax revenue substantially; the estimate for revenue receipts, of course, will not change.
6. Punjab appears not to be doing well when growth rates and buoyancies are calculated. The figures here, however, indicate a fairly high level of taxation, and this might have affected additional resource mobilisation through taxation, even when there were increases in taxable capacity.

Table 2.13

Buoyancy of Major taxes: Non-Special Category States, 1980-89

	States\Taxes	*Total Revenue Receipts*	*Total Tax Revenue*	*Total Own Tax Revenue*	*Agri-cultural Taxes*	*Stamp Duties & Regn. Fees*	*Total Sales Tax*	*Motor Vehicle Taxes*	*Enter-tainment Taxes*	*State Excise*	*Electri-city Duty*
		1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
1.	Andhra Pradesh	1.32	1.34	1.42	-0.28@	1.21	1.51	1.34	0.73	1.42	6.39
2.	Bihar	1.17	0.99	1.00	0.47	1.29	0.96	1.03	1.10	1.27	0.89
3.	Gujarat	1.21	1.14	1.28	0.67	1.00	1.29	1.34	0.50	N.C.	1.64
4.	Haryana	1.24	1.15	1.25	-1.86	1.28	1.25	1.00	0.32	1.61	0.90
5.	Karnataka	1.17	1.21	1.28	0.53	1.39	1.40	1.58	0.50	1.03$	1.40
6.	Kerala	1.17	1.26	1.35	0.70	1.34	1.38	1.39	N.C.	1.21	1.68
7.	Madhya Pradesh	1.11	1.14	1.20	0.79	1.21	1.03	1.18	0.43	1.32	2.34
8.	Maharashtra	1.26	1.22	1.31	1.06	1.72	1.25	1.62	-2.53@	1.55	1.61
9.	Orissa	1.03	1.27	1.37	2.37	1.34	1.23	1.39	0.79	1.34	1.66

	1	2	3	4	5	6	7	8	9	10
10. Punjab	1.04	1.01	1.07	0.14@	0.68	1.11	0.79	-0.26@	1.24	1.51
11. Rajasthan	1.16	1.15	1.26	0.52@	1.18	1.23	1.09	0.52	2.03	1.61
12. Tamil Nadu	0.99	1.01	1.06	2.00	1.27	1.08	0.83	0.66	1.45	1.07
13. Uttar Pradesh	1.21	1.26	1.25	0.24@	1.40	1.19	1.08	0.42@	1.59	2.81
14. West Bengal	1.25	1.23	1.32	4.59*	1.24	1.23	0.86	0.59	0.75	0.94
15. All 14 States	1.19	1.19	1.25	1.32	1.29	1.24	1.20	0.45	1.36	1.66

N.C. Not Computed.
@ Buoyancy Coefficient not statistically significant at 95% level of confidence.
* Not comparable with other states due to inclusion of cess on minerals in Land Revenue.
$ Not comparable with other states due to exclusion of revenue from sale of liquor.

Table 2.14

Average Annual per capita Tax Revenue during the Sixth Plan

(Rs.)

State	*Total Revenue Receipts*	*Total Tax Receipts*	*Own Tax Revenue*	*Agricultural Taxes*	*Stamp Duty & Registration Fees*	*Total Sales Tax*	*Motor Vehicle Taxes*	*Entertainment Taxes*	*State Excise*	*Electricity Duty*	*Shared Taxes*
1. Andhra Pradesh	309.64	218.42	151.93	4.54	7.88	77.07	12.50	6.02	43.62	0.10	66.49
2. Bihar	185.96	125.69	52.32	2.13	3.64	36.22	3.83	1.03	4.08	1.36	73.37
3. Gujarat	385.33	278.02	213.87	4.18	10.65	139.50	22.92	9.00	1.25	18.88	64.15
4. Haryana	457.67	297.01	241.33	2.78	19.09	111.81	41.99	5.48	46.57	13.34	55.68
5. Karnataka	341.79	240.04	176.49	4.29	9.17	91.93	18.24	7.52	34.95	5.87	63.55
6. Kerala	331.88	244.06	171.64	6.37	12.86	106.96	10.60	0.00*	28.43	6.17	72.44
7. Maharashtra	433.75	307.84	243.31	3.74	8.54	157.65	18.69	11.32	20.30	10.80	64.53
8. Madhya Pradesh	279.99	172.14	102.05	2.48	5.72	54.86	14.69	3.08	15.04	5.24	70.09
9. Orissa	266.74	142.18	65.58	2.32	4.01	37.66	6.26	1.36	4.94	9.02	76.61
10. Punjab	440.96	331.24	273.08	1.73	24.98	124.49	28.68	4.89	77.42	10.20	58.16
11. Rajasthan	276.66	163.55	102.86	5.29	5.01	60.13	13.07	2.60	13.19	3.12	60.70
12. Tamil Nadu	344.46	271.03	197.79	3.04	12.46	127.86	16.71	8.32	27.70	0.94	73.35
13. Uttar Pradesh	216.77	143.69	78.41	2.54	8.57	42.80	8.30	3.85	11.26	1.09	65.28
14. West Bengal	247.27	191.10	122.47	5.92	6.83	72.49	14.04	4.89	11.21	2.88	68.63
All 14 States	296.76	205.84	138.42	3.56	8.46	80.98	13.68	4.88	19.43	4.83	67.42

