Report of the Ninth Finance Commission : Some Conceptual and Methodological Comments

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Introduction

The Report of the Ninth Finance Commission is significant for a number of reasons. First, the Presidential order detailing the terms of reference makes a marked departure from the past, particularly by suggesting, "the Commission shall adopt a normative approach in assessing the receipts and expenditures on the revenue accounts of the States and the Centre......". Assessing total receipts and expenditures on the revenue account instead of limiting the scope only to the non-Plan side unlike in the past and the adoption of a 'normative' approach in place of the 'gap-filling' approach are the two significant departures suggested in the terms of reference. Second, at a time when acute fiscal imbalances are found in both Central and State budgets, the recommendations of the Commission, through their incentive effects could have important implications for the emerging fiscal trends. Third, with the terms of reference indicating a shift from 'budgetary needs' to 'fiscal needs' as a basis of transfer, the operationalisation of the concept could have important inter-State allocation and equity implications. Finally, the recommendations of the Commission, coming as they are on the eve of the Eighth Five Year Plan, determine the availability of resources and thereby affect the Plan size of the Centre as well as individual States.

It is true that the Finance Commissions cannot (and perhaps should not) make their recommendations purely on economic considerations; their recommendations, in fact, represent a compromise solution to the points of view of the Centre and the individual States and are based on the amalgam of economic, political, legal and historical considerations. Nevertheless, it would be useful to analyse the recommendations from an economist's perspective.

Intergovernmental transfers, in general, are meant to offset fiscal disadvantages of the States. It is very well recognised in all federations that the sub-Central levels of government face greater fiscal disadvantages than the Central government. This is the problem of vertical fiscal imbalance. At the same time, the residents in the States with lower revenue bases and/or higher cost disabilities face higher fiscal disadvantage as they have to bear a higher tax burden to provide a given normative level of public services than their counterparts in the States with higher revenue capacity and/or lower cost disabilities. This horizontal imbalance can be measured by the gap between expenditure needs and revenue capacities of the States. This measure takes into account both the sources of inequity: the lower revenue capacity and higher unit costs. As the Finance Commissions determine a major proportion of general purpose current transfers from the Centre to the States, their recommendations would have to be evaluated from the point of view of resolving vertical and horizontal imbalances. The Ninth Finance Commission, in addition, was entrusted with "........the objective of not only balancing the receipts and expenditure on revenue account of both the States and the Centre, but also generating surpluses for capital investment". This is extremely important in view of the prevailing acute fiscal imbalances and the volume of investment for the Plan hinges crucially on the effectiveness of the strategy adopted by the Commission to phase out revenue deficits.

Transfers to Offset Fiscal Disadvantages of the States

If the intergovernmental transfers are meant to offset the fiscal disadvantages of the States both in the vertical and in the horizontal sense as mentioned above, it is important to analyse how these are conceptualised and measured. This paper attempts to examine some of the conceptual and methodological issues relevant to the framework the Ninth Finance Commission has adopted and to identify areas requiring further improvements. The paper mainly deals with the issues relating to the methodology of assessment which forms the basis of determining tax devolution and grants- in-aid under Article 275. The matters relating to additional excise duties in lieu of sales tax, grants in lieu of tax on railway passenger fares, the States' indebtedness to the Centre and financing of relief expenditure by the States affected by natural calamities, though important, are not analysed here.

a. Offsetting vertical fiscal imbalance:

An important question often asked about Finance Commission transfers is whether the vertical fiscal imbalance has been adequately offset. As a percentage of Central revenues, there is no significant change in the transfers. In fact, at about 22.7 per cent, it is estimated at the same level as in the Seventh Plan period. Perhaps at a time when the Centre itself is facing a yawning gap in its revenue account, larger transfers were unfeasible. In any case, what proportion of Central revenues should be transferred to the States has been a matter of judgement and one can argue for greater or lesser transfers depending on one's own persuasion. Besides, Finance Commission transfers form only a part of the total transfers and the issue of vertical imbalance has to be resolved by the transfer system taken as a whole. Yet, those who have been critical of the proliferation of Centrally sponsored schemes would be certainly disappointed that the Commission implicitly provided for the continuation of the schemes by allowing a 10 per cent annual increase in the growth of grants for Centrally sponsored schemes while estimating the overall revenue deficit for the period of the award (para 7.17 p.30). Also, as will be argued later in the paper, the strategy of phasing out revenue deficits by understating the expenditure growth in the projections is likely to work discriminatingly against the States.

