

A study on fiscal space

I. Introduction: background of the study

Decentralization and increase in the states' responsibilities

In 1991, in a context of financial crisis and few weeks after the constitution of a government led by the Congress, a **program of reforms** aimed at opening the country to FDI was launched. Pushed by the IMF, the Congress government of Narasimha Rao implemented several liberal policies. Step by step, **the Central government loosened its power over the states**. For instance, the abolition of the *licence raj* consequently led to the dismantlement of the former centralized system of management of the economy.

The relaxing of control of the Central government over the States' administrations has freed a **new decisional space for the regional governments to shape their own development strategies** (this decentralization of power was formally set in 1993 with the two constitutional amendments). As Montek Ahluwalia puts it (2001:2) "liberalization has eliminated many of the controls earlier exercised by the central government and thereby increased the role of the state governments in many areas that are critical for economic development."

Although the Central government still has the responsibility to define macro-economic policies, states' governments have a decisional power over development policies. Hence education, health and infrastructures belong to their prerogatives and they usually spend relatively large amounts in these sectors. The question that is raised is the following: how can the states finance these important development policies?

They benefit from Central transfers and they can use their own tax revenues. **States therefore often try hard to increase their own financial capacities**, by attracting investments for instance. Besides, the decentralization process has also allowed the states to have access to **new financial sources** such as direct loans made by international agencies, e.g. the World Bank.

Fiscal imbalances

However, as Raja J Chelliah explains (2005:3400), while expenditure decentralization is rather easily feasible, taxing powers remain "to a considerable degree" centralized, due to "efficiency considerations." "**The limited decentralization of taxing powers along with substantial decentralization of spending responsibilities creates the familiar problem of vertical fiscal gap.**" The states' tax assignments are thus often insufficient to balance their spending.

As Chelliah tells (2005:3400), the makers of the Indian Constitution had intended to address the problem of vertical fiscal gap by the sharing of taxes. On the other hand, the issue

of horizontal gap/inequalities (i.e. “disparities and unequal capacities to provide public services among the states”) was supposed to be solved by grants-in-aid. “The horizontal transfers must be geared to compensate for deficiency in fiscal capacity, whereas the transfers to cover the vertical gap are to be fashioned to make good the insufficiency of taxing power from which all states suffer.”

However, “the Finance Commissions did not, generally speaking, keep these two types of gaps clearly separate.” To close the vertical gap, the Finance Commissions usually raises the states’ share of central taxes and close the remaining gap thanks to grants-in-aid.

What is important to underline is the **delinking of spending and taxing decisions** at the margin and the periodic debt relief provided to the states (Chelliah, 2005:3401). This “gap-filling approach” provides **wrong incentives for the states that are not encouraged to maintain a fiscal discipline.**

This problem is aggravated by the plan assistance and loans. The amount of Plan assistance (30% are grants *and* 70% are loans) is based on various criteria (population, per capita income, performance, special problems¹) but does not depend on the capacity of the state to repay. Therefore, “**loans are given to the states on the basis of entitlements without regard to capacity to repay**, the existing level of debt, level of GSPD and the level of revenues.” (Chelliah, 2006:3402). Therefore, the indebtedness of the states has grown fast. For instance, while the share of public debt as percentage of GSDP for Orissa was 30.35% in 1980-81, it was 65% in 2002-03 (Chelliah, 2006:3402).

For Chelliah, these facts are responsible of a “**continuing fiscal imbalance**”: “the root causes of the endemic fiscal crisis, especially at the level of the states, (which then affects the central fisc) are to be found in the simultaneous pursuit of fiscal objectives and policies which are in themselves incompatible.” (2006:3399).

Fiscal Responsibility Act

To face the continuing high level of the combined fiscal deficit, the GoI took recently remedial measures. The **Fiscal Reforms and Budget Management Act** (FRBMA) was enacted on August 26, 2003 and the Act and the rules were notified to come into effect from July 5, 2004. This Act, in providing the support of a strong institutional mechanism, aims at managing the central fiscal deficit. With this act, the GoI is compelled to reduce its revenue deficit by an amount equivalent to half per cent or more of the estimated GDP at the end of each financial year and eliminated by March 31, 2009. Fiscal deficit is to be reduced by an amount equivalent to 0.3 per cent or more of the estimated GDP at the end of each financial year and reduced to no more than 3% of the estimated GDP by March 31, 2009. Apparently, since the enactment of the FRBM, the fiscal deficit of the Centre has indeed decreased (see table below).

¹ In proportion to 1971 population : 60% of the assistance

Inversely proportional to per capita income: 25%

Performance (tax effort, expenditure management, achievement of literacy, population control, land reforms and absorption of external aid): 7.5%

Special problems: 7.5%

States have also joined the process of fiscal consolidation in line with the Twelfth Finance Commission's recommendations and are complementing the efforts of the Central Government. “Governments have adopted various institutional measures, which were oriented towards further strengthening of fiscal discipline, such as legislation in respect of guarantees and fiscal responsibility” (RBI, 2008:6). **Twenty-six State Governments have enacted Fiscal Responsibility Legislations** between 2002 and 2007. Only Sikkim and West Bengal did not. According to the Reserve Bank of India (2008:3) “the States made substantial progress in meeting the targets stipulated under their FRLs.”

Table 2.1 : Trends in deficits of Central Government				
Year	Revenue deficit	Primary deficit	Fiscal deficit	Revenue deficit as per cent of fiscal deficit
(As per cent of GDP)				
1990-91	3.3	2.8	6.6	49.4
1991-92	2.5	0.7	4.7	52.7
1992-93	2.5	0.6	4.8	51.7
1993-94	3.8	2.2	6.4	59.2
1994-95	3.1	0.4	4.7	64.6
1995-96	2.5	0.0	4.2	59.2
1996-97	2.4	-0.2	4.1	58.2
1997-98	3.1	0.5	4.8	63.5
1998-99	3.8	0.7	5.1	74.8
1999-2000	3.5	0.7	5.4	64.6
2000-01	4.1	0.9	5.7	71.7
2001-02	4.4	1.5	6.2	71.1
2002-03	4.4	1.1	5.9	74.4
Enactment of FRBMA				
2003-04	3.6	0.0	4.5	79.7
2004-05	2.5	-0.1	4.0	62.6
2005-06#	2.7	0.4	4.1	64.7
2006-07(BE)	2.1	0.2	3.8 \$	57.0
# Provisional and unaudited as reported by Controller General of Accounts, Department of Expenditure, Ministry of Finance.				
\$ Refer footnote on page 2.				
Note: 1. The ratios to GDP for 2006-07 (BE) are based on CSO's Advance Estimates. GDP at current market prices prior to 1999-2000 based on 1993-94 series and from 1999-2000 based on new 1999-2000 series.				
2. Fiscal deficit excludes transfer of states' share in small savings collections.				
Source : Budget documents.				

States' new decisional space vs states' fiscal space

While it is important to see that GoI as well as states' governments make some efforts to solve the problem of fiscal imbalance, the issue of fiscal deficit is not the primary focus of

this study. More than the question of fiscal deficit, the issue we are interested in is the states' power/capacity to finance their own development policies.

In the context of decentralization, as told above, states have gained greater responsibilities – but did they have (fiscal) power to act and take advantage of this new decisional space? **Since 1993 and the decentralization policies, did the states manage to increase their fiscal capacities to customize their own policies?**

In this study, we will first look at states' finances to see whether all states have been able to create a fiscal space and whether their fiscal capacities have increased over time. We will then look at the states' spending to see how they use their fiscal space.

Due to data availability, the period we focus on starts from 1993-94 and ends in 2002-2003.

II. Do the states indeed have fiscal space?

What is fiscal space? We chose to use the definition of Peter Heller (2005) for whom “[fiscal space] can be defined as room in a government’s budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy.”

How can “fiscal space” be measured?

We decided to use several measures.

We draw our first measure from the paper written by Nooruddin and Chhibber (2005). In their study of the relation between fiscal space and electoral volatility in the Indian states, they use a definition derived from interviews with state bureaucrats who were responsible for the financial affairs in two Indian states: Assam and Bihar.

They measure fiscal space as “the difference between its total receipts on the revenue account and the sum of its expenditures on civil administration, the police, and debt servicing from the revenue account. To the resulting difference, [they] add the size of the deficit the central government allows the state government to run.” (2005:13).

To measure ‘the size of the deficit the central government allows the state government to run’, we chose to use the loans from the Centre as a proxy. Indeed, as Nooruddin and Chhibber explain (2005:13): “States that have some ‘leverage’ at the center [...] can obtain more resources from the central government.” Moreover, “since state government deficits do have a direct political cause and these are therefore exogenous to the revenue generating capabilities of a state government it is important to control either for the loans received by a state or its deficits.”

From the data at our disposal, revenue expenditures are classified in several categories. To proxy the ‘expenditures on civil administration, the police, and debt servicing’, we use two of these categories:

- **“Interest Payments and Servicing of Debt”** that comprises the ‘Appropriation for Reduction or Avoidance of Debt’ and the ‘Interest Payments’ (interests on loans from the Centre, interests on internal debt, interest on small savings, provident funds, etc.)
- **“Administrative Services”** that comprises the ‘Secretariat-General Services’, the ‘District Administration’, the ‘Police’, ‘Public Works’ and ‘Others++.’

Peter Heller explains that “a government can create fiscal space by raising taxes, securing outside grants, cutting lower priority expenditure, borrowing resources (from citizens or foreign lenders), or borrowing from the banking system.” However, he adds that “it must do this without compromising macroeconomic stability and fiscal sustainability.” It thus seems that our first measure does not completely take into account the long-term sustainability of the debt. Hence, it can only correspond to the definition of a short-term or medium-term ‘fiscal space.’

Indeed, if ‘fiscal space’ designates the “room in a government’s budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy” in the long run, the surplus availability of funds (the fiscal space) at one point in time is not necessarily sustainable (indeed, the incurring of debts necessarily leads to a future repayment and payments of interests, which can be unsustainable and endanger the state’s future fiscal space).

Therefore, a second measure of fiscal space is simply the difference between the total revenue receipts (which convey the health of the state’s economy and its capacity to mobilize resources (e.g. through the tax system)) and the **‘compelled expenditure’ that are the “Interest Payments and Servicing of Debt” and the “Administrative Services”** expenditure.

As Nooruddin and Chhibber, we normalize both measures of fiscal space by the total size of government revenues. Expressing fiscal space as a share of total revenues also partially conveys the differential economic performances of the states: better performing states are those who manage to earn higher tax revenues compared to their “compelled” spending. Doing so helps us to take into account both the size of the state’s economy and performance.

Besides we also normalize both measures by the state’s population to take into account the demographic size of each state. Thus, fiscal space normalized by the population expresses the amount of funds (in rupees) available per capita after the compelled expenditure have been paid.

We thus have 2 different measures, declined in different categories:

Fiscal space 1

Fiscal space1 = [Total Revenue receipts – (Revenue expenditure on Interest Payments and Servicing of Debt + Revenue expenditure on Administrative Services) + Loans from the Centre] / Total Revenue receipts.

Fiscal space1* = [Total Revenue receipts – (Revenue expenditure on Interest Payments and Servicing of Debt + Revenue expenditure on Administrative Services) + Loans from the Centre] / Total population.

Fiscal space 2

Fiscal space₂ = Total Revenue receipts - (Revenue expenditure on Interest Payments and Servicing of Debt + Revenue expenditure on Administrative Services)]

Fiscal space₂* = Total Revenue receipts - (Revenue expenditure on Interest Payments and Servicing of Debt + Revenue expenditure on Administrative Services)]/Total Revenue receipts.