* Levied by local bodies in Kerala.

Table 2.15

Average Annual per capita Tax Revenue during the Seventh Plan

(Rs.)

State	Total Revenue Receipts	Total Tax Receipts	Own Tax Revenue	Agricultural Taxes	Stamp Duty & Registration Fees	Total Sales Tax	Motor Vehicle Taxes	Entertainment Taxes	State Excise	Electricity Duty	Shared Taxes
1. Andhra Pradesh	586.37	419.75	300.44	3.82	14.89	157.92	24.13	6.14	83.22	4.67	119.31
2. Bihar	376.02	230.79	92.66	2.59	6.81	62.76	7.69	1.84	8.39	2.41	138.13
3. Gujarat	675.83	471.23	390.04	5.51	17.30	268.32	37.35	9.29	2.14	35.70	81.20
4. Haryana	853.52	521.66	448.11	1.13	38.34	207.67	65.90	5.63	108.13	18.25	73.55
5. Karnataka	606.49	442.51	335.23	5.52	19.93	187.14	40.19	8.55	56.36	10.85	107.28
6. Kerala	595.10	450.67	330.32	8.91	25.55	210.75	20.54	0.00*	49.57	13.61	120.35
7. Maharashtra	776.03	549.15	454.20	6.33	22.54	285.58	36.20	9.14	44.26	25.47	94.95
8. Madhya Pradesh	496.22	317.96	192.09	3.23	11.34	90.54	28.10	3.38	30.39	22.39	125.88
9. Orissa	464.36	272.12	132.15	9.59	7.53	71.02	12.02	1.09	9.10	21.05	139.98
10. Punjab	760.55	551.53	469.72	1.62	36.48	217.76	40.85	2.56	143.21	25.85	81.82
11. Rajasthan	505.37	294.45	188.83	5.70	9.79	109.41	21.10	2.42	31.69	6.72	105.62
12. Tamil Nadu	597.88	478.80	352.08	4.96	26.97	237.11	28.06	9.38	40.12	1.46	126.72
13. Uttar Pradesh	391.96	271.11	141.64	2.47	17.10	75.09	13.27	4.23	25.76	3.37	129.47
14. West Bengal	472.25	359.40	240.17	35.72	12.75	134.76	21.78	5.70	15.22	5.48	119.23
All 14 States	538.91	374.67	257.45	7.05	16.86	150.04	24.21	5.16	36.88	11.53	117.21

*Tax levied by local bodies in Kerala.

tax burden. This is the result of differential growth rates of tax revenue; if the same trends continue, the spread in per capita tax revenue can be expected to come down further. Much of the credit for this goes to the Finance Commissions, as shares in central taxes contributed to the equalising trend to a greater extent than the states' own tax revenue. Even so, casual observation reveals a clear correlation between levels of per-capita taxation and per capita SDP.

The analysis above indicates that the performance of the states in the area of taxation has not determined plan expenditure to any significant extent. Per-capita tax burden does seem to be positively correlated with per-capita plan expenditure, but since none of the other indicators of tax performance are so correlated, this could simply be due to both per capita plan expenditure and per-capita tax revenue being determined by per-capita SDP.

In sum, revenue receipts exhibited a fairly uniform growth of around 15 per cent per annum during the 1980s. But such growth (and greater than unitary buoyancy) in total revenue receipts did not protect the states from deficits in their current budgets. The probable cause is the faster growth in current expenditure. The exercises conducted so far suggest that the resource constraint facing the states in financing their plans stemmed mainly from deficiencies in BCR, reflecting the fact that expenditure growth outpaced revenue growth. Even reasonable growth in revenue has not been of much avail in providing resources needed for the Plans.