b. Offsetting fiscal disadvantages among the States:

The two most important points of criticism levelled against the Finance Commission transfers in the past were :

(i) restricting the Finance Commissions to assess only the non-Plan requirements either through Presidential guidelines or on account of the self-imposed limitations by the Finance Commissions themselves have resulted in the artificial compartmentalisation of Plan and non-Plan sides of the budgets of the States rendering the achievement of the objectives of federal transfers difficult (Gulati, 1987, Chelliah, 1983).[1]

(ii) The gap-filling approach adopted by the Commissions not only tended to act as disincentives on the States' fiscal performance, but also did not enable the resource-poor States to raise the standards of public services to some normative levels. The response of the recent Commissions, particularly since the Seventh Commission, to these criticisms were, first, to raise the States' share of divisible taxes to substantially high levels so that very few States were left with deficits after tax devolution; second, to introduce greater weight to general economic backwardness in tax devolution; and third, to provide for upgradation in the levels of selected public services in the States where prevailing levels were below the average. These in turn, apart from the disincentives on revenue and expenditure decisions have led to three important consequences; namely, (i) increased role of tax devolution resulted in the linking of transfers to general economic backwardness rather than fiscal disadvantages of the States as such. In the event, the assessments made by the Finance Commissions had little relevance to the amount of funds received in the case of a majority of the States. (ii) Inspite of the apparently large weight assigned to the backwardness factor, the explicit and implicit weights assigned to population were predominant. (Datta, 1979)[2]. Consequently, the recommendations of the Commissions left significantly varying per capita non-Plan surpluses across the States, thereby contributing to the widening inter-State inequalities in the levels of development [Bagchi, 1988].

(iii) Attempts to raise the standards of specified services in the deficient States to some normative levels were neither properly designed to achieve the objective nor did they take into account the cost factors beyond the control of the States [Rao, 1990].

The important point to note is that the Finance Commissions in the past could not design transfers to offset fiscal disadvantages of the States. This is mainly due to the difficulties involved in the measurement of parameters representing States' fiscal disadvantages, namely, expenditure needs and revenue capacities. Noting the reasons for not developing the norms by the Finance Commissions, Lakdawala [1984] states, "owing to inherent difficulties of the task, the absence of a permanent secretariat and the short time in which each Finance Commission has to submit the report, except in the case of return on capital lent or invested, no worthwhile work has been done".

Given that not much work in evolving norms, particularly on the expenditure side, is available even in academic literature, two courses were open to the Ninth Finance Commission. First, it could have decided on the total amount of transfers to the States and could have distributed it among them on the basis of some general economic indicators, disregarding the relative fiscal imbalances of the States altogether[3]. The logic behind such a scheme is the contention that Finance Commission transfers are not meant to fill any gap but merely supplement States' revenues on the basis of some indicators of economic backwardness. Also, this scheme would have been simpler and less controversial as the fiscal performances of either the individual States or that of the Centre would not be called into question. However, such a scheme would not satisfy the basic objective of offsetting fiscal disadvantages of the States nor would it meet the requirements specified in the Presidential order of providing "adequate incentives for resource mobilisation and financial discipline as well as closer linking of revenue-raising and expenditure decisions", and, " keeping in view not only balancing of the receipts and expenditure on revenue account of both the States and the Centre, but also generating surpluses for capital investment". The alternative approach which the Ninth Finance Commission has chosen necessitates the measurement of the fiscal disadvantages of the States as represented by need-revenue gaps and make transfers based thereon. The Commission thus had to break new ground in estimating fiscal capacities and needs of the States.