Fiscal space₂** = Total Revenue receipts - (Revenue expenditure on Interest Payments and Servicing of Debt + Revenue expenditure on Administrative Services)]/Total Population.

What do the data show?²

Globally, there has been **a global increase in revenue receipts** from the 1980s for all the states, both in absolute and per capita terms.

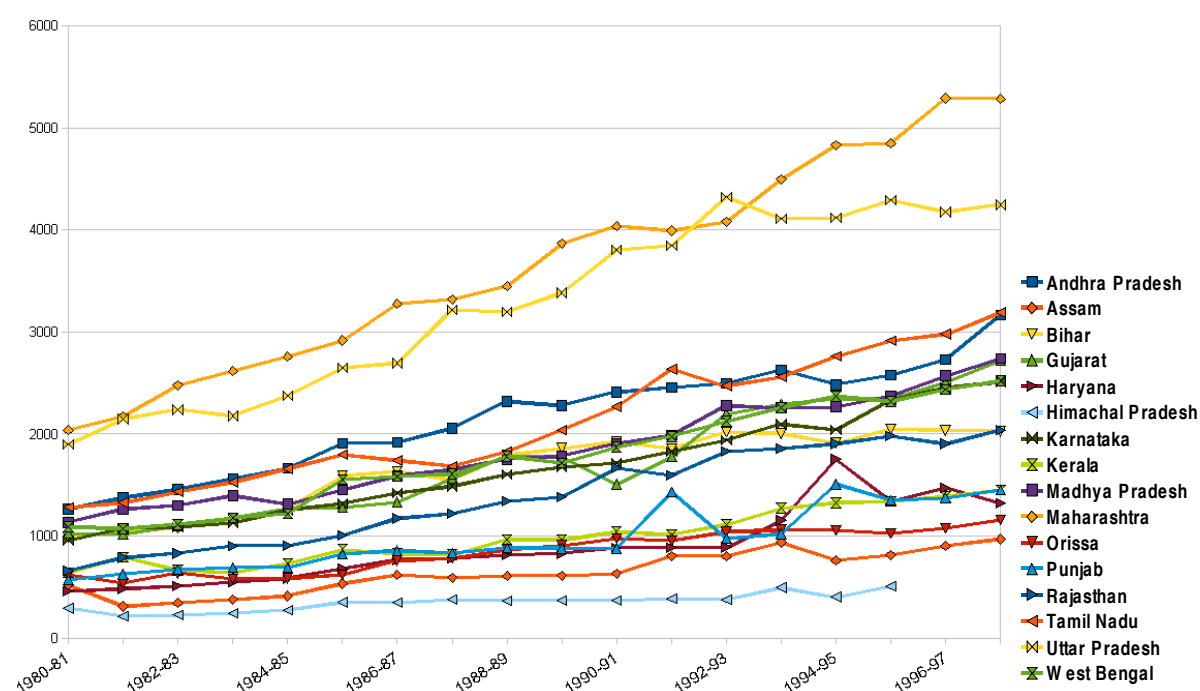
On average, the revenue receipts for the 16 states increased by 66.5% from 1993-94 to 2003-2004. Nevertheless, starting from the mid 1990s, greater disparities could be witnessed.

It is important to look both at the absolute values and the per capita values. Indeed, looking at the per capita revenue receipts, we see that the “richer” states have witnessed greater fluctuations than the “poorer” ones. However, when the revenue receipts are normalized, we still observe the same trend: on average, from 1993 to 2003, the revenue receipts increased for all states.

We also observe that “richer” states (Haryana, Himachal Pradesh, Punjab, Gujarat...) tend to have higher revenue receipts per capita.

Revenue Receipts in 16 major States 1980-81 to 1997-98 (in constant 1980-81 prices, Rs. Crore)

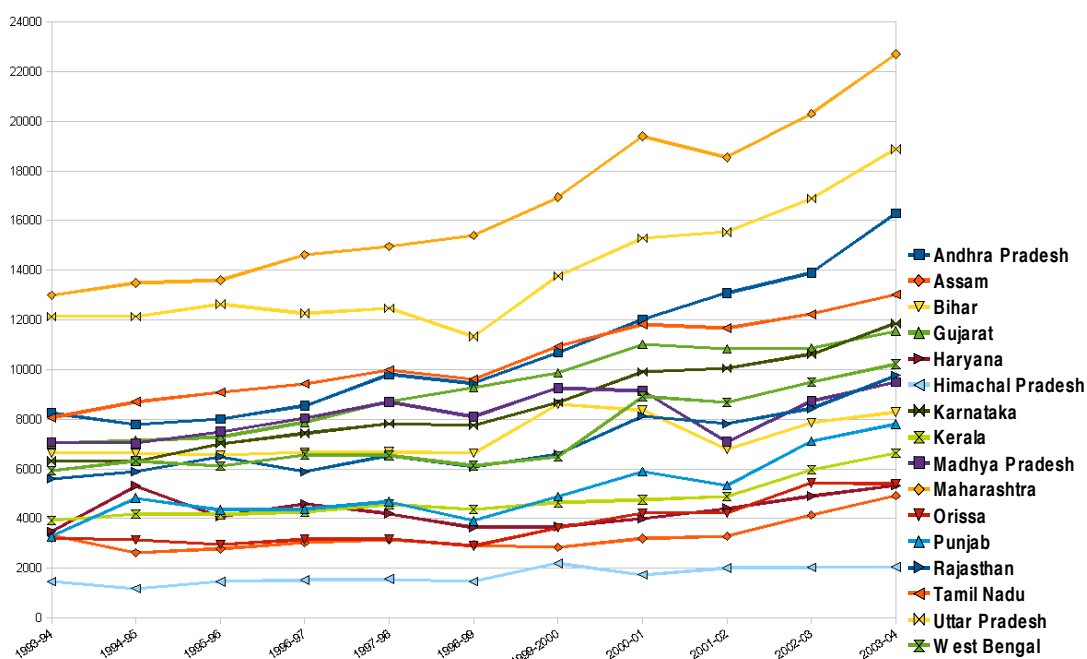
(Source: Handbook of Statistics and own calculations with data from EPW database)



² See appendix to know more about the data used and calculations made.

Revenue Receipts in 16 major States 1993-94 to 2002-03 (in constant 1993-94 prices, Rs. Crore)

(Source: Handbook of Statistics and own calculations with data from EPW database)



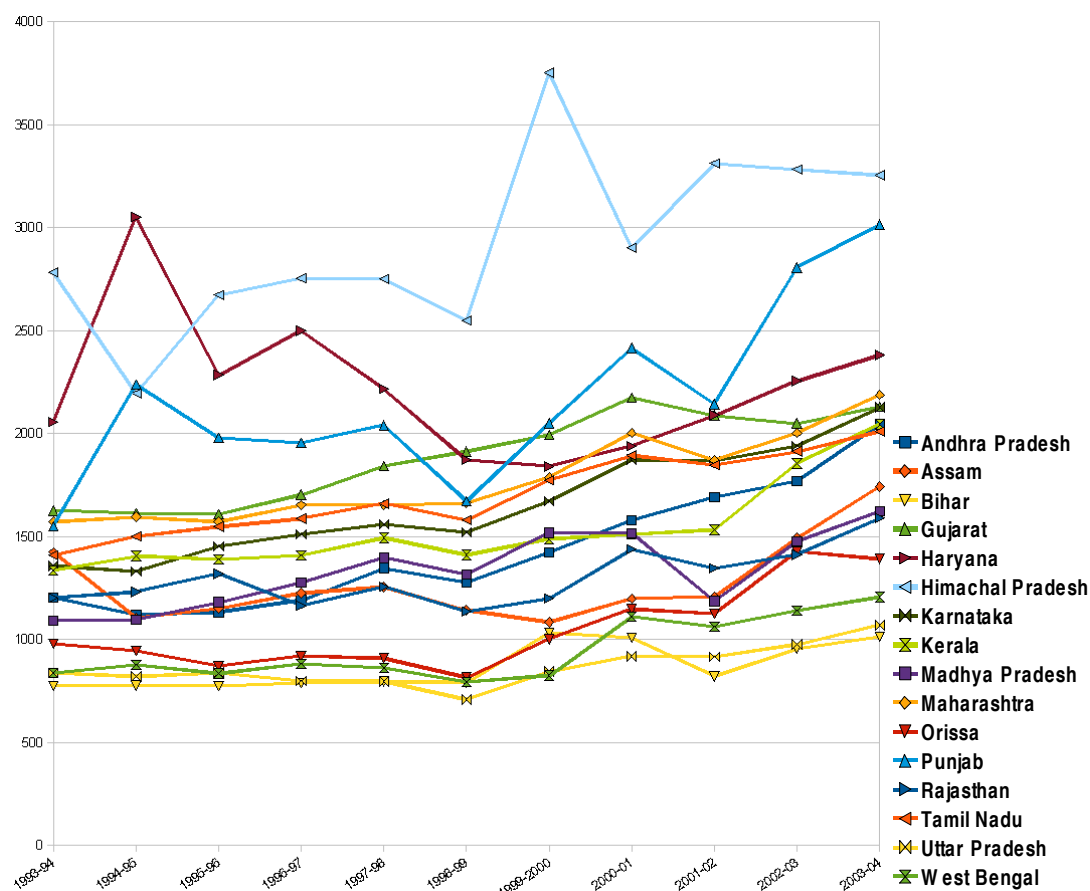
Revenue Receipts in 16 major States (in constant 1993-94 prices, Rs. Crore)

(Source: Handbook of Statistics, RBI and own calculations with data from EPW database)

Year	AP	Assam	Bihar	Gujarat	Haryana	HP	Karnat.	Kerala	MP	Maharas.	Orissa	Punjab	Rajas.	TN	UP	WB
1993-94	8250,5	3317,5	6629,1	7030,0	3481,5	1465,1	6324,7	3922,1	7069,8	12986,8	3207,8	3276,7	5596,9	8066,1	12131,4	5921,3
1994-95	7790,8	2627,6	6629,4	7135,6	5310,3	1176,1	6309,9	4172,3	7030,1	13481,6	3142,1	4824,0	5889,1	8698,3	12123,6	6313,4
1995-96	8004,5	2785,4	6563,0	7279,4	4086,7	1458,1	7016,4	4167,9	7500,0	13595,0	2946,8	4354,8	6486,6	9083,5	12636,7	6120,4
1996-97	8543,8	3024,7	6659,3	7880,3	4597,8	1529,7	7426,4	4269,5	8035,1	14620,3	3164,6	4386,9	5882,4	9427,8	12258,0	6571,8
1997-98	9807,0	3158,1	6693,7	8716,3	4193,8	1555,9	7813,8	4571,8	8692,9	14961,3	3180,8	4677,0	6536,2	9985,8	12471,1	6540,1
1998-99	9443,2	2929,4	6624,5	9265,8	3641,6	1468,1	7750,2	4357,9	8101,5	15398,3	2902,7	3910,7	6075,8	9615,5	11331,9	6133,6
1999-00	10681,7	2835,8	8611,1	9874,4	3682,3	2199,9	8677,2	4647,4	9256,7	16936,5	3625,4	4891,9	6595,1	10932,3	13760,2	6495,1
2000-01	12024,5	3192,1	8362,5	11017,9	3987,8	1731,7	9903,5	4762,2	9139,3	19396,1	4226,4	5881,2	8129,0	11814,4	15280,3	8912,0
2001-02	13082,1	3283,6	6783,3	10821,9	4415,2	2012,3	10046,7	4881,3	7090,0	18541,5	4208,2	5326,1	7814,8	11668,0	15536,7	8677,5
2002-03	13895,4	4136,3	7869,0	10863,2	4902,0	2030,6	10623,3	5965,4	8731,7	20299,1	5433,7	7119,3	8433,8	12231,2	16878,8	9490,8
2003-04	16299,3	4919,9	8291,0	11548,7	5323,2	2050,3	11860,6	6642,9	9501,8	22699,7	5384,7	7804,6	9759,7	13019,3	18875,4	10213,8
Variation (%)	97,6	48,3	25,1	64,3	52,9	39,9	87,5	69,4	34,4	74,8	67,9	138,2	74,4	61,4	55,6	72,5

Per capita revenue receipts in 16 major States (in constant 1993-94 prices)

(Source: Handbook of Statistics, Census, and own calculations with data from EPW database)



However, at the same time, **states did not witness a large increase in fiscal space.**

Before using our measures of fiscal space, we can first look at easy indicators.