Nontax Revenues

Table 2.10 showed that for both the plan periods tax revenues constituted about 66 per cent of total revenue receipts. Of the 33 per cent that came from nontax revenues, about 16.4 per cent and 18.4 per cent were received from the central government as grants during the two plan periods, respectively. States' own resource mobilisation through nontax revenues comprised only 17.6 per cent and 15.4 per cent of total revenue receipts. It is thus obvious that not only is the contribution of nontax revenues low, but it is declining as well. None of the major components of nontax revenues -- dividends and interest from public undertakings, user charges, interest receipts from local bodies or forest revenues -- have shown any promise of increase. With the widespread forest conservation measures being adopted, it will not be possible to raise revenue from forests much; the other three main sources also cannot be burdened with further financial liabilities for fear that such measures may boomerang on the state government, either financially or politically. Only two items -- receipts from minerals in some states and profits of liquor corporations set up by some state governments -- show increased receipts. The second item above should not really be considered an increase, as these receipts are simply shifted from those under excise duty after the setting up of the liquor corporations. The prospects for a substantial rise in the contribution of nontax revenues in the states thus appear dim, though the recent revision of royalty rates paid by the central government for mineral exploitation of the states should help a little.

Revenue Expenditures

Nonplan revenue expenditures are made up of spending on general administration, interest payments, and transfers to local bodies, as well as committed expenditure on social and economic services. Of the total current expenditures of the states, general administration, interest payments, and social services account for over 70 per cent (Table 2.16). A part of the revenue expenditure on social services is included under the plans. However, it may not be wrong to think that these three heads constitute over 60 per cent of total nonplan revenue expenditure. The proportion of the five major components of revenue expenditure in the total for the 14 states together and individually are given in the table. It can be seen that only the shares of social services and debt servicing expenditures have risen noticeably during the Seventh Plan period as compared to the Sixth Plan Period. It could, therefore, be said that if expenditure on these two items grew in line with the other expenditure heads, the growth in total revenue expenditure would have been lower. Debt servicing liabilities obviously constitute the fastest growing item. In Orissa and Madhya Pradesh, the share of this item jumped by more than 4 and 3 percentage points respectively. Only Tamil Nadu and Punjab registered a decline. Punjab is a special case because the share of general administration has gone up substantially only in this state, among the fourteen states under consideration, primarily because of increased expenditure on the law and order machinery. The case of Tamil Nadu is commented upon below.

The main propellant in the growth of the debt servicing burden of the states has been the growth in the volume of their outstanding debt (though it could partly be due to an increase in interest rates). Table 2.17 shows the outstanding debt of the 14 states as of the beginning of the two plans. In nominal terms, outstanding debt went up from Rs. 19,511 crore in March 1980 to Rs. 39,951 crore in March 1985, registering a growth of over 15 per cent per annum. Latest available data show that the outstanding debt of the states has

Table 2.16

Total Revenue Expenditure on Selected Heads as Percentage of Total Revenue Expenditure

State	*General Administration*		*Interest Payment and appropriation to reserves against debt*		*Compensation and assignment to local bodies and Panchayati Raj Institutions*		*Social Services*		*Economic Service*	
	Sixth Plan	*Seventh Plan*	*Sixth Plan*	*Seventh Plan*	*Sixth Plan*	*Seventh Plan*	*Sixth Plan*	*Seventh Plan*	*Sixth Plan*	*Seventh Plan*
1	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*	*11*
1. Andhra Pradesh	16.97	15.82	6.75	8.76	1.78	1.67	45.66	41.25	28.83	29.32
2. Bihar	19.26	18.75	10.04	12.53	0.45	0.46	44.15	43.92	26.11	26.95
3. Gujarat	15.82	13.67	8.01	10.87	0.61	0.61	42.13	42.93	33.43	33.01
4. Haryana	14.78	14.31	10.24	12.00	0.08	0.06	34.19	34.54	40.72	39.71
5. Karnataka	17.32	17.15	11.57	11.77	3.49	3.21	35.45	35.97	32.17	31.50
6. Kerala	18.91	18.92	8.71	11.01	0.16	0.13	50.03	50.23	22.20	21.30

1	2	3	4	5	6	7	8	9	10	11
7. Madhya Pradesh	16.21	16.43	6.50	9.86	2.67	2.54	38.94	40.08	35.68	34.48
8. Maharashtra	24.14	16.63	10.03	12.36	0.35	0.32	34.96	35.03	30.52	30.48
9. Orissa	16.40	15.31	10.85	14.91	0.60	0.60	45.79	45.49	26.36	26.05
10. Punjab	17.35	18.80	13.02	11.99	0.35	0.61	39.39	39.43	29.89	28.77
11. Rajasthan	18.01	15.99	12.36	13.82	0.62	0.57	41.37	41.47	27.63	27.35
12. Tamil Nadu	15.26	14.75	8.35	8.24	2.29	2.52	41.12	43.38	32.97	30.88
13. Uttar Pradesh	18.02	17.48	11.34	14.25	1.00	0.92	38.93	38.35	30.71	31.30
14. West Bengal	15.86	15.78	10.66	12.60	3.10	3.06	48.39	47.36	22.00	22.73
All States	18.00	16.43	9.74	11.73	1.35	1.32	41.06	41.32	29.85	29.61

Note: 1. Includes organs of State, Fiscal Services, Administrative Services, Pension and miscellaneous general services.
Basic data source: RBI Bulletin, various issues.