Concepts like 'fiscal capacities' and 'fiscal needs' however, are difficult to measure and, therefore, some complexities in the methodology of measuring these fiscal parameters are unavoidable. Besides, accuracy in the measurement of these concepts is conditioned by the availability of relevant and reliable data on the determinants of tax revenues and expenditures of the States. Although the methodologies of measuring these parameters may not be transparent, the logic of employing them is quite clear, namely, every State should be enabled to provide a certain normatively determined level of services, subject to the requirement that the residents of the State pay the average tax-price for these services. Nevertheless, the methodology employed by the Commission should be taken only as the starting point. A lot of empirical research on this subject is needed and with improved availability of data and more refinements in the method of estimation, the approach holds promise for the future Commissions.

c. Treatment of special category States:

From this perspective, continuation of the trend approach in respect of the special category States and the State of Goa must be considered as an important shortcoming. It must be noted that the share of these States forms almost 15 per cent of the total transfers made by the Finance Commission. In fact, in respect of these States, the normative approach has an overwhelming significance. Given that the revenue collections in these States are very low, the emphasis on tax effort to provide incentive for expanding the tax bases in the years to come assumes great significance. It is equally important to enable these States to provide certain normative levels of public services. Further, as the unit costs of providing public services in these States are higher due to both higher input costs and inadequate opportunity to reap scale economies arising from sparsity of population, less subjective methods would have to be evolved to assess their expenditure needs required to provide the normative levels of services. However, difficulties in measuring the fiscal disadvantages in these States are formidable because reliable data on many of the important variables are not available. Besides, extreme heterogeneity even amongst these States has been a major factor inhibiting the evolution of a less objectionable method. The special category States themselves, in their joint memorandum to the Ninth Finance Commission have suggested certain norms for important sectors. Perhaps the future Commissions may find such an approach useful to evolve a suitable methodology. A lot of work in this area, however, is needed.

Methodological Issues

There are some other important areas where conceptual and methodological improvements are necessary. Although the Commission has made an attempt at measuring fiscal disadvantages of the States in terms of 'Need-capacity' gaps, the transfers given to the States are not exactly related to these gaps. Table 1 presents per capita 'Need-Capacity' gaps of the individual States and the per capita transfers received. It may be seen that the transfers do not exactly correspond to the gaps of the States. While in the case of Uttar Pradesh, the transfer formed only 78.17 per cent of the gap, in the case of Maharashtra it was over 3 times the surplus the State had before tax devolution. The scatter diagram shows clearly that the design of the transfers has not exactly corresponded to the

States' fiscal disadvantages. Of course, the correlation coefficient between the transfer and the Need-capacity gap is high and significant, 0.76 in the case of non-Plan transfers and 0.81 for total transfers. Also, the States with higher gaps seem to have gained from the recommendations of the Ninth Commission in comparision with the Eighth Commission's award[4] (vide Table 2). Besides, as will be demonstrated later, even from the point of view of generating surpluses in the non-Plan accounts, the result does not seem to be very satisfactory. This is partly due to the constraints posed by history, namely, the difficulty of reducing the role of tax devolution, but mainly on account of the methodology adopted to determine Plan revenue expenditure and various adjustments made before giving the Plan deficit grants.

a. Determining Plan revenue expenditures - compartmentalised approach

An important shortcoming of the Report appears to be the compartmentalised method of estimating non-Plan and Plan revenue expenditures. Having developed a methodology to estimate non-Plan revenue expenditure needs of the States, it should have been possible for the Commission to estimate their total revenue expenditures without making a distinction between Plan and non-Plan. This would have merely involved some minor conceptual and methodological changes. It may be recalled that the Commission defined non-Plan expenditure needs to mean the justifiable cost of providing 'average' levels in the case of general services and 'actual' levels in the case of social and economic services. Improvement in the levels of social and economic services was to be attempted in the Plan side. In the estimation, therefore, non-Plan expenditures on economic and social services were regressed on quantity and cost variables within and beyond States' control. By substituting average values of quantity and cost variables, the justifiable cost of providing existing levels of social and economic services were estimated.

If the Commission could estimate the justifiable cost of providing existing levels in the case of social and economic services, surely it should have been possible to estimate the justifiable cost of providing the normative standards of these services also. Besides, it must be mentioned here that the Commission has adopted the regression methodology only in respect of services having revenue expenditures forming a predominant proportion of total expenditures, and the linkage between revenue and capital expenditures is weak. Therefore, the existing levels of these services would be represented better by total revenue expenditures rather than non-Plan revenue expenditures.