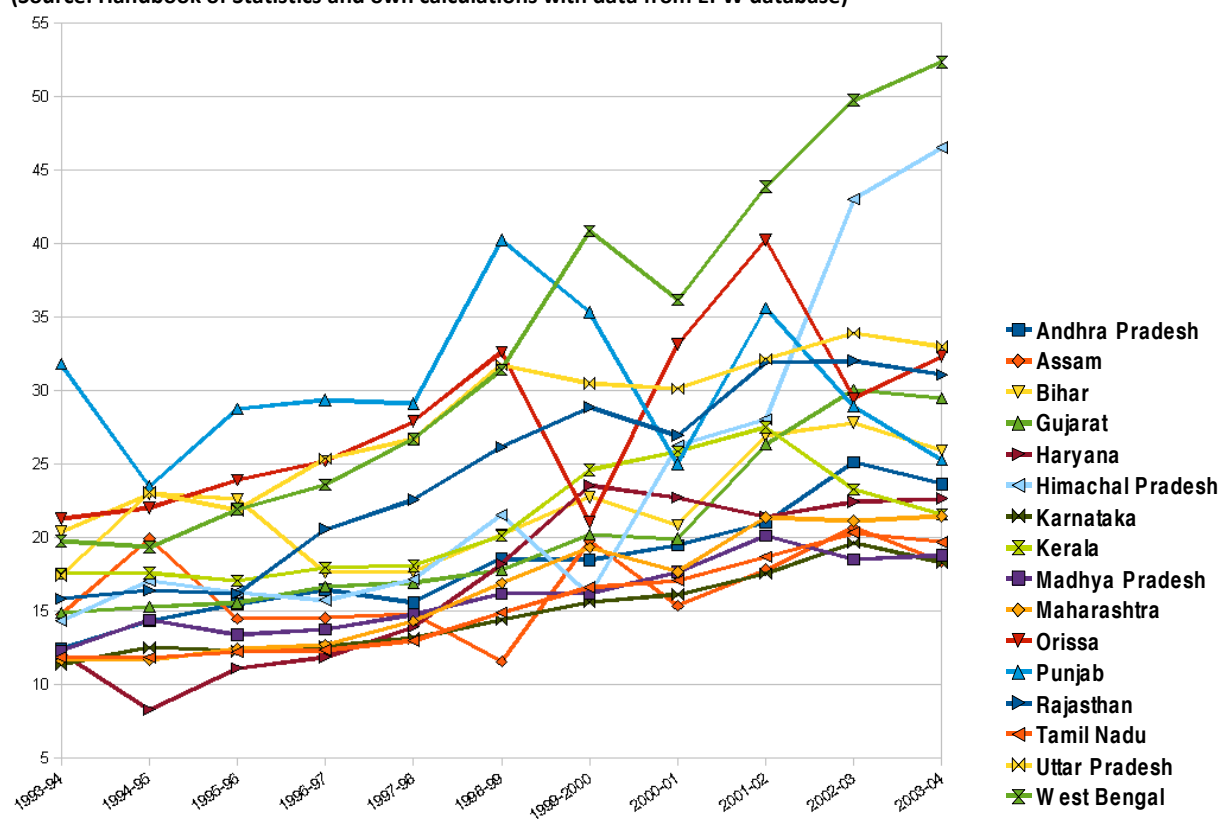
A first way of assessing the fiscal space of a state is to look at the interest payment on revenue receipts ratio (IPRR ratio). As Satyapriya Rath, (O.S.D., Finance Department, Government of Orissa) explained³, this ratio is often used by the Government of Orissa and the donor agencies to assess a state's fiscal space.

In the graph below, we see that the IPRR ratio has increased in almost all the states during the period considered. It means that a greater part of the revenue receipts is spent on interest payment. For instance, in 2002-2003 in West Bengal, interest payment represented more than half (52.35%) of the revenue receipts of the state.

³ In a personal interview.

IPRR ratio in 16 major States (in constant 1993-94 prices)

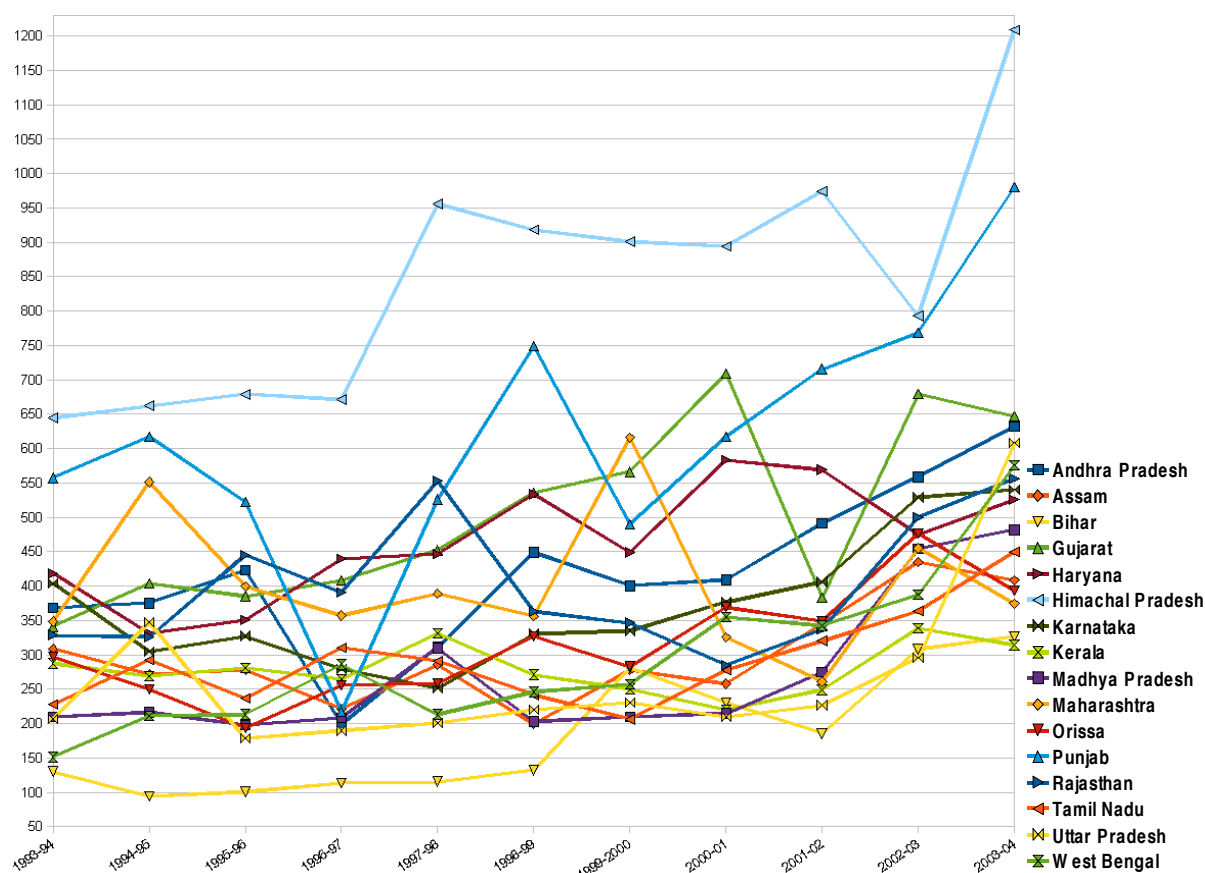
(Source: Handbook of Statistics and own calculations with data from EPW database)



Besides, as Satyapriya Rath pointed out, **capital expenditure in itself gives indications about the fiscal capacities of a state**. If capital expenditure increases steadily over a certain period of time, it means that the state has enough fiscal space to make durable investments (better for its medium-term/long-term development).

Per capita capital expenditure in 16 major States (in constant 1993-94 prices)

(Source: Handbook of Statistics and own calculations with data from EPW database)



We see that despite fluctuations, on average the per capita capital expenditure have increased from 1993 to 2003. We also notice that Himachal Pradesh and Punjab, the two states having the higher per capita capital expenditure are also those having the greater revenue receipts per capita.

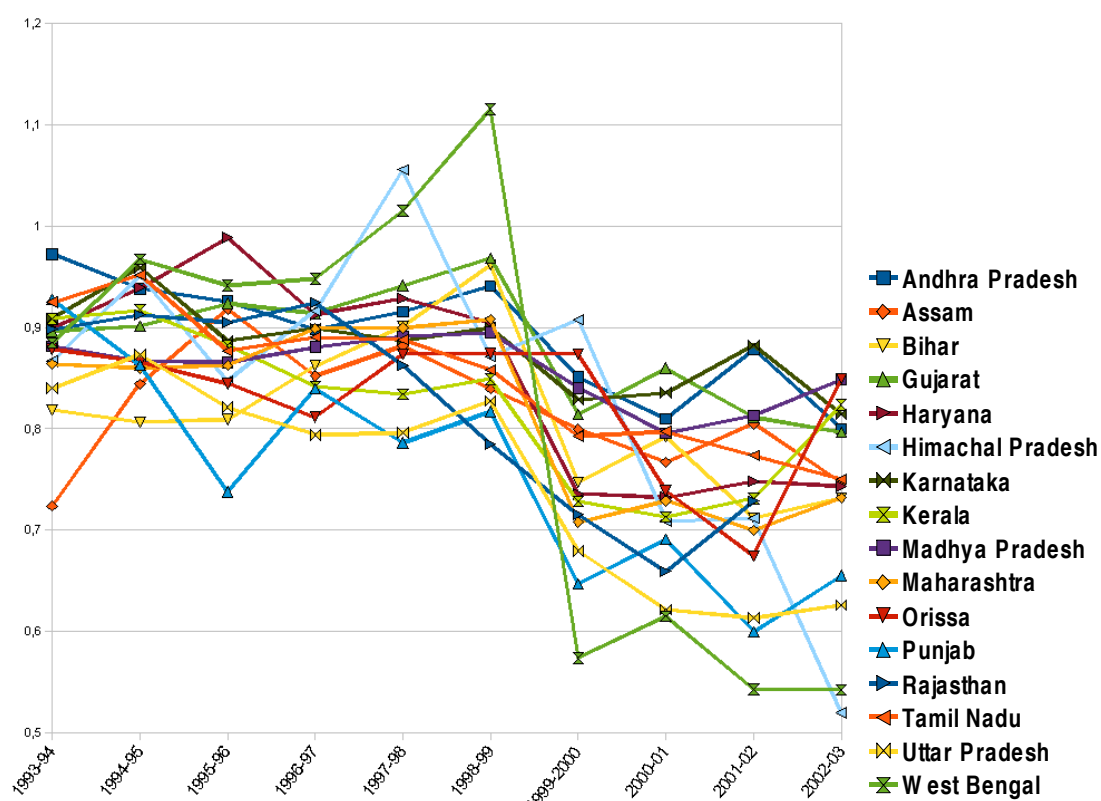
Our measures of fiscal space give a picture somewhat different.

