Appraising the Second Report of the Ninth Finance Commission : Some Central Issues

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The terms of reference of the Ninth Finance Commission (NFC) had given rise to controversies never witnessed before. The publication of the First Report of the Commission had also generated considerable heat. The reactions to the Second Report - which is the final one - have been, in contrast, quite muted. Acceptance of its recommendations without reservation by the Centre even after a change of Government must have been a pleasant surprise even to the members of the Commission. What does it signify? Has the Commission succeeded in meeting its much criticised terms of reference and making every one better off and none worse off? Or has it performed a balancing act by applying methods which are far too technical for anyone not familiar with the intricacies of the tools of quantitative economics? Or is it because the affected parties are resigned to acceptance of the recommendations as a *fait accompli?* Since the Finance Commission's awards constitute the bedrock of federal fiscal relations in India and thereby of the federal polity, it is necessary that the approach and methodology evolved by the Ninth Finance Commission are spelled out and their implications analysed in terms which are intelligible to all. This note seeks to highlight the innovations or departures from the past made by the Ninth Finance Commission in their approach and methodology and focus attention on some of the central issues.

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The Backdrop

The main points of departure in the terms of reference (TOR) of the Ninth Finance Commission from those of the past Commissions, it may be recalled, were:

- enjoining a normative assessment of the receipts and expenditures on the aggregate revenue account of the States and the Centre (both Plan and non-Plan, unlike in the past);
- explicit attention to the need for providing adequate incentives for better resource mobilisation and financing discipline - as well as closer linking of expenditure and revenue-raising decisions and for speed and efficiency in the government's expenditure programmes;
- stipulating the aim of generating surpluses in the budgets of the Centre and the States for investment, and not merely balancing the revenue budget; and
- calling upon the Finance Commission (FC) to assess the debt position of the States and suggesting corrective measures and exploring the feasibility of a new way of providing disaster relief.

Understandably, the emphasis on a normative approach and fiscal discipline combined with the need for providing incentives for better resource raising and use stemmed from the anxiety to correct the imbalances that had surfaced on the fiscal scene in India in recent years with a growing deficit on the revenue account of the Centre and also of the States. The "gap-filling" approach which had dominated the Finance Commission's perception of their task in the past had come in for criticism from almost all quarters as it tended to undermine the incentives for efficient fiscal management. The awards of the past FCs had also been criticised for their failure to correct the vertical and horizontal fiscal imbalances in the economy and thereby to arrest the aggravation of disparities

in the levels of income among the States, in other words, for failing to allocate revenues between the Centre and the States adequately on the one hand, and ensure their equitable distribution among the States on the other. Taking due note of their TOR, the Ninth Finance Commission stipulated the following objectives as basic to their approach:

"(a) phasing out the revenue deficit of the Centre and the States in such a manner that the deficit is reduced to zero or a relatively small figure by March 31, 1995;

(b) equity in the distribution of fiscal resources both vertically and horizontally; and

(c) promotion of fiscal discipline and efficiency in the utilisation of resources."

Implementation of these principles called for a normative assessment of the fiscal needs and capacities of the respective governments. This in many ways constitutes the keystone of the Ninth Finance Commission's Second Report. Indeed, adoption of the normative approach, it is stated by the Commission itself, constitutes "the first basic departure this Commission made from the practice of the previous Commissions". The second basic departure has been the inclusion of the Plan component in its consideration of the revenue budget. This was in keeping with the intention of the TOR and felt necessary for moving towards restoration of balance in the revenue budgets of the Centre and the States.

The Commission has relied upon econometric techniques as also its own judgement in evolving a normative basis for assessing the revenue needs and capacity of the government at the Centre and the States. Unquestionably, these mark a major advance towards application of scientific techniques in policy making in the country in a very sensitive area. The important question is, do the recommendations flowing from these approaches and principles help achieve the objectives in view? The question can be dealt with in three parts,

viz.,

(a) Do the recommendations take care of the vertical imbalances adequately?

(b) Will they also help to phase out the revenue deficits in reality?, and

(c) Do they help to reduce the horizontal imbalances and redress the regional disparities?

There are several other issues arising from the Commission's Report (such as assessment of the debt position and formulating a disaster relief scheme). However, the central issues are the manner in which the Ninth Finance Commission has addressed the task of redressing the vertical and horizontal imbalances and restoring the fiscal health of the economy. This note focusses mainly on the three questions posed above.

Central Issues

Correction of Vertical Imbalance

A persistent criticism of the federal fiscal system in India has been that the unitary elements which are already embedded in the Indian Constitution have gained further strength over the years with concentration of fiscal powers in the Centre and growing dependence of the States on transfers from the Centre. The institutions contemplated in the Constitution to safeguard the fiscal autonomy of the States, it is widely felt, have not helped to correct this imbalance.