However, unlike in the case of administrative services, the levels of social and economic services even in the most developed States may have to be augmented further. Although relative to less developed States the levels of these services provided may be higher, these may still be judged low in absolute terms and hence should be raised further. In any case, in the case of the States with above average levels of these services, it may be necessary to reckon expenditures required to provide at least the existing levels of service. However, in the case of States with below average levels, the expenditure needs for providing the 'average' levels should have been reckoned. If indeed, the amount of transfers required forò thhswaa nîoÿ available with the Centre according to the judgement of the Commission, the benchmark or normative level of services itself could have been changed from 'average' to any other feasible level. This would have done away with the artificial distinction between Plan and non-Plan expenditures.

Instead, the Commission has preferred to estimate non-Plan and Plan revenue expenditures separately by making a number of arbitrary adjustments. First, shares of major States are obtained by reckoning per capita Plan expenditures as inversely related to per capita non-Plan expenditures on economic and social services. But in doing so, upper and lower limits are placed at Rs 325 and Rs 425 per capita respectively. It is not clear why the Commission has chosen these values and not any other.

Second, in determining the finances available with the States to meet minimum levels of Plan revenue expenditures, no explanation is given for taking only 40 per cent of the post-devolution surpluses available with the States. A further adjustment is made when Plan deficit grants are recommended to equal only 50 per cent of the Plan revenue deficit (the amount of minimum levels of Plan revenue expenditure in excess of 40 per cent of non-Plan surplus and the assumed Gadgil formula assistance).

Besides, there is a basic contradiction implicit in the methodology. An important reason for employing the regression method to determine expenditure needs is to adjust for an important source of inequity, namely, differences in the unit cost of providing public services among the States. By determining the relative shares of the States in Plan revenue expenditures as inversely proportional to their non-Plan revenue expenditures (with lower and upper limits specified), cost differences among the States are simply assumed away. Thus, while the non-Plan revenue expenditures allow for cost differences beyond the control of the States, the Plan revenue expenditures do not! Such contradictions could have been easily avoided if different methodologies were not employed to determine non-Plan and Plan revenue expenditures.

Sometimes, questions are asked about the suitability of taking 'average' rates of taxes and levels of public services in determining States' taxable capacities and expenditure needs. It is suggested that neither the Centre nor any of the States can be presumed to have exploited their taxable capacities fully. Similarly, the general impression that prevails is that there is overspending at both the Central and individual States' levels. While this may be true in the absolute sense, operationalisation of such a concept involves several subjective judgements to be made. In any case, what is important is to reckon tax revenues of the States at a uniform level of tax effort and assess expenditures of the States necessary to provide a specified level of public services.

What has been the overall effect of the methodology of assessment on equalising the standards of social and economic services? Table 3 presents annual average per capita normative expenditures, both Plan and non-Plan, estimated for the period 1990-5 by the Commission. The revenue expenditure (Plan and non-Plan) assumed by the Commission varies from Rs 305 per capita in Bihar to Rs 512.73 in Gujarat. Thus the differences in estimated per capita expenditure on social and economic services vary from 78 per cent of the average in Bihar to 131.5 per cent of the average in Gujarat. Although Plan revenue expenditure as determined by the Commission has an equalising impact on per capita expenditures as seen in the reduction in the coefficient of variation from 0.23 in the case of non-Plan expenditures to 0.15 in the case of total revenue expenditures, the extent of differences in per capita expenditure even as envisaged by the Commission itself is substantial.