By looking at our first measure of fiscal space, it appears that all states have seen their fiscal space decreasing over the period 1993-94 to 2002-03. On average for all the 16 states, the fiscal space has decreased by 16.58% from 1993-94 to 2002-03.

The states' performance is nevertheless mitigated: for instance while Assam's fiscal space has increased by 3.14% over the period, Punjab's fiscal space decreased by almost 30% and Himachal Pradesh's by almost 40%.

Fiscal space 1 (Source: Handbook of Statistics and own calculations)

Year	AP	Assam	Bihar	Guj.	Haryana	HP	Karnat.	Kerala	MP	Mahar.	Orissa	Punj.	Raj.	TN	UP	WB
1993-94	0,97	0,72	0,82	0,9	0,9	0,87	0,91	0,91	0,88	0,86	0,88	0,93	0,88	0,92	0,84	0,88
1994-95	0,94	0,84	0,81	0,9	0,94	0,95	0,96	0,92	0,87	0,86	0,87	0,86	0,9	0,95	0,87	0,97
1995-96	0,93	0,92	0,81	0,92	0,99	0,85	0,89	0,88	0,87	0,86	0,84	0,74	0,91	0,88	0,82	0,94
1996-97	0,9	0,85	0,86	0,91	0,91	0,92	0,9	0,84	0,88	0,9	0,81	0,84	0,9	0,89	0,79	0,95
1997-98	0,92	0,88	0,9	0,94	0,93	1,06	0,89	0,83	0,89	0,9	0,87	0,79	0,92	0,89	0,8	1,02
1998-99	0,94	0,84	0,96	0,97	0,9	0,87	0,9	0,85	0,89	0,91	0,87	0,82	0,86	0,86	0,83	1,12
1999-2000	0,85	0,8	0,75	0,81	0,74	0,91	0,83	0,73	0,84	0,71	0,87	0,65	0,78	0,79	0,68	0,57
2000-01	0,81	0,77	0,79	0,86	0,73	0,71	0,84	0,71	0,8	0,73	0,74	0,69	0,72	0,8	0,62	0,61
2001-02	0,88	0,81	0,71	0,81	0,75	0,71	0,88	0,73	0,81	0,7	0,67	0,6	0,66	0,77	0,61	0,54
2002-03	0,8	0,75	0,73	0,8	0,74	0,52	0,81	0,82	0,85	0,73	0,85	0,66	0,73	0,75	0,63	0,54
Variation (%)	-17,7	3,1	-10,6	-11,1	-17,3	-40	-10,4	-9,3	-3,8	-15,3	-3,3	-29,3	-17,1	-18,9	-25,5	-38,7



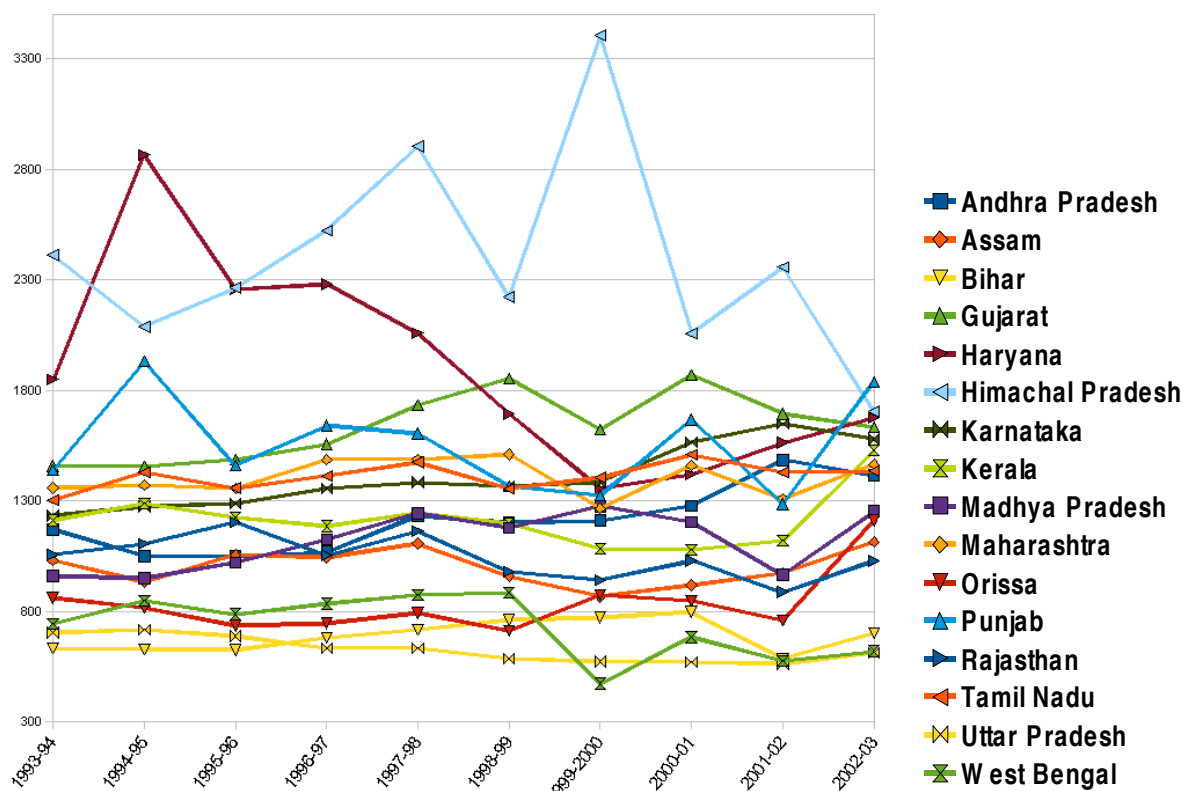
However, **when we normalize this measure of fiscal space by the size of the population, we see that states have seen their fiscal capacities increasing.** On average the “fiscal space 1*” increased by 9.47% over the period considered. Not surprisingly, states that are relatively less populated (Himachal Pradesh, Haryana) enjoyed a bigger “fiscal space per capita”.

Table + graph

Fiscal space 1*

(Source: Handbook of Statistics and own calculations)

Year	AP	Assam	Bihar	Guj.	Haryana	HP	Karnat.	Kerala	MP	Mahar.	Orissa	Punjab	Rajas.	TN	UP	WB
1993-94	1170	1031	634	1457	1849	2412	1233	1212	961	1358	861	1438	1057	1303	704	742
1994-95	1050	934	627	1454	2865	2087	1275	1289	950	1372	817	1931	1106	1428	717	849
1995-96	1049	1057	626	1486	2257	2264	1288	1226	1022	1356	735	1460	1204	1357	689	787
1996-97	1069	1045	680	1556	2281	2523	1357	1186	1125	1486	746	1640	1053	1413	634	836
1997-98	1233	1107	717	1733	2059	2903	1384	1247	1245	1487	794	1605	1162	1474	634	874
1998-99	1202	959	761	1853	1693	2221	1367	1198	1177	1510	713	1366	980	1355	587	885
1999-00	1211	868	772	1623	1355	3405	1385	1084	1276	1266	875	1326	941	1406	574	474
2000-01	1278	918	798	1869	1420	2057	1566	1077	1205	1460	848	1668	1029	1509	572	683
2001-02	1485	973	584	1694	1562	2356	1648	1121	965	1309	759	1285	887	1429	562	577
2002-03	1415	1115	700	1633	1676	1705	1579	1528	1253	1465	1213	1839	1029	1435	611	619
Variation (%)	21	8	10	12	-9	-29	28	26	30	8	41	28	-3	10	-13	-17

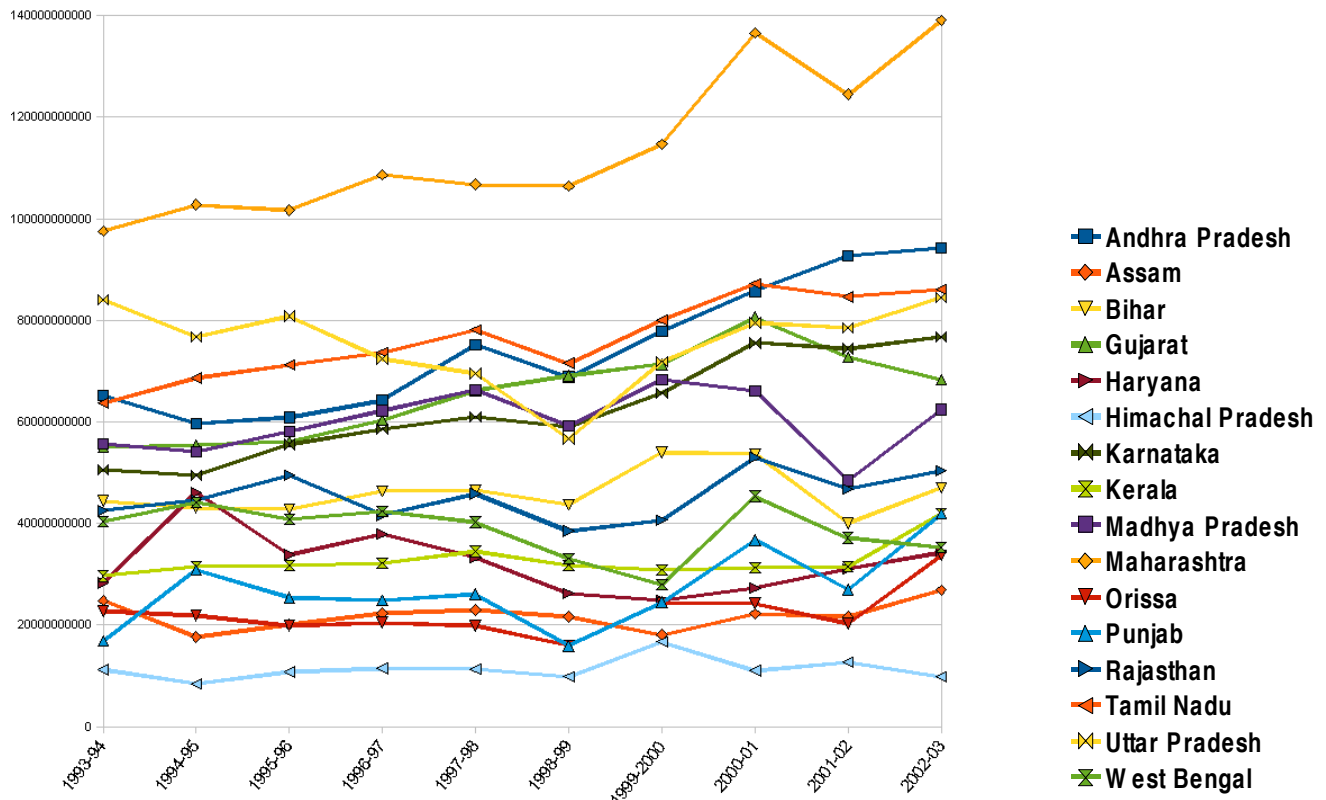


If we look at our second measure (fiscal space 2), we also see that on average, **all states (except West Bengal and Himachal Pradesh) increased (sometimes very slightly) their “fiscal space” (in absolute terms)**, as measured by the difference between the total revenue receipts and the state’s “compelled expenditure.” This fact is of course linked to the positive increase in revenue receipts for all states during the period. Bigger and richer states have bigger “fiscal space”.