Table 2.17

Outstanding Debt of State Governments at the Beginning of Sixth and Seventh Plans

States	*Total Outstanding Debt as on 31 March (Rs crore)*		*Outstanding Debt taken from Centre as on 31 March (Rs crore)*		*As Percentage of SDP*			
					Total Outstanding Debt as on 31 March		*Outstanding Debt taken from Centre as on 31 March*	
	1980	*1985*	*1980*	*1985*	*1980*	*1985*	*1980*	*1985*
All States	19511	39951	14004	27430	20.94	23.72	15.03	16.29
Andhra Pradesh	1599	2974	1215	1999	22.18	23.09	16.85	15.52
Bihar	1754	3819	1406	2891	26.86	30.16	21.53	22.83
Gujarat	1099	2316	647	1653	15.17	20.74	9.73	14.81
Harayana	552	1219	349	723	18.35	22.19	11.60	13.16
Karanataka	1076	1929	752	1275	20.14	20.79	14.07	13.74
Kerala	914	1858	604	955	26.07	31.40	17.23	16.14
Maharashtra	1901	4209	1231	3171	13.61	17.18	8.81	12.94
Madhya Pradesh	1299	2820	851	1772	21.22	24.77	13.90	15.56
Orissa	1078	1979	814	1321	34.82	35.01	26.29	23.37
Punjab	717	1794	430	1109	16.45	21.36	9.86	13.20
Rajasthan	1381	2756	1046	1933	33.41	35.66	25.31	25.01
Tamil Nadu	1291	2305	871	1574	20.23	18.15	13.65	12.39
Uttar Pradesh	3052	6052	2256	3948	21.87	24.77	16.17	16.16
West Bengal	1888	3921	1532	3106	21.23	24.19	17.23	19.16

Source: 1. Reserve Bank of India, *Report on Currency and Finance*, 1980-81 and 1985-86.
2. C. S. O. - (for 1970-71 series of SDP data).

continued to grow at over 15 per cent per annum between 1985 and 1990. As a ratio to SDP, the total outstanding debt of the 14 states went up from 20.9 per cent in March 1980 to 23.7 per cent in March 1985. Similar trends can be observed in every state except Tamil

Nadu, which probably explains the decline in the share of debt servicing expenditures in the total revenue expenditure of that state.[7] The proportion of loans due to the central government in total outstanding debt has declined slightly from about 72 per cent to 69 per cent. Evidently, the states are now resorting to market and other borrowings to a greater extent than before. With deficits surfacing in the revenue account of their budgets, the states' debt burden will continue to grow unless corrective action is taken. There is no reverse flow of resources from the states to the centre yet, and net transfers on loan account from the centre to the states have been growing. According to revised estimates for 1989-90, net lending by the centre to the states came to about 3,800 crore, as against Rs. 2,060 crore in 1986-87 (in 1985-86 the amount was about Rs. 4,060 crore, but that was an unusual year). According to statistics given in the Ninth Finance Commission (NFC) Report, the ratio of repayments of principal to fresh loans from the centre has been declining in recent years (it was 31.8 per cent in 1989-90 as against 34.5 per cent in 1987-88). With the reliefs recommended by the NFC, it might be expected that the debt burden would ease. Expectations are unlikely to be realized, however, unless effective steps are taken immediately to arrest the growth of deficits on revenue account. That in turn calls for a hard look at the expenditure side, as resource mobilisation on the revenue front seems to have been of no avail in keeping states' budgets in balance. The point that needs stressing is that not only interest but also several other items are showing rapid growth, and these need to be brought under control.

For a better understanding of the factors that have contributed to the rapid growth in expenditures, it is useful to look at the economic and not merely the functional categories of the budget. Data on the economic and functional classification of the state budgets are not available beyond 1987-88. Figures for expenditures on some of the important categories are reported in Table 2.18. Current expenditure growth accelerated in the 1980s, primarily because of subsidies, which show rates of growth far lower than in the previous decade, but still quite high. The fact that total current expenditures do not show dramatically increased growth in the 1980s indicates that the excluded part -- interest payments -- has grown considerably faster. Within consumption expenditure, compensation to employees recorded a growth of 17.1 per cent in the 1980s, as against 14.8 per

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7. Chapter 6 on Tamil Nadu finances sheds some light on this phenomenon.