Acknowledgedly, in the distribution of responsibilities and powers delineated in the Indian Constitution, there is a chronic imbalance with concentration of fiscal powers in the Centre. This is not uncommon in federal constitutions. It was precisely in recognition of this imbalance that the Constitution makers provided for the setting up of a Finance Commission periodically to oversee the transfer of federal funds

to the States in a manner which will find acceptance by all concerned. It is generally recognised that the institution in the shape of FCs has provided a mechanism for transfer of resources from the Centre to redress the vertical imbalance inherent in the Constitution. Despite limitations, the mechanism has been a great help in preserving the federal structure by ensuring the flow of funds required by the States to meet their fiscal gaps. However, with the emergence of the Planning Commission and the practice on the part of the Centre of making discretionary transfers, a large part of the federal transfers started flowing under the umbrella of the Plans or at the Centre's behest. Although application of the Gadgil formula brought in a measure of objectivity in the Plan transfers, the fact that the Planning Commission was a creature of the Centre and not a statutory body continued to be a point of discord. Besides, about one-fifth of the total transfers takes place at the discretion of the Centre. Questions were also raised about the legal propriety of allowing sizeable amounts to be transferred by the Centre under Article 282 of the Constitution which alone provided for such a channel since that Article, it was contended, permitted only transfers under exceptional circumstances for a public purpose, being put under a heading described as "Miscellaneous Financial Provisions".

Whether the practice of channelling large amounts of federal funds to the States under the cover of Article 282 has been legitimate under the Constitutional provisions and therefore whether all federal transfers should have been brought under the purview of the Finance Commission are questions on which opinions sharply differ. One view, strongly espoused by a member of the Ninth Finance Commission has been that under the Constitution the Finance Commission had the jurisdiction to examine the entire gamut of federal transfers and not merely the revenue gaps.

Questions of constitutionality apart, such a task, many would agree, would obviously require creating an institution of the dimension of the Planning Commission which is already there. With the NDC to endorse the basic approaches of the

Planning Commission, it is generally felt that the Finance Commission's task is better focussed on consideration of the revenue side of the budgets. In any case, the inclusion of revenue component of the Plan in the Ninth Finance Commission's TOR removes a lacuna which had restricted the scope of Finance Commission's assessment since the Fourth Commission. With Plan revenue expenditure coming under the consideration of the Ninth Finance Commission, it may be expected that the proportion of transfers ordained by the Finance Commission - called "statutory transfers" - would have gone up. To that extent the Ninth Finance Commission's award would help to correct an anomaly that had crept into the system because of a dichotomy in the revenue budget between the Plan and non-Plan components. The more substantive question pertaining to correction of vertical imbalance is, will the recommendations of the Ninth Finance Commission lead to a fair distribution of the aggregate government revenue between the Centre and the States, keeping in view their respective responsibilities and functions under the Constitution? And will their dispensation reduce the dependence of the States on the Centre? None of these questions admits of a straightforward answer and will no doubt engage the attention of scholars of federal finance in India. A few observations however might be in order.

On the face of it, the Ninth Finance Commission's recommendations do not seem to disturb the existing position significantly in as much as the proportion of aggregate transfers to the States envisaged by them in the total revenue receipts of the Centre remain virtually the same (22.74 per cent as against 22.65 per cent in 1985-90). However, in judging the vertical equity of devolution decided by a Finance Commission, one may also like to look at the respective shares of the Centre and the States in the aggregate revenue and expenditures of the government (Centre and States taken together) and see whether they match.

Figures of aggregate revenue receipts of the Centre and the States, the States' own source revenue and the revenue

accrual to the States (after devolution) since the mid-70s are given in Table 1 along with computations for 1990-5 based on the Ninth Finance Commission's estimates and recommendations. It will be seen that while the States' own sources contribute roughly one-third (33 to 35 per cent) of the total government revenues, with the devolution of funds from the Centre the revenue accruing to the States goes up to 55 to 60 per cent of the total. As against this, around 55 per cent of the total revenue expenditure of the government takes place under the aegis of the States and Union Territories (Table 2). Thus the federal transfers can be said to be more than adequate to meet the revenue gaps of the States. Whether and, if so, to what extent this trend is likely to be maintained or undergo a change is difficult to figure out in the absence of estimates of the transfers which are going to be made finally by the Centre through all the available channels. On the expenditure side, data for 1990-5 which would be comparable with those of earlier years are not available. However, rough calculations indicate that the revenue accrual to the States under the Ninth Finance Commission's dispensation is likely to decline significantly (from around 60-62 per cent of the total in the preceding ten years) to about 55 per cent. There would in all probability be a decline in the States' share of the total revenue expenditure also, leaving an overall surplus with the States (though the exact proportions are difficult to specify in the absence of comprehensive estimates of revenue and expenditures). In a way the Ninth Finance Commission's award thus seems to restore the respective shares of the Centre and the States in the overall revenue and expenditure of the Government (after devolution) to the position obtaining before the sharp rise that took place in the States' share in the wake of the Seventh Finance Commission's award and seeks to correct the imbalance which resulted in large revenue deficits at the Centre. If, however, as anticipated by the Ninth Finance Commission, the States are to have an overall revenue surplus, their share in the aggregate revenue expenditure also has to decline. This is probably going to happen. (These observations should be taken as tentative as the Ninth Finance Commission has not given any estimate of the likely share of the States in the