From the point of view of equalising the levels of services across the States, however, what is relevant is the equalisation in the amount of per capita resources available for the Plan. The amount of available resources for the Plan consequent to the recommendations of the Finance Commission is given by the estimated per capita non-Plan surpluses in individual States. This is estimated by adding the Plan deficit grants to the post-devolution surpluses in each of the States. The per capita non-Plan surpluses arising from the recommendation of the Commission thus estimated ranges from Rs 27.06 to Rs 300.34 (Table 4). In other words, by the Commission's own reckoning, the resources available for the Plan in the State with the highest surplus is over 11 times that of the State with the lowest surplus. While this order of difference is much lower than what had resulted from the recommendations of the past Commissions, the difference is still substantial and certainly not conducive to balanced regional development of the country.

b. Adjustments in normative estimates

Some comments on the adjustments carried out by the Commission in the normatively determined non-Plan deficits also are in order. It may be recalled that as the conventional estimates were found to yield higher deficits or lower surpluses for 10 out of the 14 major States as compared to the normative estimates, the Commission "as a matter of abundant caution and as a measure of concession to the States" averaged the budget position arising from the two sets of estimates (para 3.82 p.14). Some observations on this adjustment may be made. First, the Commission should have provided a detailed methodology of making conventional estimates like in the past. This is essential because even in respect of some of the States where the normative estimates for 1986-7 were found to be higher than actuals by a significant margin, the conventional estimates of expenditures for 1990-5 were found to be still higher than the normative estimates. For example, in the case of Andhra Pradesh, Bihar, Haryana, Karnataka and Tamil Nadu the normative estimates were found to be higher than the actual in 1986-7 (Table 13.5.2 of the Report p. 125). The difference was as high as Rs. 70 crore in the case of Bihar, Rs 45 crore in the case of Karnataka and Rs. 85 crore in the case of Tamil Nadu. When the growth rate as per the Finance Commission assumption is applied, the difference for the award period would be substantial. Yet it is surprising that the conventional estimates were found to be even higher than these normative estimates. Second, clearly the adjustments made had no beneficial effect on the four poor States of Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh where the normative estimates were higher than the conventional estimates. Similarly the States of Maharashtra, Gujarat, Haryana and Karnataka did not gain as they had no deficits in either non-Plan or Plan account after tax devolution. Only the States of Andhra Pradesh, Bihar, Kerala, Punjab, Tamil Nadu and West Bengal actually gained from these adjustments. Surely, in the case of some States, these adjustments had contradictory effects to the adjustments made in terms of the phased application of the normative approach.[5]

c. Provision for parity in pay scales:

What could be the reasons for such differences between the normative and conventional estimates? It may be noted that both in the case of tax revenues and non-Plan revenue expenditures, all-States aggregate figures in the year of estimation approximately equal the actual. Yet on the expenditure side, the normative estimates for 1990-5 were lower than the conventional estimates by Rs. 5213 crore. This can be possible only if any one or more of the following reasons hold: (i) the growth rate applied to the normative figures of 1986-7 to reach base year (1989-90) figures was an underestimate; (ii) the conventional figures were overestimates; and (iii) the provision made for salary revision was inadequate. It appears that the rate of growth (13 per cent) taken is only marginally lower than the trend rate of growth and as the salary revision portion is added separately, this does not appear to be an underestimate. As far as conventional estimates are concerned, we have pointed out some anomalies in the previous paragraph. In any case as the detailed methodology is not spelt out anywhere in the report, it is difficult to offer any comments. On the methodology of working out the provision for salary revison, surely, some comments are necessary.

The methodology detailed in Annexure III.17 indicates that the differences between emoluments of specified categories of employees in the Central and individual State governments were not multiplied with the total number of State government employees in the category, but only with 20 per cent of the number of employees if the percentage difference in salaries is less than ten, or twice the percentage difference in salaries if it is more than 10 subject to the maximum of 100 per cent of the employees. The reason for thus limiting the benefits to only a fraction of employees is given as, "all the employees in a specific emoluments range are not expected to get the full benefit of the difference". The argument is that, as the States have been revising their pay scales more frequently than the Centre, due to the 'weightage and fixation' benefits given at every revision, even if the pay scales in the States are lower than the Central scales, total emoluments for a particular category of employees could be higher. However, the important issue is, once it is stated that the Finance Commission has agreed in principle to pay parity, do the States have any other option? If not, can the States deny the benefit of `weightage' and `fixation' to some employees when their scales are lower than the comparable Central government employees even though their total emoluments are higher? On what empirical basis was the benefit of revision limited to employees equivalent to twice the percentage difference in the emoluments subject to a minimum of 20 per cent and maximum of 100 per cent? These issues are not explained adequately in the Report.