Fiscal space 2 (in lakhs)

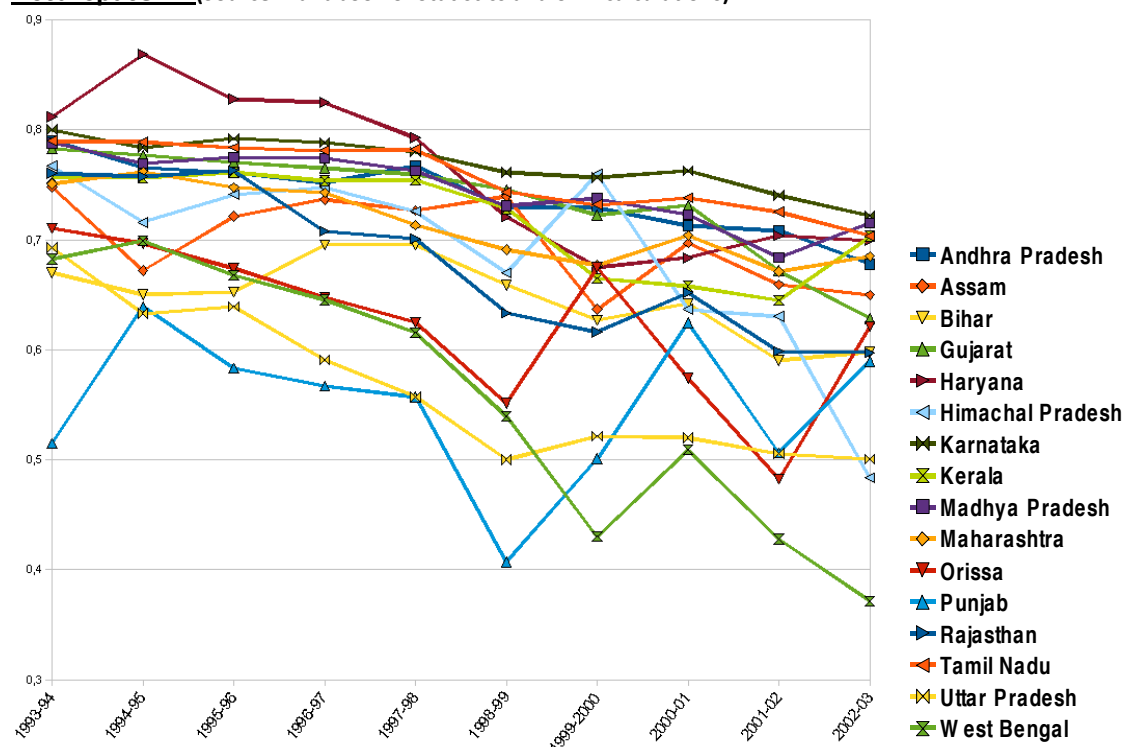
(Source: Handbook of Statistics and own calculations)

Year	AP	Assam	Bihar	Guj.	Harya.	HP	Karnat	Kerala	MP	Mahar.	Orissa	Punjab	Rajast.	TN	UP	WB
1993-94	652135	248170	444344	550272	282603	112374	506063	296754	557169	974996	227894	168745	425618	637085	840722	404177
1994-95	596570	176604	430995	554569	461373	84191	494672	315579	541070	1027272	218949	308361	446102	686150	767334	441434
1995-96	609056	200908	428391	560869	338299	108067	555869	317291	581431	1016688	198620	254036	494934	711863	808081	408661
1996-97	642260	222857	463006	603084	379287	114361	585483	321765	622102	1086035	205036	248765	416368	736405	724032	424213
1997-98	752325	229483	465435	662023	332431	112925	609487	344924	663179	1067179	198846	260611	458180	781086	695032	402521
1998-99	688384	216646	436451	690893	262469	98324	590086	317391	592081	1063993	160062	159184	384956	714943	566836	331042
1999-00	778846	180561	540033	713372	248570	167167	656576	309073	682678	1146387	244695	245027	406300	799918	717896	279313
2000-01	857199	222498	536752	805608	272621	110264	755574	313223	660852	1365377	242654	367250	530024	872009	794793	453540
2001-02	926526	216475	400516	727176	310672	126852	743944	314933	484751	1244405	203026	269665	467832	846342	785559	371257
2002-03	942005	268833	470552	682770	342716	98206	766888	419510	624460	1390402	337466	419524	503813	860548	845352	352767
Variation (%)	44	8	6	24	21	-13	52	41	12	43	48	149	18	35	1	-13



However, the “fiscal space” normalized by the total revenue receipts (fiscal space2*) gives us another picture: it appears that **for all the states, the share of the fiscal space in the total revenue receipts has declined or stagnated.**

Fiscal space 2* (Source: Handbook of Statistics and own calculations)



Year	AP	Assam	Bihar	Guj.	Harya.	HP	Karnat.	Kerala	MP	Mahar.	Orissa	Punj.	Rajast.	TN	UP	WB
1993-94	0,79	0,75	0,67	0,78	0,81	0,77	0,8	0,76	0,79	0,75	0,71	0,51	0,76	0,79	0,69	0,68
1994-95	0,77	0,67	0,65	0,78	0,87	0,72	0,78	0,76	0,77	0,76	0,7	0,64	0,76	0,79	0,63	0,7
1995-96	0,76	0,72	0,65	0,77	0,83	0,74	0,79	0,76	0,78	0,75	0,67	0,58	0,76	0,78	0,64	0,67
1996-97	0,75	0,74	0,7	0,77	0,82	0,75	0,79	0,75	0,77	0,74	0,65	0,57	0,71	0,78	0,59	0,65
1997-98	0,77	0,73	0,7	0,76	0,79	0,73	0,78	0,75	0,76	0,71	0,63	0,56	0,7	0,78	0,56	0,62
1998-99	0,73	0,74	0,66	0,75	0,72	0,67	0,76	0,73	0,73	0,69	0,55	0,41	0,63	0,74	0,5	0,54
1999-00	0,73	0,64	0,63	0,72	0,68	0,76	0,76	0,67	0,74	0,68	0,67	0,5	0,62	0,73	0,52	0,43
2000-01	0,71	0,7	0,64	0,73	0,68	0,64	0,76	0,66	0,72	0,7	0,57	0,62	0,65	0,74	0,52	0,51
2001-02	0,71	0,66	0,59	0,67	0,7	0,63	0,74	0,65	0,68	0,67	0,48	0,51	0,6	0,73	0,51	0,43
2002-03	0,68	0,65	0,6	0,63	0,7	0,48	0,72	0,7	0,72	0,68	0,62	0,59	0,6	0,7	0,5	0,37
Variation (%)	-14,2	-13,1	-10,8	-19,7	-13,9	-36,9	-9,8	-7,1	-9,3	-8,8	-12,6	14,4	-21,4	-10,9	-27,7	-45,6

Finally, the “fiscal space” normalized by the total population (fiscal space2**) gives **uneven results**: while for some states it increased, it decreased for others.

Fiscal space 2** (Source: Handbook of Statistics, Census and own calculations)

Year	AP	Assam	Bihar	Guj.	Harya.	HP	Karnat.	Kerala	MP	Mahar.	Orissa	Punjab	Rajast.	TN	UP	WB
1993-94	951	1065	519	1273	1669	2135	1086	1010	859	1180	696	799	915	1113	581	573
1994-95	857	744	506	1254	2651	1571	1042	1063	843	1215	658	1430	933	1184	520	614
1995-96	862	830	505	1240	1890	1980	1150	1058	915	1176	587	1155	1006	1213	537	558
1996-97	895	903	548	1303	2061	2058	1190	1062	989	1228	596	1108	823	1240	471	569
1997-98	1033	912	553	1399	1757	1996	1217	1128	1066	1179	568	1137	881	1299	444	530
1998-99	931	845	521	1427	1349	1707	1157	1027	961	1149	450	681	720	1174	355	428
1999-00	1038	691	648	1440	1243	2851	1265	990	1120	1211	676	1027	739	1298	441	355
2000-01	1125	835	647	1590	1326	1847	1430	994	1095	1409	659	1508	938	1397	478	566
2001-02	1197	797	485	1403	1469	2087	1383	989	812	1256	542	1085	805	1340	463	455
2002-03	1199	970	572	1288	1576	1587	1400	1304	1056	1371	887	1654	843	1345	489	424
Variation (%)	26	-9	10	1	-6	-26	29	29	23	16	27	107	-8	21	-16	-26

What can we say from these apparently contradictory results?

Since, as we saw above, the total revenue receipts have increased for all the states over the same period of time, it means that **the compelled expenses have increased on average more rapidly than the total revenue receipts**. In other words, the share of the compelled expenditure in the total revenue receipts increased a lot between 1993-94 and 2003-04.

State whose fiscal space has known a substantial decrease (Himachal Pradesh, West Bengal, Uttar Pradesh...), revenue expenditure on Interest Payments and Servicing of Debt and on administrative services has usually grown much faster than their total revenue receipts. The contrary is not always true. However, it appears that states that have managed to keep a relatively stable fiscal space (Assam, Bihar, Haryana...) have seen their revenue receipts growing more or less at the same pace than their compelled expenditure.

For instance, between 1993-94 and 2002-03, Bihar's revenue receipts have grown approximately at the same pace than its "compelled" expenditure, so that its fiscal space has stagnated. On the other hand, West Bengal's fiscal space has witnessed a substantial shrinking. The state's compelled expenditure have been multiplied by 3.17, while its revenue receipts have been multiplied by 1.6.

State	Revenue receipts between 1993-94 and 2002-03 have been multiplied by...	"Compelled" expenditure between 1993-94 and 2002-03 have been multiplied by...	Fiscal space 1 has increased by...	Fiscal space 1* has increased by...	Fiscal space 2 has increased by...	Fiscal space 2* has increased by...	Fiscal space 2** has increased by...
Andhra Pradesh	1,68	2,59	0,82	1,21	1,44	0,86	1,26
Assam	1,25	1,73	1,03	1,08	1,08	0,87	0,91
Bihar	1,19	1,45	0,89	1,1	1,06	0,89	1,1
Gujarat	1,55	2,64	0,89	1,12	1,24	0,8	1,01
Haryana	1,41	2,25	0,83	0,91	1,21	0,86	0,94
Himachal Pradesh	1,39	3,07	0,6	0,71	0,87	0,63	0,74
Karnataka	1,68	2,34	0,9	1,28	1,52	0,9	1,29
Kerala	1,52	1,85	0,91	1,26	1,41	0,93	1,29
Madhya Pradesh	1,24	1,66	0,96	1,3	1,12	0,91	1,23
Maharashtra	1,56	1,98	0,85	1,08	1,43	0,91	1,16
Orissa	1,69	2,22	0,97	1,41	1,48	0,87	1,27
Punjab	2,17	1,84	0,71	1,28	2,49	1,14	2,07
Rajasthan	1,51	2,53	0,83	0,97	1,18	0,79	0,92
Tamil Nadu	1,52	2,14	0,81	1,1	1,35	0,89	1,21
Uttar Pradesh	1,39	2,26	0,75	0,87	1,01	0,72	0,84
West Bengal	1,6	3,17	0,61	0,83	0,87	0,54	0,74
Average	1,52	2,23	0,84	1,09	1,3	0,84	1,13

It follows that, in average, **in 2002-2003 there was *relatively less* space for the states to use their receipts for customized policies than in 1993-1994.**

How can we explain the disparities in fiscal space?

Spending on interest payment and servicing of debt

For most states, **the decline in fiscal space is due both to the increase in spending on administration and on interest and debt.** Nevertheless, between 1993-94 and 2002-03 for all states **the increase in spending on debt was much higher than for the spending on administrative services.** The surge in spending was especially strong from the mid 1990s.

West Bengal and Himachal Pradesh witnessed a very big surge in spending on interests and debt. These two same states saw their fiscal space decreasing rapidly over the same period of time. On the other hand Bihar's spending (both on interest payment and administrative services) were kept approximately at the same level (except between 1999-2001, when Bihar's spending on administrative services knew a rise before decreasing).