aggregate revenues and revenue expenditure at any one place and it is difficult to say for certain how the picture will look after taking all the relevant figures into account.)

This does not imply any reduction in the share of the States in the Centre's (gross) revenues which, as noted earlier, remains at about 23 per cent. Nor does it necessarily imply a discriminatory ceiling on the States' expenditure growth. The main factor which seems to contract the States' share in the overall revenue is that the Ninth Finance Commission has assumed a lower revenue growth for the States than that for the Centre. For tax revenue of the States, the Ninth Finance Commission has assumed a growth of 11.5 per cent per annum while for the Centre a growth of 12.8 per cent has been assumed. Non-tax revenue of the Centre is also assumed to grow at a higher rate. Non-Plan revenue expenditures of the Centre are also assumed to grow at a rate of 9.75 per cent while that of the States seems to be assumed at a little over 8 per cent.

This by itself does not warrant any conclusion that the Ninth Finance Commission's dispensation has been tilted towards the Centre rather than to the States. For apparently, the estimates of the revenue needs of both the Centre and the States have been arrived at on a "normative basis", keeping in view their Constitutional responsibilities and revenue raising capacities. If the dispensation is to be faulted, one has to question the norms. Appraisal of the methodology used in deriving the norms is beyond the scope of this paper but a few points are noted here.

Briefly, in the case of the States in essence the norms have been derived on the basis of averages. For tax revenue the norm is "what a particular State would be able to raise by way of tax revenue, had it exploited its tax bases to an average extent". For non-tax revenue the actuals have been used for certain items (fees and user charges) while for some (dividends and interest to be received) normative rates of return have been used. Similarly, for a good part of non-Plan revenue expenditures, the average behaviour has been taken as the norm and the attempt

has been to estimate expenditure needs to arrive at justifiable costs of providing an average standard of service (in the case of general services) or the existing level of services (in the case of social and economic services). Allowance has been made for cost disability factors.

For the Centre, the Ninth Finance Commission's approach has been to assess what the Centre can be expected to raise by way of revenue, given the levels of taxation, etc., while expenditures have been projected on the budget estimates for 1989-90, but going mainly by the actuals and assuming a higher growth rate of revenue and lower growth of revenue expenditure than projected by the Ministry of Finance. In moderating the growth rate of the Centre's revenue expenditure and assuming a higher growth of revenue than the projections of the Finance Ministry, the Ninth Finance Commission apparently had in mind the need to phase out the revenue deficits.

If the Ninth Finance Commission's projections of the Centre's revenue and expenditures materialise and the growth rate of GDP and prices (11 per cent per annum) do not exceed the underlying assumption, the transfers of the Central revenues ordained by the Ninth Finance Commission may not perhaps be regarded as unfair. Objections can be raised on grounds of accentuating the trend towards centralisation. But this probably is what would be consistent with the aim of gradually eliminating the deficits.

Vertical equity of the Ninth Finance Commission's transfers would obviously depend crucially on whether the fiscal scenario unfolds in the manner envisaged by the Commission. Indeed if the Ninth Finance Commission's projections materialise, the Centre's revenue deficit for the entire period 1990-5 should not exceed Rs 30,600 crore or so and the overall deficit should not go beyond Rs 11,000 crore. While questions may be raised about the vertical equity of the recommendations in which the Centre is permitted to finance a part of its revenue expenditure with borrowing (only in the case of a few States

is such a privilege allowed), on the whole, it may be argued, this is the best that could be done if the revenue deficits are to be phased out. But what are the chances that the outcome will be as envisaged by the Ninth Finance Commission?