The Commission has not given the estimated expenditures reckoned to bring about pay parity in any detail. This can, however, be worked out from the normative estimates. The aggregate expenditure estimates given in Appendix 5 include provision for pay parity, whereas the disaggregated estimates do not. But these estimates have been adjusted to conform to normative expenditures. The provision for pay revision estimated according to the methodology detailed in Annexure III.17 can be obtained by making pro-rata adjustments to the above estimates. These estimates are given in Table 5.

Implications of Phasing out Revenue Deficits

One of the major objectives the Finance Commission took upon itself is the phasing out of revenue deficits of the Central and State governments in the course of the Commission's award. In the final analysis, according to the Commission's own reckoning, there will be revenue deficit of Rs. 10,766 crore in the Centre and the States taken together. This is certainly an important achievement, considering the existing scenario.

The main method through which the Finance Commission has sought to phase out the revenue deficit is by assuming very low rates of growth of expenditures. Taking seven per cent growth rate in the non-Plan expenditures of the

Centre and the States even when inflation is only five per cent could be realised only if they apply emergency brakes. As far as the States are concerned, the overdraft regulation scheme does not allow the States to have significant overall deficits. Therefore, quite a large part of the adjustment may not come through raising more revenues or cutting down expenditures, but by continuing the diversion of capital receipts to finance revenue expenditures. In the case of the Centre, there are no constraints even on the overall availability of funds and hence it can easily finance revenue expenditures by borrowing from the Reserve Bank of India. Even the budget for 1990-1 for the Centre envisages a revenue deficit of Rs. 13,032 crore which is higher than the target set by the Finance Commission (Rs. 8,501 crore) by over 53 per cent. The short point is that neither in the case of the Centre nor in the case of the States, is the ceiling on revenue deficits set by the Finance Commission likely to be effective. Nor has the Finance Commission provided any fool-proof mechanism to limit the Centre and the States to the prescribed ceilings. Further, while the States have to operate within the overall availability of resources, both revenue and capital, due to the existence of the overdraft regulation scheme, the Centre has no such limitation. Therefore, the methodology adopted to phase out the deficits would only have the effect of 'barking' on the Centre, whereas on the States, it would 'bite'[6].

Summary and Conclusions

To sum up, the Ninth Finance Commission has broken new ground in some respects. In particular, the attempt at linking transfers to offset fiscal disadvantages of the States is noteworthy. Whether it has indeed succeeded in measuring fiscal disadvantages has to be seen, but the method employed by the Commission seems to hold promise. However, the Commission certainly has missed an opportunity to make an integrated assessment of the revenue accounts of the States. The continued adherence to the compartmentalised approach to assessing Plan and non-Plan sides of States' budgets is clearly a setback. A more integrated approach was possible with the same level of transfers and without impinging on the role of the Planning Commission. Such an integrated approach to assessment is necessary to design transfers to offset fiscal disadvantages of the States and to pave the way for balanced regional development. Also, as there exists no effective mechanism, it is doubtful whether the States and the Centre will adhere to the Plan of phasing out revenue deficits. In any case, while non-adherence on the part of the States would largely reduce their investments, non-adherence on the part of the Centre would hurt the economy as a whole.

Notes

1. Chelliah [1983 p.19] for example states, " there is nothing in the Constitution to restrict the purview of the Finance Commission to non-Plan revenue account. It would, in fact, be desirable for an independent quasi-judicial body like the Finance Commission to make an over-all assessment of the financial situation of each State and then make recommendations on the basis of well-defined principles related to federal transfers and equalisation".

2. According to the Report of the Ninth Finance Commission, [India, 1990, p.6) effective weight assigned to population according to the Eighth Commission's recommendation works out to 83 per cent on the average although the direct weight assigned to this factor was only 25 per cent."

3. In fact, V.K.R.V. Rao (1973) had suggested such a scheme a number of years ago. Also, the memorandum submitted by the Government of Gujarat to the Ninth Finance Commission argues for adopting such an approach.