Evolution of revenue expenditure on interest payment and servicing of debt and administrative services, 1993-94 to 2002-03, (1993-94 constant prices)

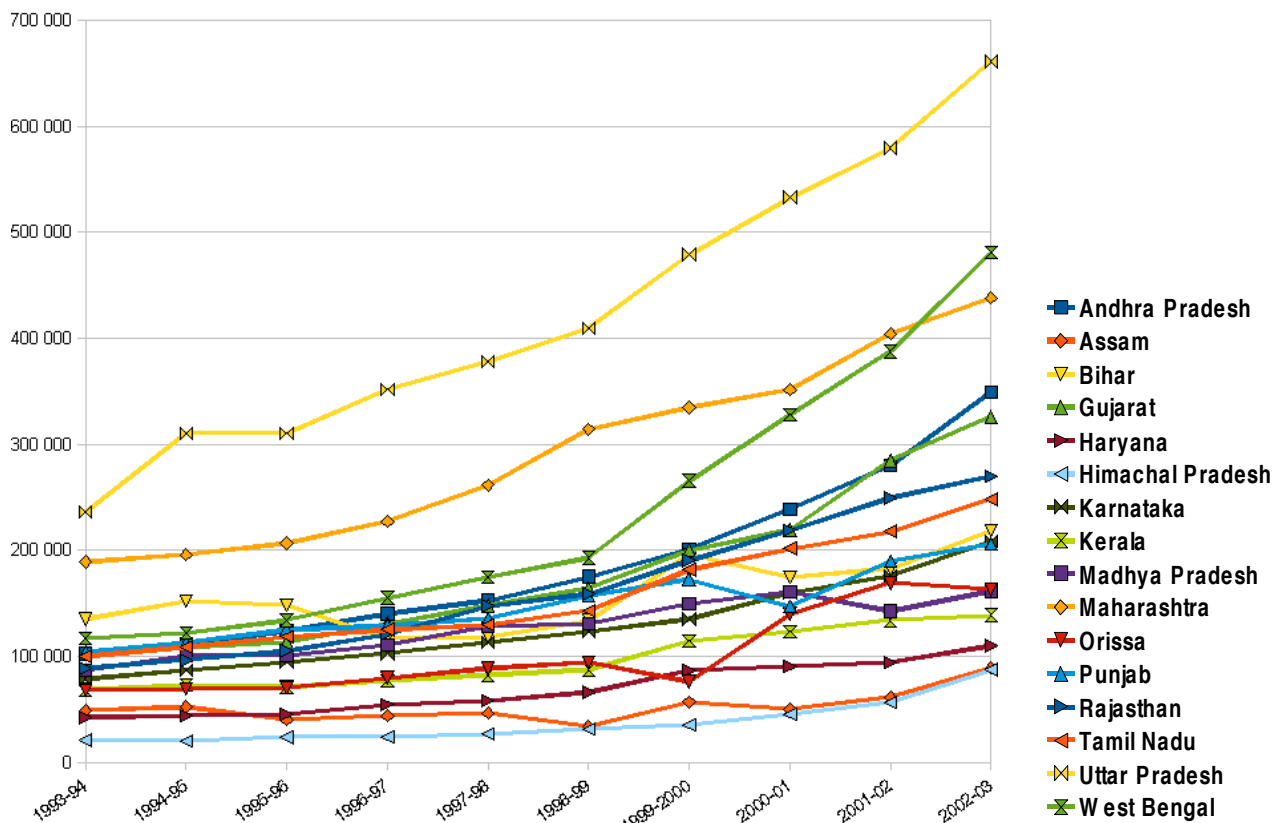
(Source: Handbook of Statistics and own calculation)

Between 1993-94 and 2002-03, revenue expenditure on...	...interest payment and servicing of debt	...administrative services
...have been multiplied by...		
Andhra Pradesh	3,41	1,4
Assam	1,82	1,61
Bihar	1,62	1,17
Gujarat	3,12	1,61
Haryana	2,61	1,59
Himachal Pradesh	4,17	1,33
Karnataka	2,66	1,81
Kerala	2,02	1,43
Madhya Pradesh	1,86	1,38
Maharashtra	2,31	1,5
Orissa	2,39	1,74
Punjab	1,97	1,58
Rajasthan	3,05	1,53
Tamil Nadu	2,48	1,64

Uttar Pradesh	2,8	1,33
West Bengal	4,11	1,63
Average	2,65	1,52

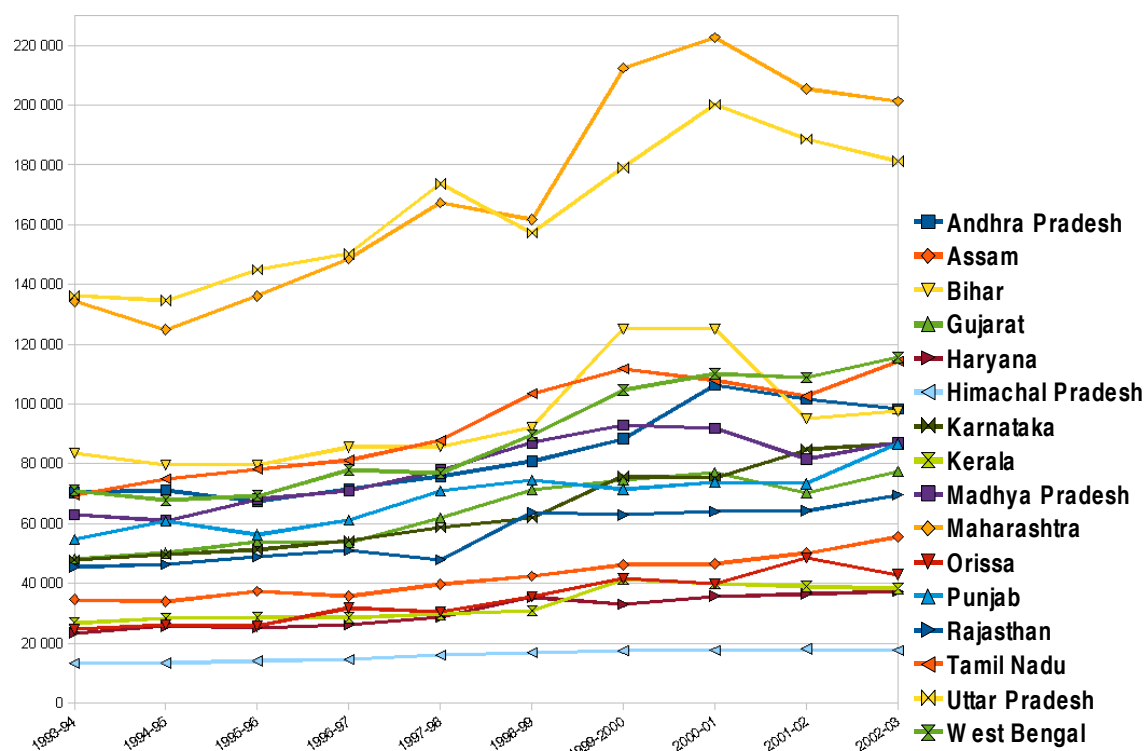
Revenue expenditure on interest payments and servicing of debts (lakh, 1993-94 constant prices)

(Source: Handbook of Statistics and own calculations with data from EPW database)



Revenue expenditure on administrative services (lakh, 1993-94 constant prices)

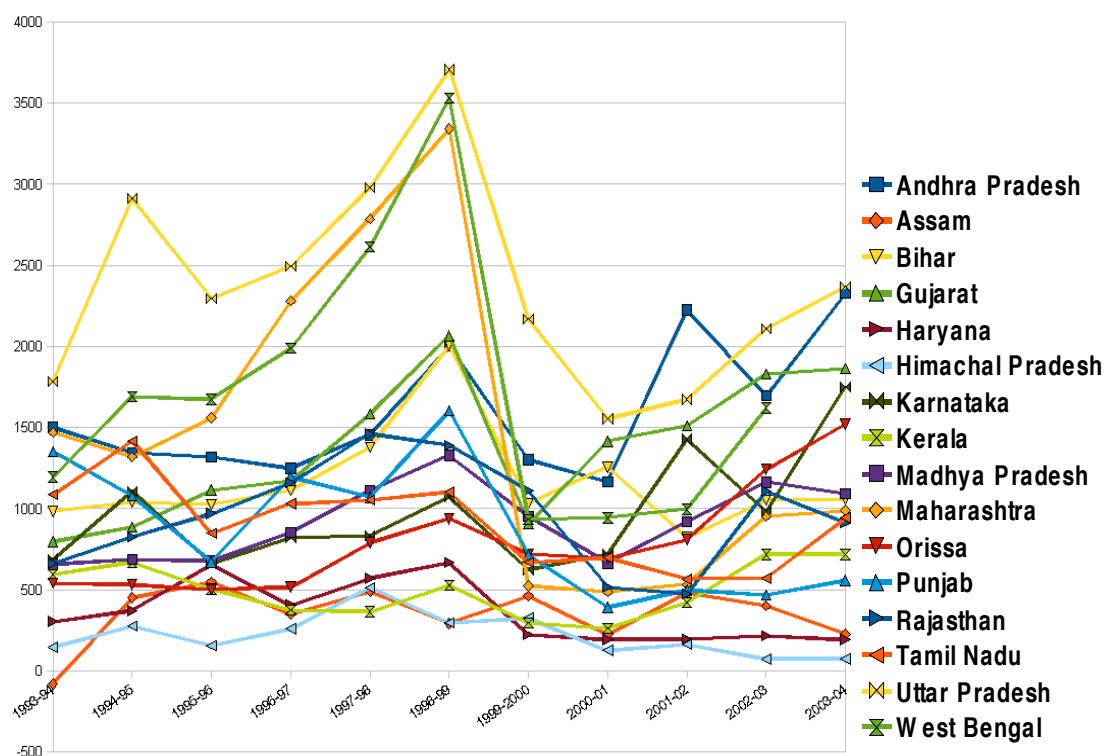
(Source: Handbook of Statistics and own calculations with data from EPW database)



The loans from the Centre possibly played a role in the increase in spending on interests and debt. The amount of loans given by the Centre peaked at the end of the 1990s (in 1998-99). For some states (Uttar Pradesh, Gujarat, Maharashtra, West Bengal, Rajasthan), it steadily increased from 1993-94 to reach its peak in 1998-99 before decreasing. For other states (Orissa, Andhra Pradesh, Karnataka), it increased especially since 2000. The fact that the majority of the states benefited from higher loans from the Centre was however not always correlated with an increase in spending on administration and on interest payments. However, it appears that over the period considered, the states that received the higher loans from the Centre were also those spending the most on interest and debt. There appears therefore to be a positive correlation between spending on debt and receiving loans from the Centre.