Deficit Phasing Out

The fact that in the very first year (1990-1), the Centre's budget is showing a much larger revenue deficit than was assumed by the Ninth Finance Commission casts doubt about the realism of the Ninth Finance Commission's projections and assumptions. Vertical equity however carefully respected by a Finance Commission is thrown overboard if the Centre can expand its resource base (whether for capital or revenue expenditure) by borrowing unless a compensating or commensurate increase is also provided for in the transfers to the States. For all the improvements and sophistication in the methodology, the devolution scheme in the Ninth Finance Commission's recommendations does not take account of the dynamic context in which the Centre continues with large deficits, most of which represent borrowings from Reserve Bank resulting in pressure on prices and disarray in the budgets of both the States and the Centre. Despite the moderation made by the Ninth Finance Commission in its projections it is unlikely that the deficit/surplus levels of the Centre or the States will follow the envisaged pattern. In the case of the States one may overlook what a State does in reality. After all, the Ninth Finance Commission has laid down certain norms, it is for the States to accept or reject them - only those who do better will be rewarded in that their surpluses will be at their disposal while those who fail to come up to the norm will suffer. But if the Centre does not go by the norms, the entire scenario changes.

Given the compulsions of the Centre, it is difficult to see how the Finance Commission (or for that matter any authority other than the Parliament) can bind the Centre to a given revenue deficit. Whether there should be any such binding rate on the Centre is another matter. So long as the

Centre has access to such borrowing what does one make of the vertical equity of the FCs' awards? Similarly, questions can be (and have been) asked about the relevance of the Finance Commission's exercises unless sharing of the aggregate budgetary (and some would say, non-budgetary) resources of the public sector is considered in their totality.

This is not to belittle the value of the exercises done by the past Finance Commissions or the most recent. They do serve a very useful purpose in providing a basis for the allocation of government revenue in a fair and efficient manner. Nevertheless, it is necessary to draw attention to the limitations of the Finance Commissions' awards in ensuring vertical equity arising from the static assumptions which affect only the States' share and do not provide for alternative scenarios. Obviously some more thinking is needed to take account of contingencies instead of leaving it entirely to the Centre to decide how much of the aggregate resources of the government to command away with the States left to face the consequences.

Horizontal Equity

Results achieved by the Ninth Finance Commission's formulae for distribution of the transfers of the Centre's revenue among the States are unquestionably of great significance. Despite limitations especially of data, the methodology used for assessing the revenue and expenditure of the States seems to provide a way of bringing about a more equitable allocation of the devolution than in the past. This is evidenced by the fact that the differences in the per capita non-Plan revenue surpluses of the non-special category States are much less sharp under the Ninth Finance Commission's dispensations than in the past. The maximum surplus accruing to a State after the transfers works out to about 11 times of the minimum going to any State. Under the Eighth Commission's award the proportion was 31, while under those of the Seventh and the Sixth the proportions were 18 and 69 respectively (vide Table 3).[1]

That the allocation of the transfers among the States has been more equitable than that under the Eighth Commission's awards can be seen also by comparing the dispersion of the per capita devolution of taxes and grants. Figures of per capita share of taxes and grants and the total devolution from the Fifth Finance Commission onward are given in Table 4. The averages, standard deviation and coefficient of variation of the per capita transfers are also given in the table. It will be seen that as compared with the Eighth Commission's award, the coefficient of variation (CV) of per capita transfers (tax devolution and grants taken together) is higher under the Ninth Finance Commission's recommendations (0.25 as against 0.20). The CV would probably have gone up further had the Plan grants not been subjected to the limits set by the Ninth Finance Commission. It is worth noting that the CV in the tax devolution is lower in the Ninth Finance Commission's recommendations than under that of the Eighth Finance Commission. Even so the CV of the aggregate devolution is larger mainly because of the favourable assessment of the fiscal needs of poorer States and high weightage for grants in the devolution.

Given that the CV in the per capita SDP of the States is about 0.30, one would expect that an equitable system of transfers would have at least a similar dispersion along with a significant negative correlation with per capita SDP. A major deficiency in the statutory transfers in the past was that their distribution among the States has not been as equitable as would seem to be necessary to redress the disparities in their development for which per capita SDP is perhaps the best single index. While the grants-in-aid have been more dispersed, the devolution of tax revenues is not marked by a matching spread. Since in the past the proportion of tax devolution in the total transfers has been much higher than that of grants, the overall impact of the statutory transfers has been less equilibrating than was needed to compensate for the disparities in development.

Surprisingly, under the Ninth Finance Commission's award, the CV of the grants component turns out to be smaller

than that under the Eighth Commission's formulae although the CV in the total transfers, that is taking devolution of both taxes and grants-in-aid together, is appreciably higher. This may be partly because of the increase in the CV of tax transfers and a decline in the share of the tax devolution component in the total devolution (vide Table 5) and also because of the introduction of a "deficit" criterion in the formula for allocation of Union excise duties. One possible reason for the relatively low CV of the Ninth Finance Commission's grants could be that this component of the statutory transfers now includes grants for the revenue part of the Plan too and the Plan revenue grants by the Ninth Finance Commission have been bound by upper and lower limits. The fact that the per capita non-Plan revenue surplus is eleven times higher for one State than for another even with all the innovations brought in by the Ninth Finance Commission is to be regretted since it is this surplus that provides the base on which the development plans of the States are built. However, it must be acknowledged that it is a vast improvement from the disparities marking these surpluses in the past. The Ninth Finance Commission has obviously made a valiant effort in breaking away from the past to achieve greater horizontal equity but a lot more remains to be done. Treatment of special category States also has been ad hoc and needs to be brought on rational lines.