Table 2.18

Growth Rates of Various Economic Categories of State Expenditure

(per cent per annum)

	Total Current Expenditure#			*Total Consumption Expenditure*			*Salaries and Wages*			*Subsidies*		
	1971-88	*1971-81*	*1980-88*	*1971-88*	*1971-81*	*1980-88*	*1971-88*	*1971-81*	*1980-88*	*1971-88*	*1971-81*	*1980-88*
All States	16.1	14.8	16.6	16.0	14.7	16.0	16.2	14.8	17.1	35.2	50.8	20.7
Andhra Pradesh	17.6	17.5	17.6	16.8	17.7	14.0	16.8	17.5	14.8	43.9	80.1	13.6
Bihar	17.0	14.8	15.2	19.1	18.5	14.2	20.6	19.6	15.9	38.9	53.1	28.5
Gujarat	17.3	17.6	17.3	18.1	17.2	18.3	16.1	14.5	17.8	44.6	70.8	31.7
Haryana	17.4	15,4	19.3	16.8	15.2	17.8	16.6	14.5	17.3	47.3	89.1	18.2
Karnataka	17.3	16.6	18.0	15.1	15.4	12.5	15.6	15.5	13.6	44.0	76.3	19.1
Kerala	15.6	14.9	15.7	15.7	14.9	16.0	15.7	14.3	16.9	29.1	49.9	18.1
Madhya Pradesh	16.3	14.4	17.3	15.6	13.2	17.4	15.7	13.0	19.1	32.9	52.1	12.7
Maharashtra	15.5	14.1	16.0	15.5	13.7	14.9	14.9	12.5	16.5	32.0	42.5	11.7
Orissa	14.7	14.5	14.2	14.0	14.4	11.9	15.3	14.7	16.5	39.5	81.2	18.4
Punjab	16.8	16.8	17.0	16.0	16.2	14.4	15.3	15.6	13.4	47.5	87.5	20.2
Rajasthan	16.0	14.7	17.8	15.7	14.2	16.8	15.9	14.6	16.7	42.2	71.6	19.9
Tamil Nadu	15.2	13.0	14.9	16.2	12.6	18.6	16.5	13.9	21.7	35.5	32.8	37.5
Uttar Pradesh	16.6	16.8	16.2	15.5	14.1	16.3	14.8	13.2	16.8	57.3	102.4	26.0
West Bengal	14.2	12.3	14.9	12.7	10.8	14.4	14.4	12.3	15.9	41.5	75.7	10.2

#Does not include unallocable expenditures, mainly interest payments.

Source: NIPFP Database.

cent in the 1970s. The pattern varies considerably among states, however. While some states (e.g. Tamil Nadu, Madhya Pradesh, and Maharashtra) show a jump in the growth rate for the 1980s as compared to the 1970s, others (e. g. Andhra Pradesh, Bihar, and Karnataka) show a fall in the growth rate. Transfers to the nongovernment sector (figures not reported) have also grown faster in the period 1980-88 as compared to the previous decade, though the increase in the growth rate was not substantial.

The preceding analysis shows that several factors are responsible for the shortfalls in the BCRs of the states as compared with the stipulated targets. *Prima facie*, it is the rapid growth in revenue expenditures relative to revenue receipts which underlies this outcome. Revenue growth on the whole has kept pace with growth in output but has been inadequate for generating surpluses over expenditures. It may be argued that greater revenue effort could have met the needs of plan financing, especially since the tax revenue of some states displayed greater buoyancy than that of others. Indeed, in their anxiety to mobilize more and more resources, the states are looking for all possible sources which seem politically feasible, e.g. levying a tax on consignment transfers, which essentially constitutes tax exporting, and stepping up rates of sales tax, a good part of which falls on inputs, going against all sound principles of taxation. There is no doubt scope for raising revenue through extension of the sales tax base to services, as well as higher taxation of urban property and agricultural wealth. The tax structure of the country, however, is almost chaotic, with the states trying to extract taxes from each other's citizens and at the same time, engaging in what has come to be known as "rate wars" in sales taxation (that is, cutting tax rates to attract trade and industry irrespective of the nature of the commodities), while avoiding areas having relatively high tax potential. Aside from rationalisation of tax structure, other ways of strengthening the resource base considerably include cutting down wasteful or unjustifiable subsidies and recovering costs of public services from those who can pay. It should also be possible to augment revenue simply through better administration, that is, without recourse to measures that impose needless efficiency losses on the economy. There is good scope for resource raising also by better management of PSEs and proper pricing of their products/services and better design of subsidies.