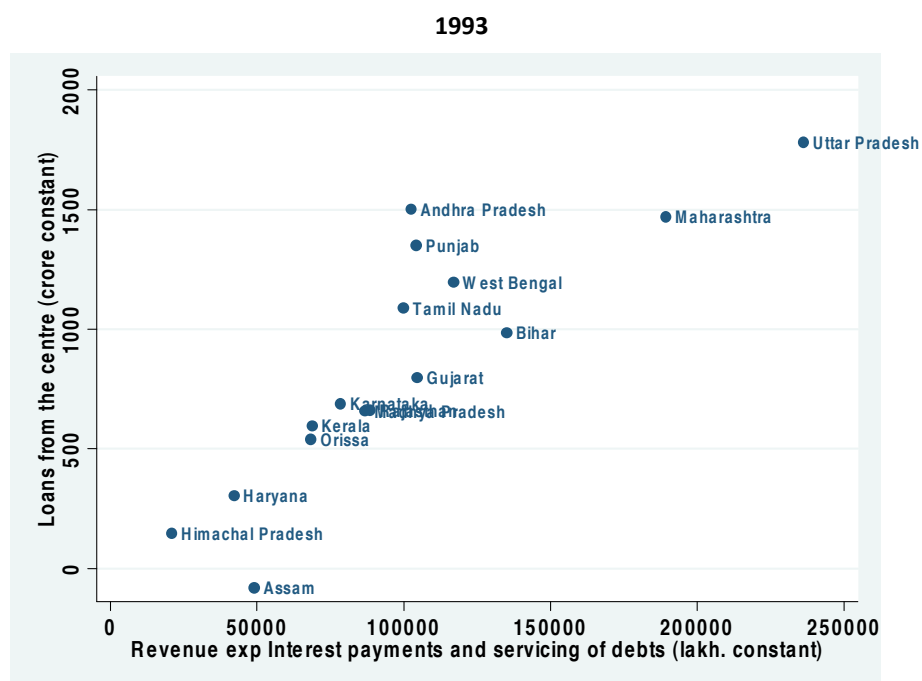
Loans from the Centre (crore, 1993-94 constant prices)

(Source: Handbook of Statistics and own calculations with data from EPW database)

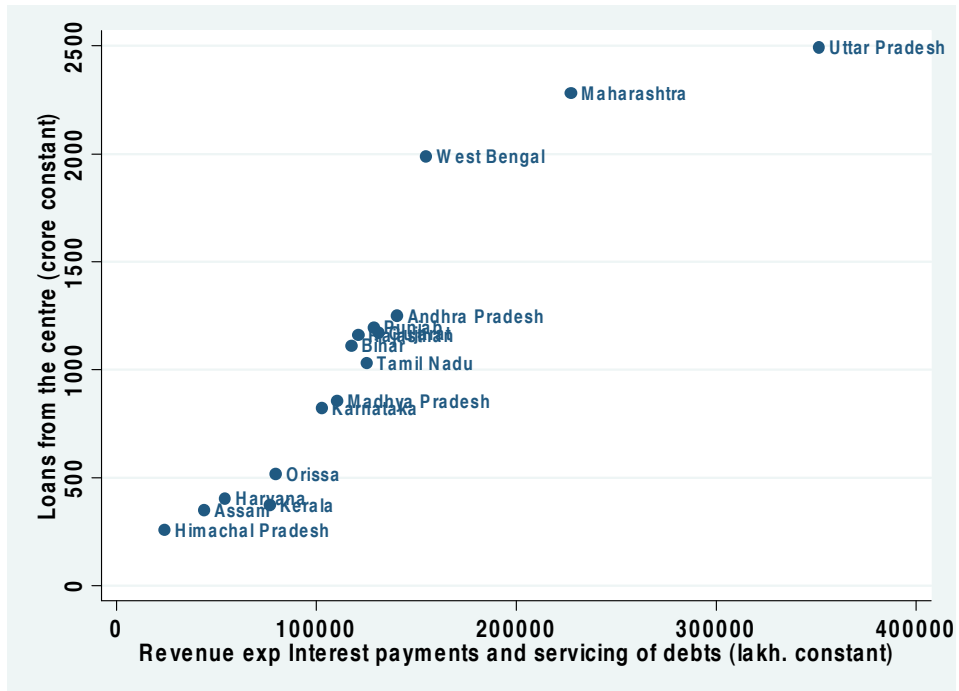


Correlation between loans received from the Centre and revenue expenditure on interest payments and servicing of debt in 1993, 1996, 1999, 2002.

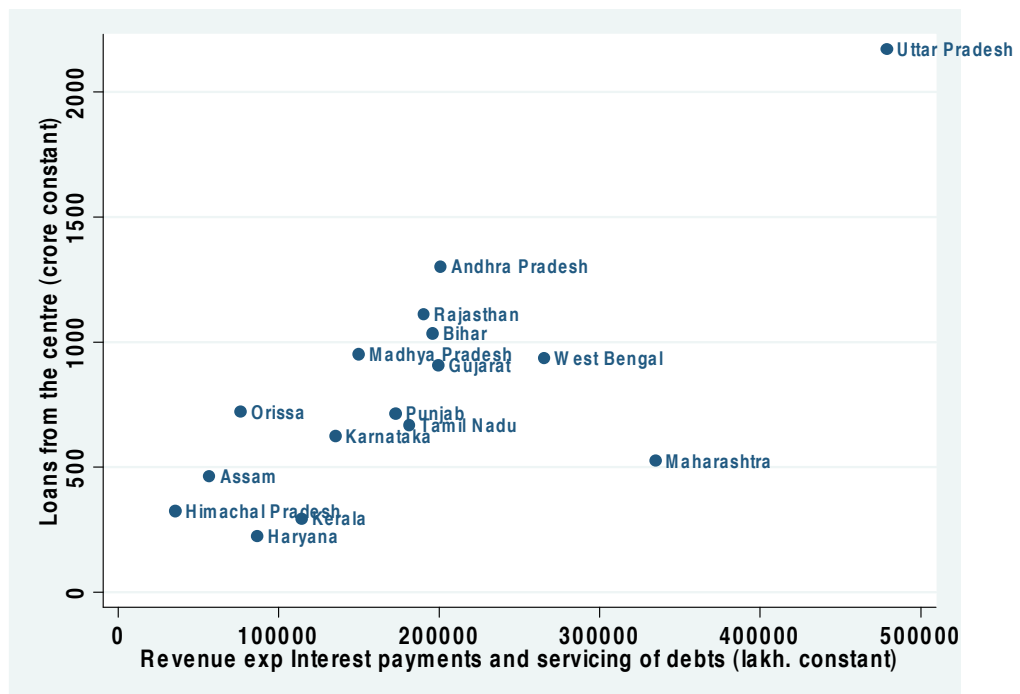
(Source: Handbook of Statistics, and own calculations, graph made with Stata)

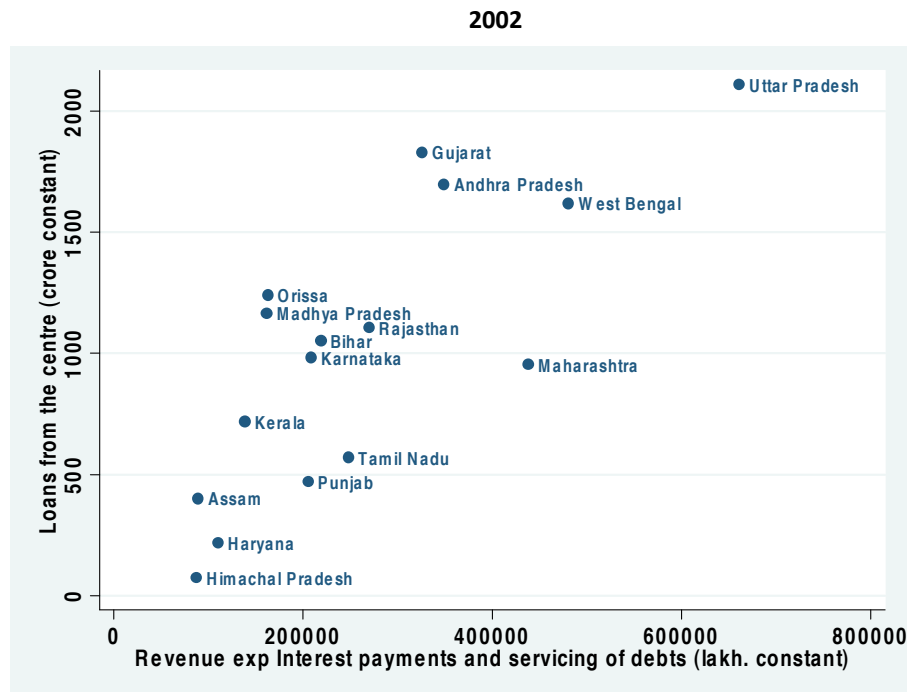


1996



1999





Nevertheless, these observations do not tell much about the link of causality: do the states spend more on repaying their debt because they are used to contract loans (from the Centre), or does the central government provide them loans so that they can reimburse their debt? It may be both.

Level of wealth

As we have seen, richer states seem to have bigger revenue receipts. It is not a surprise to see that Uttar Pradesh, Bihar and Orissa do not have great fiscal space. At the same time, it appears that the **states that perform the worst in terms of fiscal space are not always the poorest states**. For instance, West Bengal is the state that ranks at the bottom for all the indicators (IPRR, fiscal space 1, fiscal space 1*, fiscal space 2, fiscal space 2*, fiscal space 2**). However, West Bengal ranks rather in the average in terms of NSDP per capita. Besides, Himachal Pradesh ranks among the richer states but saw its fiscal space rapidly decreasing. Punjab, which is also a rather rich state, does not perform so well either.

Is there a relation between a state's fiscal space and its level of wealth and development?

The “poorer states” are the states whose GSDP falls below the mean GSDP for the year considered while the “richer states” are those whose GSDP is equal or higher to the mean GSDP. Over the period considered (1993-94 to 2002-03), we also calculated the mean gross state domestic product for all the 16 states. We then calculated the mean fiscal space for two groups. The first group includes all the observations that fall below the mean GSDP (whatever the year) while the second group includes the observations that are equal or higher to the mean GSDP.

As shown in the tables below, there is no strong difference in mean fiscal space between the two groups. If we focus on the first measure of fiscal space (that takes loans from the centre into account), since 1998-99, the poorer states seem even to have had a higher fiscal space compared to the richer.

Nevertheless, according to the third measure (fiscal space 2**), the richer states on average have more fiscal space than the poorer.

It may thus be that poorer states enjoy greater fiscal space because they benefit from loans from the Centre.

In brief, **it appears that on average (and depending on the measure used) richer states do not have a much greater fiscal space than poorer states** that tend to benefit more from the loans from the Central Government. However, such a situation also endangers the long-term fiscal sustainability of poor states.

Mean fiscal space 1	Poorer states	Richer states
1993-2003	.8160355	.8464852
1993-94	.8833586	.8994311
1996-97	.8689175	.8890789
1998-99	.9145842	.884526
2002-03	.7551032	.7177633

Mean fiscal space 2*	Poorer states	Richer states
1993-2003	.6817464	.6903905
1993-94	.7539976	.7467267
1996-97	.6937418	.7463581
1998-99	.6353902	.6834243
2002-03	.6137245	.6263825

Mean fiscal space 2**	Poorer states	Richer states
1993-2003	807.9546	1342.553
1993-94	798.3128	1282.993
1996-97	724.426	1406.352
1998-99	651.3716	1209.006
2002-03	802.9489	1314.923

Tax effort

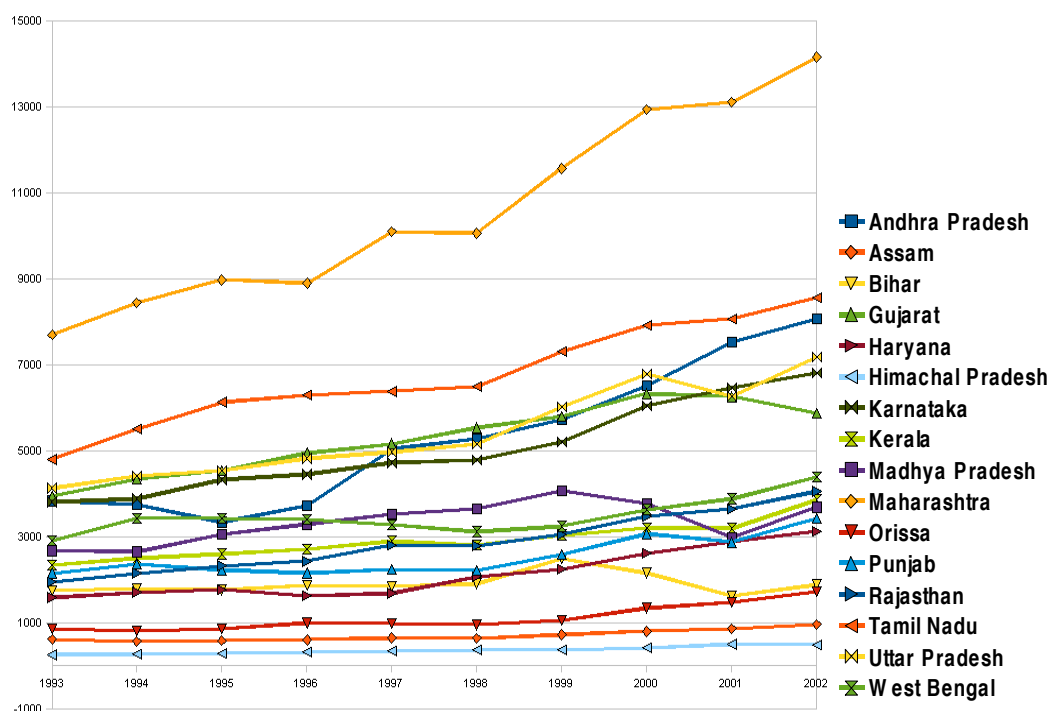
How can we further explain the differences in fiscal spaces?