Concluding Comments

In sum, devolution of revenues from the Centre to the States recommended by the Ninth Finance Commission seems to provide an equitable and efficient basis for revenue sharing between the Centre and the States on the one hand and among the States on the other. The key to equity and efficiency in the recommendations lies in the adoption of an explicitly articulated normative approach. Even though in the end result the share of the States in the aggregate revenue receipts and current expenditures of the government seems to have gone down, the recommendations cannot be faulted on grounds of vertical inequity unless one finds serious flaws in the norms.

The value of the Ninth Finance Commission's exercises to achieve vertical equity is, however, considerably undermined by the absence of any formula or arrangement to face situations in which the Centre commands away a larger proportion of real resources through borrowing and deficit financing and the calculations of the FCs are thrown overboard. This is a lacuna in the fiscal federalism in India which will need more serious attention in the future than it has received so far. Alternatively, there must be a national consensus in adhering to the levels of the fiscal gaps projected by the Finance Commission, once these are debated and found acceptable. Otherwise the fiscal situation in the country, already quite perilous, cannot possibly be saved from disaster. In the matter of horizontal equity the Ninth Finance Commission's recommendations mark a definite improvement over the past and apprehensions raised by the First Report have been greatly allayed. However, there is need for moving further in the directions set by the Ninth Finance Commission in this regard. There is a great need to put in serious effort well ahead of the setting up of the next Commission for improving the methodology and, no less important, the required data base.

NOTE

1 The figures given in Tables 3 and 4 are not comparable with those computed for the article by the author on the First Report of the Ninth Finance Commission because of differing coverage of the grants component of the transfers (vide EPW, December 3, 1988). In the earlier computation, disaster relief and upgradation grants were not included.

Table 1
Revenue Accruals of the Union Government and the State governments

Year	Revenue Receipts Of Centre And States Rs. Crore	Own Revenue Of States Rs. Crore	Revenue Accruals Of States Rs. Crore	Revenue Accruals Of Centre Rs. Crore	Revenue Accruals To States (Col. 4 as %of col 2)	Revenue Accruals To Centre (Col. 5 as %of col 2)	States Own Revenue as % of Total Revenue % (Col. 3 as % of Col. 2)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1974-75	11048	3716	6004	5044	54.34	45.66	33.64
1975-76	13687	4591	7475	6212	54.61	45.39	33.54
1976-77	15258	5387	8652	6606	56.70	43.30	35.31
1977-78	16435	5688	9401	7034	57.20	42.80	34.61
1978-79	18775	6487	11008	7767	58.63	41.37	34.55
6th Finance Commission (Avg) 1974-75 to 1978-79	15041	5174	8508	6533	56.30	43.70	34.33
1979-80	21211	7452	13060	8151	61.57	38.43	35.13
1980-81	23835	8491	15036	8799	63.08	36.92	35.62
337							
1981-82	28881	10407	17504	11377	60.61	39.39	36.03
1982-83	33086	12026	20243	12843	61.18	38.82	36.35
1983-84	36959	13609	22908	14051	61.98	38.02	36.82
7th Finance Commission (Avg) 1979-80 to 1983-84	28794	10397	17750	11044	61.69	38.31	35.99
1984-85	42933	15313	26220	16713	61.07	38.93	35.67
1985-86	51011	18091	31906	19105	62.55	37.45	35.46
1986-87	58434	20581	35981	22453	61.58	38.42	35.22
1987-88	66838	23797	42167	24671	63.09	36.91	35.60
1988-89(RE)	76962	26851	47589	29374	61.83	38.17	34.89
8th Finance Commission (Avg) 1984-85 to 1988-89	59236	20927	36773	22463	62.02	37.98	35.37
1989-90(BE)	89678	30429	52625	37053	58.68	41.32	
1990-95#	685273	218771	378634	306639	55.25	44.75	31.92

Note:# As per NFC's estimates and recomendations. The computation is as follows :

Revenue Receipts (Rs. Crore) :		
Centre (gross)	:	466502
less Finance Commission transfers	:	106062
Plan transfers	:	53801
Centre (net)	:	306639
States:		
Own Revenue	:	218771
Add Finance Commission transfers	:	106062
Plan transfers	:	53801
States(net)	:	378634