4. Strictly, it is necessary to compute the need-capacity gap for the period of the Eighth

Commission's award for the purpose of comparison. Besides, the actual percentages of transfers were different from the estimated percentages in the Report of the Eighth Commission as (i) three new States came into existence, (ii) net interest liability grants are not included in these computations, and (iii) the amount of shareable taxes actually realised was different from what was estimated by the Commission.

5. In fact, the Commission applied the normative approach in a phased manner. For instance, the normative levels of tax revenue were to be reached in 1994-5 beginning from the trend estimates in 1989-90. Similarly, in the case of expenditures, the norms were applied in a phased manner starting from 50 per cent in 1989-90 to reach full normative levels in 1994-5.

6. Guhan (1989) made a similar observation on the First Report of the Commission.

Table 1
Estimated Need-Capacity Gaps and Per Capita Transfers

(Rs.)

States		Estimated Annual Average per capita Need capacity gap (1990-5)		Per Capita Transfer (1990-5)		Per cent of transfer to need-capacity gap
		Non-Plan (1)[y]	Total (2)[y]	Non-Plan (1)[y]	Total (2)[y]	Total
1.	Andhra Pradesh	60.50	149.02	174.01	183.04	122.83
2.	Bihar	159.09	272.22	216.78	247.59	90.95
3.	Gujarat	(-)26.97	58.21	162.53	162.53	279.21
4.	Haryana	(-)163.38	62.97	134.49	134.49	213.58
5.	Karnataka	(-)30.60	64.64	171.42	171.02	264.57
6.	Kerala	190.26	275.84	190.42	217.33	78.79
7.	Madhya Pradesh	161.11	268.24	198.40	230.21	85.72
8.	Maharashtra	(-)143.04	(-)50.38	157.30	157.30	(-)312.25
9.	Orissa	298.24	397.94	298.24	332.75	83.62
10.	Punjab	11.42	103.55	150.77	156.13	150.77
11.	Rajasthan	22.43	129.37	221.18	262.84	203.17
12.	Tamil Nadu	59.71	197.30	209.56	211.09	106.99
13.	Uttar Pradesh	201.80	310.52	201.78	242.72	78.17
14.	West Bengal	138.79	235.69	185.92	215.42	91.40

Y = Mid year population estimates of Registrar General for the years from 1990 to 1995 were taken to compute per capita estimates.

Table 2

Relative Shares of States in Transfers Recommended by the Eighth and the Ninth Finance Commission

(Per cent)

Major States		As per 8th Commission Report (1984-9)	Shares in 1988-9 (B.E)	As per 9th Commission First Report	As per 9th Commission Second Report
1.	Andhra Pradesh	7.34	7.18	6.60	6.83
2.	Bihar	10.70	10.52	10.65	10.54
3.	Gujarat	3.77	3.49	3.19	3.50
4.	Haryana	1.11	1.03	1.21	1.13
5.	Karnataka	4.38	4.19	4.22	3.83
6.	Kerala	3.27	3.16	3.01	3.25
7.	Madhya Pradesh	7.50	7.33	6.98	7.40
8.	Maharashtra	6.68	6.27	6.71	5.85
9.	Orissa	4.84	4.99	4.53	5.21
10.	Punjab	1.64	1.54	2.04	1.58
11.	Rajasthan	4.25	4.31	4.77	6.15
12.	Tamil Nadu	6.25	6.09	6.38	5.85
13.	Uttar Pradesh	15.47	15.19	15.83	16.46
14.	West Bengal	8.74	8.71	6.99	6.89
	Other States				
1.	Arunachal Pradesh	-	0.89	1.11	0.79
2.	Assam	4.07	4.29	4.12	3.73
3.	Goa	-	0.44	0.34	0.48
4.	Himachal Pradesh	1.96	1.76	1.86	1.75
5.	Jammu & Kashmir	2.84	3.02	3.48	3.17
6.	Manipur	1.19	1.09	1.09	1.02
7.	Meghalaya	0.97	0.89	0.82	0.78
8.	Mizoram	-	0.89	1.25	0.96
9.	Nagaland	1.34	1.73	1.25	1.17
10.	Sikkim	0.27	0.24	0.23	0.24
11.	Tripura	1.42	1.28	1.34	1.32
	Total	100.00	100.00	100.00	100.00