It also ought to be noted that the states' revenue growth would have been better, had the share of central taxes shown the same buoyancy as their own tax revenue. This category, which contributes a sizeable fraction of the states' revenue receipts, appears to be lagging, reflecting the slow growth in collections at the centre. What lies at the root of this phenomenon -- whether it is due to inadequate attention paid by the centre because of the increasingly large share going to the states under the Finance Commissions' dispensation -- remains a moot point.

It hardly needs pointing out, however, that no amount of resource mobilisation is going to help unless restraint is brought to bear on the expenditure side. That requires a fresh look at the debt position of the states on the one hand, and at the policies on subsidies and compensation of employees on the other. If political forces compel a continuation of present trends, economic compulsions will soon rule out any meaningful developmental effort at the state level.

DETERMINANTS OF PLAN EXPENDITURE

The analysis of state finances so far has revealed several factors that could have, and probably did, affect the plan expenditure of the states. In this section, we try to quantify the variables that affect plan expenditure and measure their impact statistically. To do this, it is first necessary to postulate an empirical relationship involving the determinants of plan expenditure.

To begin with, because the plan size for any state depends to a considerable extent on its ability to raise the necessary resources on its own, major determinants of the current receipts of the state should determine plan expenditure also to some extent. Furthermore, a large part of the state plan is usually financed by plan transfers, implying a future debt burden, given the Gadgil formula for non-special category states. Thus, it can be expected that the existing interest burden on the state is likely to affect its plan size by affecting its ability to shoulder further interest (and repayment) burden. Another factor indicating the states' ability to incur plan expenditure in the current year is the ratio of revenue expenditure to revenue receipts for the past few years; this would show the general ability of the state to finance the current plan from revenue surpluses of previous years. Of course, all three variables are inter-related; while the last one is an indicator of general financial capacity, the other two are specific to the revenue and expenditure side.

Apart from the ability to raise resources, another factor that ought to influence plan expenditure is the need for such expenditure as judged by the planning authorities. Such need is usually judged by the extent of poverty in a state. Indeed, a large part of plan expenditure --

that on poverty eradication schemes -- is directly related to the number of poor in a state. However, poverty estimates are made before a Five Year Plan begins, and these estimates are adopted for the whole plan period. This has some significance for the estimation of the empirical relationship, which is discussed below.

A third factor influencing the distribution of plan expenditure is the efficiency of allocation. Given an overall plan size, and given the effectiveness of plan expenditure in promoting development in different states, an efficient allocation of plan expenditure would require equalisation of benefits across states from marginal units of plan expenditure, much like an output maximising multiunit firm equating marginal output of factors of production in different units. Although this factor, like all other factors, cannot be expected to determine plan expenditures by itself, it cannot be excluded from a list of probable determinants.

The fourth and final factor that may be relevant in the determination of plan expenditure is the political factor. While it is probably unanimously accepted that political factors are important, it is difficult to take these into account in a systematic analysis. The estimation below takes account of only one aspect of the political factor, the identification of a state with respect to its political leanings vis-a-vis the ruling party. The equation postulated for actual estimation, keeping the above discussion in mind, is:

$$PLAN = a_0 + a_1 SEATS + a_2 D.SEATS + a_3 CEXP/CREC + a_4 INT + a_5 PCSDP + a_6 MANG + a_7 CHSDP$$

in the linear form, and

$$\log PLAN = a_0 + a_1 \log SEATS + a_2 D + a_3 \log(CEXP/CREC) + a_4 \log INT + a_5 \log PCSDP + a_6 \log MANG + a_7 \log CHSDP$$

in the double log form. The underlying equations of the above two are:

$$PLAN = a_0 + a_1 SEATS(1 + kD) + a_3 CEXP/CREC + a_4 INT + a_5 PCSDP + a_6 MANG + a_7 CHSDP, \text{ and}$$

$$PLAN = A_0 (SEATS.kD)^{a1} (CEXP/CREC)^{a3} INT^{a4} (PCSDP)^{a5} MANG^{a6} CHSDP^{a7}$$

The variables are defined as follows:

PLAN = Plan expenditure as a ratio of SDP,
SEATS = Ratio of members of parliament (MP) from the ruling party (at the centre) in total MPs from the state,
k = a constant, indicating the extent of impact of D,
D = dummy for the same party (or its political ally) ruling at the centre and the state,
CEXP = Current expenditure of the state,
CREC = Current receipts of the state,
INT = ratio of interest payments to CREC,
PCSDP = Per capita SDP,
MANG = SDP from manufacturing as a ratio of total SDP, and
CHSDP = Percentage change in SDP as a ratio of average change in plan expenditures for the previous five years.