Table 2

Share of Centre and the States in Total Revenue Expenditure of the Government

	Combined Centre, States & UTs (Rs. Crore)	States & UTs (Rs. Crore)	Share of States & UTs in Total (percent)	Share of Centre (Percent)
1974-75	9882	5602	56.69	43.31
1975-76	11847	6522	55.05	44.95
1976-77	13863	7555	54.50	45.50
1977-78	14986	8381	55.93	44.07
1978-79	17348	9872	56.91	43.09
6th Finance Commission (Avg) 1974-75 to 1978-79	13585	7587	55.81	44.19
1979-80	20356	11512	56.55	43.45
1980-81	23711	14136	59.62	40.38
1981-82	27864	16193	58.12	41.88
1982-83	33451	19354	57.86	42.14
1983-84	39139	22691	57.98	42.02
7th Finance Commission (Avg) 1979-80 to 1983-84	28904	16777	58.02	41.98
1984-85	47329	27118	57.30	42.70
1985-86	56031	31362	55.97	44.03
1986-87	66189	35960	54.33	45.67
1987-88	77014	43205	56.10	43.90
1988-89(RE)	90077	49674	55.15	44.85
8th Finance Commission (Avg) 1984-85 to 1988-89	67328	37464	55.77	44.23
1989-90(BE)	100504	56439	56.16	43.84

Table 3

Per Capita Non-Plan Revenue Surplus of the States According to the Recomendations of the Finance Commissions

(Rs.)

	Sixth Finance Commission	Seventh Finance Commission	Eighth Finance Commission	Ninth Finance Commission
Non-Special Category States :				
Andhra Pradesh	15.21	178.03	333.82	576.96
Bihar	29.89	159.96	132.48	442.67
Gujarat	120.32	331.66	629.89	947.48
Haryana	217.84	509.69	920.12	1489.36
Karnataka	80.47	263.40	478.84	1008.09
Kerala	3.41	94.41	228.35	135.30
Madhya Pradesh	37.61	218.85	356.05	345.48
Maharashtra	135.74	465.53	885.37	1501.73
Orissa	30.89	27.91	47.18	172.54
Punjab	234.71	473.58	927.41	723.56
Rajasthan	26.01	77.57	97.33	208.25
Tamil Nadu	42.67	140.43	601.53	756.85
Uttar Pradesh	30.02	183.50	309.88	204.72
West Bengal	21.17	143.13	29.66	383.13
Average	**55.48**	**215.58**	**380.80**	**578.73**
Proportion of Maximum/Minimum	**68.76**	**18.26**	**31.27**	**11.10**

Table 4

Average and Dispersion of Per Capita Transfers# under the Finance Commissions' Awards

(Rs.)

	Share of Taxes	Grants	Total		Share of Taxes	Grants	Total
	Non-Special Category States				Special Category States		
5th Finance Commission							
Avg	16.82	1.91	18.73	Avg	12.56	65.28	77.85
S.D	1.00	2.67	2.75	S.D	4.16	95.12	95.50
C.V	0.06	1.40	0.15	C.V	0.33	1.46	1.23
6th Finance Commission							
Avg	23.61	6.09	29.70	Avg	22.40	95.90	118.29
S.D	0.98	8.07	7.91	S.D	0.23	52.17	52.18
C.V	0.04	1.32	0.27	C.V	0.01	0.54	0.44
7th Finance Commission							
Avg	57.06	1.68	58.74	Avg	47.22	189.82	237.04
S.D	4.20	3.24	6.40	S.D	16.98	167.61	164.99
C.V	0.07	1.93	0.11	C.V	0.36	0.88	0.70
Cor.Coeff. with SDP	-0.68*	-0.41	-0.66*	Cor. Coeff. with SDP	0.16	-0.14	-0.12
t-Values	-3.23	-1.58	-3.03	t-values	0.40	-0.34	-0.31
8th Finance Commission							
Avg	83.83	5.89	89.72	Avg	310.13	175.65	485.78
S.D	13.42	6.91	18.02	S.D	152.87	105.15	257.73
C.V	0.16	1.17	0.20	C.V	0.49	0.60	0.53
Cor.Coeff. with SDP	-0.86*	-0.28	-0.75*	Cor. Coeff. with SDP	0.04	0.05	0.05
t-Values	-5.73	-1.02	-3.87	t-values	0.11	0.12	0.11
9th Finance Commission							
Avg	173.19	28.03	201.22	Avg	716.88	393.77	1110.66
S.D	32.43	22.86	50.34	S.D	363.45	237.21	600.13
C.V	0.19	0.82	0.25	C.V	0.51	0.60	0.54
Cor.Coeff. with SDP	-0.75*	-0.60**	-0.76*	Cor. Coeff. with SDP	-0.15	-0.13	-0.14
t-Values	-3.90	-2.63	-4.00	t-values	-0.45	-0.38	-0.42

Note : # Percapita annual averages.
For the absolute figures vide Appendix Tables A to E.
* Significant at 1% level of significance.
** Significant at 5% level of significance.