Table 3

Per Capita Normative Expenditure on Social and Economic Services 1990-5

States	Per capita Annual Average Revenue Expenditure on Economic and Social Services			Index of Per Capita Expenditure		
	Non-Plan	Plan	Total	Non-Plan	Plan	Total
Andhra Pradesh	274.23	112.78	387.01	98.19	101.99	99.26
Bihar	181.27	123.78	305.05	64.90	111.93	78.24
Gujarat	418.26	94.47	512.73	149.75	85.43	131.51
Haryana	292.07	110.74	402.81	104.57	100.14	103.31
Karnataka	334.84	105.19	440.03	119.88	95.13	112.86
Kerala	387.70	94.94	482.64	138.81	83.14	123.79
Madhya Pradesh	235.62	117.70	353.32	84.35	106.44	90.62
Maharashtra	355.15	102.62	457.77	127.15	92.80	117.41
Orissa	278.00	110.05	388.05	99.55	99.52	99.53
Punjab	353.25	102.74	455.99	126.44	92.91	116.95
Rajasthan	242.33	116.41	358.74	86.76	105.27	92.04
Tamil Nadu	368.79	95.23	464.02	132.04	86.12	119.01
Uttar Pradesh	191.50	119.05	310.55	68.56	107.66	79.65
West Bengal	310.00	107.89	417.89	110.99	97.57	107.18
All Major States	279.31	110.58	389.89	100.00	100.00	100.00
Standard Deviation	69.75	0.08	60.90	24.97	8.51	15.62
Coefficient of Variation	0.23	0.08	0.15	0.23	0.09	0.15

Table 4

Non-Plan Surplus of Major States During 1990-5 according to the Recommendation of the Finance Commission

Major States	Non-Plan Surplus After Tax Dev-olution (Rs.crore)	Plan Deficit Grants (Rs.crore)	Total Non-Plan Surplus (Rs.crore)	Per capita Annual Average Non-Plan Surpluses (Rs)
Andhra Pradesh	4289.22	341.25	4630.47	122.54
Bihar	2575.15	1374.27	3949.42	88.55
Gujarat	3957.94	-	3957.94	189.49
Haryana	2505.06	-	2505.06	297.47
Karnataka	4670.79	-	4670.79	201.62
Kerala	2.29	412.54	414.83	27.06
Madhya Pradesh	1227.98	1047.81	2275.79	69.10
Maharashtra	11525.56	-	11525.56	300.34
Orissa	-	554.50	554.50	34.51
Punjab	1400.45	53.91	1454.36	144.73
Rajasthan	-	960.40	960.40	41.65
Tamil Nadu	4296.04	43.79	4339.83	151.37
Uttar Pradesh	-	2886.50	2886.50	40.94
West Bengal	1581.77	998.65	2580.42	76.63
All Major States	38032.25	8673.62	46705.87	108.49

Table 5

Additional Expenditure Reckoned on Account of Parity in Pay Scales with the Central Pay Scales in 1989-90

(Rs. lakh)

State		Additional Expenditures as per Annexure III.17	Additional Expendi- adjusted to half normative estimates	Additional Expendi- adjusted to full normative estimates
1.	Andhra Praadesh	1084.14	1082.41	1085.87
2.	Bihar	10763.30	10430.18	11096.42
3.	Gujarat	-	-	-
4.	Haryana	-	-	-
5.	Karnataka	126.02	·123.12	128.92
6.	Kerala	8341.46	8734.34	7948.58
7.	Madhya Pradesh	1239.78	1237.30	1242.26
8.	Maharashtra	-	-	-
9.	Orissa	6536.01	6241.89	6830.13
10.	Punjab	-	-	-
11.	Rajasthan	3998.29	3806.57	4190
12.	Tamil Nadu	26380.36	25488.36	27272.02
13.	Uttar Pradesh	56707.29	54166.80	59247.77
14.	West Bengal	6874.96	7107.33	6642.59

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