The dummies for states are arranged in alphabetical order of states, e.g., D1 for Andhra Pradesh. Averages of the previous five years of the ratio CEXP/CREC have been used in the estimation. The pooled sample consist of all five years data for 14 selected states for the Sixth Plan period and for the first four years of the Seventh Plan period. The estimation has been done separately for the two plan periods to avoid heteroscedasticity problems. Because of this fact, coupled with the customary use of state dummies for pooled data to begin with, poverty estimates were not required to be put in as a variable in view of their constancy over the plan period; the state dummies can pick up inter-state variation in poverty adequately.

During the estimation of the above equations, use of the required number of state dummies simultaneously resulted in breakdown of the estimation procedure with near singular matrices. Hence, the dummies were 'scanned' by using them one by one and finally using only those which were statistically significant. The variables CHSDP and CEXP/CREC were not significant statistically and were dropped. The final equations estimated are:

$$\begin{aligned}\log PLAN = &- 1.27 + \underset{(11.45)}{0.33\log SEATS} - \underset{(-3.58)}{0.14D} - \underset{(-1.99)}{0.07\log INT}\\ &- \underset{(-5.16)}{0.21\log PCSDP} + \underset{(3.75)}{0.12\log MANG} - \underset{(-6.42)}{0.30D1}\\ &+ \underset{(6.39)}{0.29D4} - \underset{(-5.69)}{0.26D5} - \underset{(-2.77)}{0.17D10}, \qquad R^2=0.82\end{aligned}$$

and,

$$\log PLAN = -2.36 + \underset{(9.86)}{0.87\log SEATS} + \underset{(1.63)}{0.15\log INT}$$
$$- \underset{(-3.33)}{0.24\log PCSDP} + \underset{(4.07)}{0.75\log MANG} - \underset{(-8.69)}{1.86D1}$$
$$+ \underset{(3.09)}{0.23D2} - \underset{(-3.51)}{0.38D3} - \underset{(-5.22)}{0.33D5} + \underset{(2.00)}{0.13D6} - \underset{(-1.80)}{0.21D7}$$
$$+ \underset{(2.40)}{0.17D8} + \underset{(4.99)}{0.66D9} + \underset{(6.87)}{0.71D10} - \underset{(-1.65)}{0.11D11} - \underset{(-3.17)}{0.34D12}$$

$R^2 = 0.90$

(All the coefficients are significant at 95 per cent level of confidence).

The first comment that can be made on the results reported above is that the inverse relationship between per-capita income and the dependent variable seems a bit odd. Per-capita SDP has been entered along with MANG as a variable representing ability to raise resources for plans. However, it happens to be an indicator of need also, and thus could be inversely related to PLAN; the estimated coefficient represents the net impact of the conficting effects. The equity with respect to SDP in a dynamic sense has been commented upon earlier. The estimated coefficient of SDP seems to confirm that.

The political variables are significant, though D is not for the Seventh Plan period. The negative coefficient of D does not imply a negative effect, but a positive but less than unity value of k in terms of the underlying equation. The estimated negative coefficient is, by hypothesis, $a_1$logk, and logk would be negative for any positive a_1. A negative value for logk implies $0<k<1$, which is a reasonable presumption.

The fact that CEXP/CREC turned out to be insignificant should not cause too much worry, as MANG and INT are probably representing the budgetary position adequately. After all, these two variables represent the predominant parts of the two sides of current accounts - tax revenue and interest payments. The positive coefficient for INT for the Seventh Plan period, however, is perplexing. A possible explanation lies in the substantial rise in borrowing as a source of plan finance during the Seventh Plan.

It would be of interest to see the "beta coefficients"[8] of the variables

8. These are the regression coefficients standardised for the scale of independent variables by multiplying with the ratio of the standard deviations of the dependent and the independent variable concerned.

other than dummies found to be significantly affecting the plan expenditure to SDP ratio. Table 2.19 provides the estimates. These figures indicate that during the Sixth Plan, the negative effect of SDP and the positive effect of the political lobby of state MPs in the ruling party were almost equally dominant. During the Seventh Plan, political lobbying seems to have become even more important, but less important than the ability to raise own resources, as denoted by MANG.