Table 5

Components of Devolution Under Finance Commissions' Awards

(Rs. Crore)

	Tax Devolution	Deficit Grants	Other Grants	Total Grants	Total Devolution (Statutory)
Fifth Finance Commission	3592.52 (88.08)	486.22 (11.92)	-	486.22 (11.92)	4078.74 (100.00)
Sixth Finance Commission	6944.50 (79.92)	815.84 (9.39)	928.78 (10.69)	1744.62 (20.08)	8689.12 (100.00)
Seventh Finance Commission	18811.25 (97.29)	136.92 (0.71)	387.38 (2.00)	524.30 (2.71)	19335.55 (100.00)
Eighth Finance Commission	33124.96 (93.28)	968.17 (2.73)	1420.86 (4.00)	2389.03 (6.73)	35513.09 (100.00)
Ninth Finance Commission	87882.00 (82.88)	15017.18 (14.16)	3137.25 (2.96)	18154.43 (17.12)	106036.43 (100.00)

Note:Figures in parentheses indicate percentages of the total.

Table A — Fifth Finance Commission's Award (1969-70 to 1973-74) Per Capita Annual (Rs.)

Table B — Sixth Finance Commission's Award (1974-75 to 1978-79) Per Capita Annual (Rs.)

States	Share of Taxes	Grant	Total	States	Share of Taxes	Grants	Total
NON-SPECIAL CATEGORY STATES							
APR	15.90	2.97	18.87	APR	23.93	8.64	32.57
BHR	17.94	0.00	17.94	BHR	23.84	3.43	27.28
GUJ	17.26	0.00	17.26	GUJ	24.81	0.00	24.81
HAR	14.99	0.00	14.99	HAR	21.52	0.00	21.52
KAR	15.55	1.22	16.77	KAR	23.60	0.00	23.60
KER	17.25	4.68	21.93	KER	23.51	18.12	41.63
MPR	16.48	0.00	16.48	MPR	23.65	0.00	23.65
MAH	19.31	0.00	19.31	MAH	25.64	0.00	25.64
ORS	16.70	9.57	26.26	ORS	22.92	25.62	48.55
PUN	16.60	0.00	16.60	PUN	22.70	0.00	22.70
RAJ	16.41	3.96	20.36	RAJ	22.84	15.79	38.63
TND	16.95	1.11	18.06	TND	24.36	0.00	24.36
UPR	17.13	0.00	17.13	UPR	22.93	3.96	26.89
WBN	17.00	3.28	20.28	WBN	24.23	9.67	33.90
Avg	16.82	1.91	18.73	Avg	23.61	6.09	29.70
S.D	1.00	2.67	2.75	S.D	0.98	8.07	7.91
C.V	0.06	1.40	0.15	C.V	0.04	1.32	0.27
SPECIAL CATEGORY STATES							
ASM	14.74	11.29	26.04	ASM	22.11	30.41	52.52
HPR	14.15	17.38	31.53	HPR	22.69	84.75	107.44
J&K	17.97	31.78	49.75	J&K	22.72	67.06	89.78
MNP	6.20	42.26	48.46	MNP	22.21	188.73	210.95
MEG	14.58	21.56	36.13	MEG	22.48	130.65	153.13
NAG	13.95	297.00	310.95	NAG	22.14	41.63	63.77
TRP	6.36	35.73	42.09	TRP	22.41	128.05	150.46
Avg	12.56	65.28	77.85	Avg	22.40	95.90	118.29
S.D	4.16	95.12	95.50	S.D	0.23	52.17	52.18
C.V	0.33	1.46	1.23	C.V	0.01	0.54	0.44

Table C

Seventh Finance Commission's Award

(1979-80 to 1983-84)

Per Capita Annual

Rs.

States	Share of Taxes	Grants	Total	SDP (1973-76)
NON-SPECIAL CATEGORY STATES				
APR	57.00	0.74	57.75	928
BHR	62.49	1.83	64.32	645
GUJ	57.58	0.00	57.58	1134
HAR	48.64	0.00	48.64	1399
KAR	55.08	0.00	55.08	1045
KER	61.00	0.33	61.34	948
MPR	59.78	2.48	62.26	776
MAH	55.50	0.00	55.50	1349
ORS	62.69	13.01	75.70	793
PUN	50.78	0.00	50.78	1586
RAJ	52.64	1.15	53.79	853
TND	61.75	1.14	62.89	942
UPR	55.40	1.94	57.34	715
WBN	58.52	0.91	59.44	1033
Avg	57.06	1.68	58.74	1010.43
S.D	4.20	3.24	6.40	264.18
C.V	0.07	1.93	0.11	0.26
Cor. Coeff. with SDP	-0.68	-0.41	-0.66	
SPECIAL CATEGORY STATES				
ASM	51.06	2.23	53.29	791
HPR	52.33	101.95	154.28	1068
J&K	54.15	74.16	128.31	811
MNP	54.23	224.45	278.68	870
MEG	56.02	148.87	204.89	850
NAG	47.52	590.87	638.40	820
SKM	3.12	236.71	239.83	820
TRP	59.30	139.32	198.62	830
Avg	47.22	189.82	237.04	857.50
S.D	16.98	167.61	164.99	82.67
C.V	0.36	0.88	0.70	0.10
Cor. Coeff. with SDP	0.16	-0.14	-0.12	

Table D

Eighth Finance Commission's Award

(1984-85 to 1988-89)

Per Capita Annual

Rs.

Sates	Share of Taxes	Grants	Total	SDP (1976-79)
NON-SPECIAL CATEGORY STATES				
APR	91.24	4.69	95.94	1006
BHR	101.16	5.42	106.58	755
GUJ	72.19	3.66	75.85	1590
HAR	57.22	1.50	58.73	1895
KAR	80.43	0.70	81.14	1202
KER	89.36	2.08	91.44	1162
MPR	93.81	5.71	99.52	895
MAH	73.44	0.51	73.95	1670
ORS	106.51	23.74	130.26	918
PUN	64.32	3.68	68.01	2250
RAJ	76.13	6.83	82.96	1127
TND	91.96	0.82	92.78	1165
UPR	84.72	2.71	87.43	870
WBN	91.04	20.44	111.48	1247
Avg	83.83	5.89	89.72	1268.00
S.D	13.42	6.91	18.02	415.86
C.V	0.16	1.17	0.20	0.33
Cor. Coeff. with SDP	-0.86	-0.28	-0.75	
SPECIAL CATEGORY STATES				
ASM	105.26	29.92	135.18	960
HPR	219.22	100.66	319.87	1230
J&K	212.17	109.64	321.81	1100
MNP	357.87	203.19	561.06	859
MEG	309.58	177.14	486.72	1046
NAG	663.14	411.47	1074.61	1100
SKM	317.06	204.30	521.36	1100
TRP	296.77	168.86	465.63	1082
Avg	310.13	175.65	485.78	1059.63
S.D	152.87	105.15	257.73	102.94
C.V	0.49	0.60	0.53	0.10
Cor. Coeff. with SDP	0.04	0.05	0.05	

Table E
Ninth Finance Commission's Award
(1989-90 to 1994-95)
Per Capita Annual

Rs.

States	Share of Taxes	Grants	Total	SDP (1982-85)
Non-Special Category States				
APR	185.43	18.72	204.15	2053
BHR	206.66	32.17	238.83	1323
GUJ	143.10	13.44	156.54	2919
HAR	124.33	7.01	131.34	3043
KAR	154.83	3.96	158.79	2461
KER	180.83	32.76	213.59	2144
MPR	184.67	36.99	221.66	1860
MAH	142.90	3.91	146.81	3384
ORS	252.30	74.51	326.81	1728
PUN	135.10	14.17	149.27	4013
RAJ	183.07	75.86	258.93	1820
TND	199.65	6.32	205.97	2142
UPR	158.70	40.86	199.56	1713
WBN	173.07	31.75	204.82	2230
Avg	173.19	28.03	201.22	2345.21
S.D	32.43	22.86	50.34	717.51
C.V	0.19	0.82	0.25	0.31
Cor. Coeff. with SDP	-0.75	-0.60	-0.76	
Special Category States				
ARP	1104.92	653.55	1758.47	2746
ASM	196.67	65.35	262.02	1863
GOA	488.32	245.69	734.01	4437
HPR	444.68	206.89	651.57	2103
J&K	521.05	268.22	789.27	2380
MNP	683.12	361.15	1044.28	2205
MEG	573.65	270.97	844.63	1960
MIZ	1504.32	905.09	2409.40	1778
NAG	1161.11	686.70	1847.81	2268
SKM	567.61	348.48	916.09	2570
TRP	640.27	319.42	959.69	1784
Avg	716.88	393.77	1110.66	2372.18
S.D	363.45	237.21	600.13	718.70
C.V	0.51	0.60	0.54	0.30
Cor. Coeff. with SDP	-0.15	-0.13	-0.14	