While the empirical analysis carried out above cannot be claimed to be a definitive one, it does open up a few interesting lines of thought. The political economy of planning has hitherto been paid very little attention; this aspect clearly needs more analysis. A full scale model of state finances seems to be called for if answers to several questions on state finances are to be answered categorically. However, the exercise does indicate the growing importance of states' own resources in planning and of interest payments (or borrowings).

Table 2.19

Estimated Beta Coefficients

	SEATS	*D*	*INT*	*PCSDP*	*MANG*
Sixth Plan	0.11	-0.06	-0.04	-0.12	0.06
Seventh Plan	0.35	-	0.14	-0.16	0.44

CONCLUSIONS AND SOME POLICY IMPLICATIONS

The main conclusions that emerge from this chapter may be summarised as follows:

(1) There have been shortfalls in the outlays under the Plans in all states in both Sixth and Seventh Plans. The extent of shortfall was much smaller for most states in the Seventh Plan, possibly because of more modest targets.
(2) Heavy shortfalls occurred in crucial sectors like irrigation and power under both Plans.
(3) There is an increasing tendency on the part of the states to allocate a larger share of their plan outlay to "revenue" or "current" expenditure.
(4) One possible explanation is the practice of including new

welfare and poverty allevation programmes under the plan. Once introduced, they pre-empt revenue expenditures affecting vital services like health, education and maintenance of assets.

(5) The tendency on the part of the states to put in a larger component of plan outlays under "revenue" undermines the role of planning. Available data show that a good part of capital spending in the states is taking place under the "non-plan" head. This makes little sense. The rationale for drawing distinctions between "plan" and "non-plan", "revenue" and "capital", and "developmental" and "nondevelopmental" needs reconsideration.

(6) There are wide variations in the plan performance of the states. Per capita plan outlay varies considerably. Shortfalls in achieving plan targets also vary across states.

(7) What accounts for the variation in plan size and in plan expenditure does not admit of a straightforward answer. Per capita SDP is highly correlated to per-capita plan outlay, but this is partly accounted for by the population factor. As the statewise growth rates of plan expenditure show, plan expenditures are becoming more equitable across states over time. However, what determines the level of plan outlay at the state level (as opposed to inter-state variations), needs further study.

(8) By and large, revenue receipts of state governments have kept pace with increases in SDP. Except in one state, buoyancy coefficients of major revenue heads all exceeded unity. There are a few taxes which could be exploited further, but the scope for raising additional revenue through more intensive taxation does not seem very promising. More attention needs to be paid to rationalisation of the tax structure, extension of the tax base to cover services, etc. and harmonisation of state taxes to minimise efficiency losses (which cannot but be considerable, given the present chaotic state of commodity taxation). All this might help to improve the revenue productivity of the tax system and equity in the distribution of its burden. Local taxation is another neglected area. Resource mobilisation efforts may be directed more fruitfully to areas like recovery of costs of providing public services and better running of PSEs.

(9) If meaningful planning is to be practised, determined efforts are needed to control the growth of revenue expenditure on

both plan and nonplan accounts. The items of current expenditure growing most rapidly are subsidies and interest payments. Apart from subsidies flowing explicitly through the budget there are many hidden subsidies provided by the central and state governments. In containing the growth of current expenditure, remedial action is needed to relieve the burden of debt servicing and a hard look at the cost and benefit of all major subsidies should be taken. The entire system of expenditure control also needs overhaul.

(10) The system of intergovernmental transfers needs to be restructured to impart a greater sense of responsibility to the spending agencies. This applies to the fiscal relations between the centre and the states and those between the states and local bodies. Decentralisation of fiscal powers combined with decentralisation of responsibilities for providing public services could help move in that direction, even though regional disparities might be accentuated. A balance would have to be struck between the conflicting goals of equity and efficiency. The present arrangements whereby a higher level authority practically underwrites the expenditure of governments at levels below promote fiscal irresponsibility.

(11) The empirical exercise undertaken reaches the conclusion that political factors play a significant role in planning. It confirms the trend toward more equitable distribution of plan expenditure across states. It also indicates the growing importance of own revenue in determining the plan size of states.

From trends in state finances and the experience of plan financing it is evident that the involvement of the public sector at the state level will soon be in jeopardy unless the seriousness of the imbalances in state budgets is recognised by the community as a whole and a certain discipline and restraint is accepted by all powerful groups in the society, in the common interest. That seems to be a tall order in the present socio-political environment. If, however, 'social choice' dictates otherwise and persists in underplaying the need for discipline in government expenditures, the growth strategy itself has to undergo a radical change. In their present state, government finances not only at the centre but also in the states are not viable. Nor is planning of the kind the country has practised so far.

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