It may be a matter of tax effort - a combination of taxable capacity and political choice.

It is first important to underline that following the decentralization process, **the states witnessed on average an increase in their own tax revenue from 1993-94 to 2002-03**. Especially Maharashtra, Tamil Nadu, Andhra Pradesh and Uttar Pradesh increased their own fiscal revenue very rapidly (graph 1 below). In 2002-03 for Tamil Nadu and Maharashtra their own tax revenue represented half of their total revenue receipts (graph 2 below).

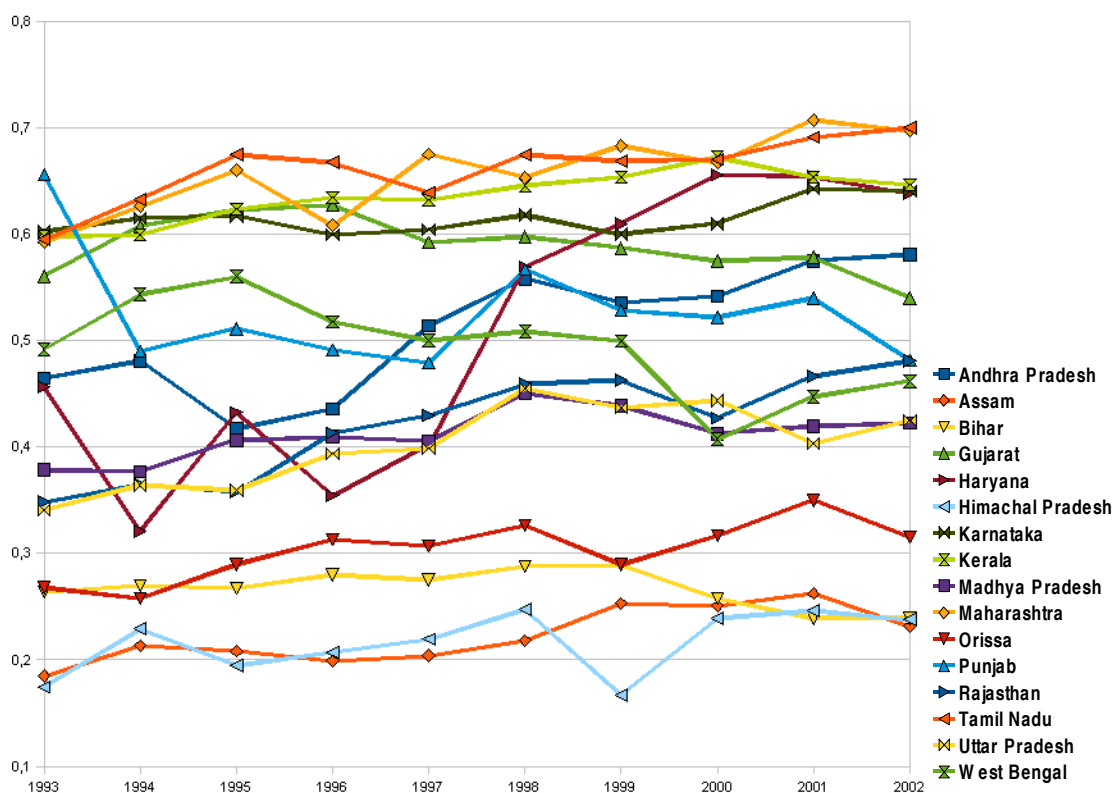
Own tax revenue in 16 states (crore, 1993-94 constant prices)

(Source: Handbook of Statistics, and own calculations with data from EPW database)



Share of own tax revenue in total revenue receipts in 16 states

(Source: Handbook of Statistics, and own calculations with data from EPW database)



In a 2006 article, Mahesh C Purohit defines tax effort as “the ratio of actual tax revenue of a government to its taxable capacity” (2006: 747). Various taxes can be levied by a state; these include (among others) land revenue and agricultural income tax, sales tax, stamp duty and registration fee, tax on professions, trades, callings and employment. These taxes are not levied in all the states, for instance, Andhra Pradesh, Bihar, Gujarat, Haryana, Madhya Pradesh, Maharashtra, Orissa, Punjab and Uttar Pradesh do not levy agricultural income tax.

After estimating the taxable capacity of states, Purohit calculates their tax effort. It appears that **there is an important variation in the tax effort of each state, depending on the tax.**

On the whole, Gujarat ranks first in terms of tax efforts; West Bengal and Andhra Pradesh are second and third. “Based on the ranks among the states, Rajasthan, Bihar, Punjab, Goa, Tamil Nadu, Kerala, Haryana, Madhya Pradesh and Karnataka have not tapped resources from the overall tax system.” (Purohit, 2006: 754).

States’ taxable capacity and tax effort

(Source: Purohit, 2006)

state	total taxable capacity	Tax efforts (in %)	Rank
Andhra Pradesh	720844.4	1619.718	3
Assam	153571.3	1444.586	5
Bihar	270115	97.14516	15
Goa	43752.99	113.2002	13
Gujarat	617637.8	1751.7	1
Haryana	367011.3	1140.161	10
Karnataka	674801.5	1265.211	8
Kerala	422216.6	142.4116	11
Madhya Pradesh	504885.3	1231.248	9
Maharashtra	1496162	1573.238	4
Orissa	227520.6	1380.64	6
Punjab	426115.2	110.862	14
Rajasthan	570499.9	97.0973	16
Tamil Nadu	717279.4	138.2936	12
Uttar Pradesh	986585	1304.501	7
West Bengal	728650.1	1742.811	2

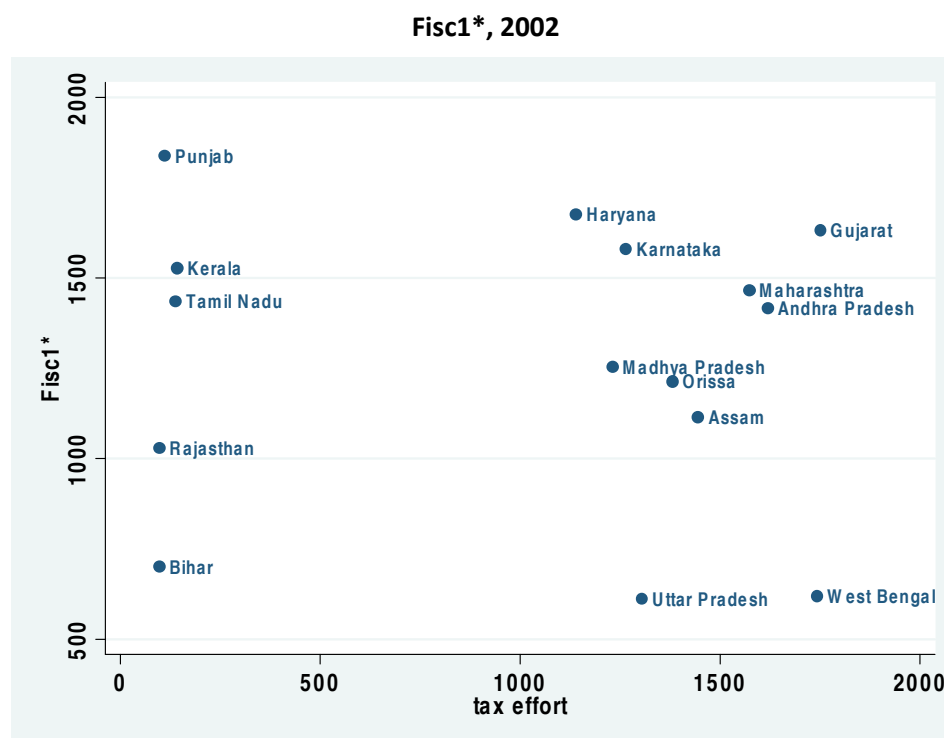
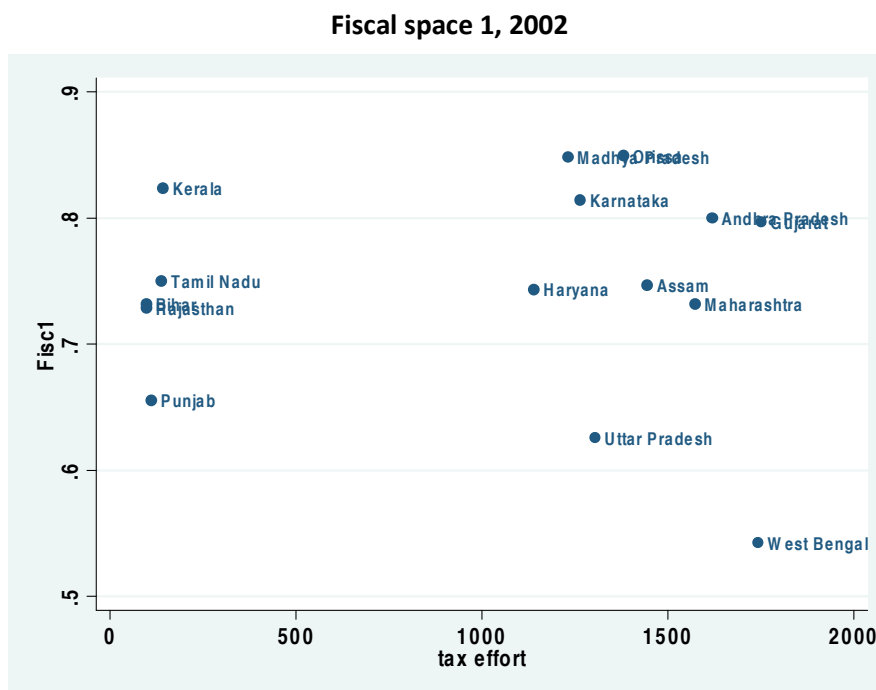
However, when we try to plot the states’ tax efforts with the fiscal space, we find no correlation. There are actually two groups of countries: the first one (on the left) is composed of Punjab, Bihar, Tamil Nadu, Rajasthan, and Kerala – states that, according to Purohit, do not take advantage of their fiscal resources as they could; the second one (right) is composed of the other states that make greater effort to increase their fiscal resources.

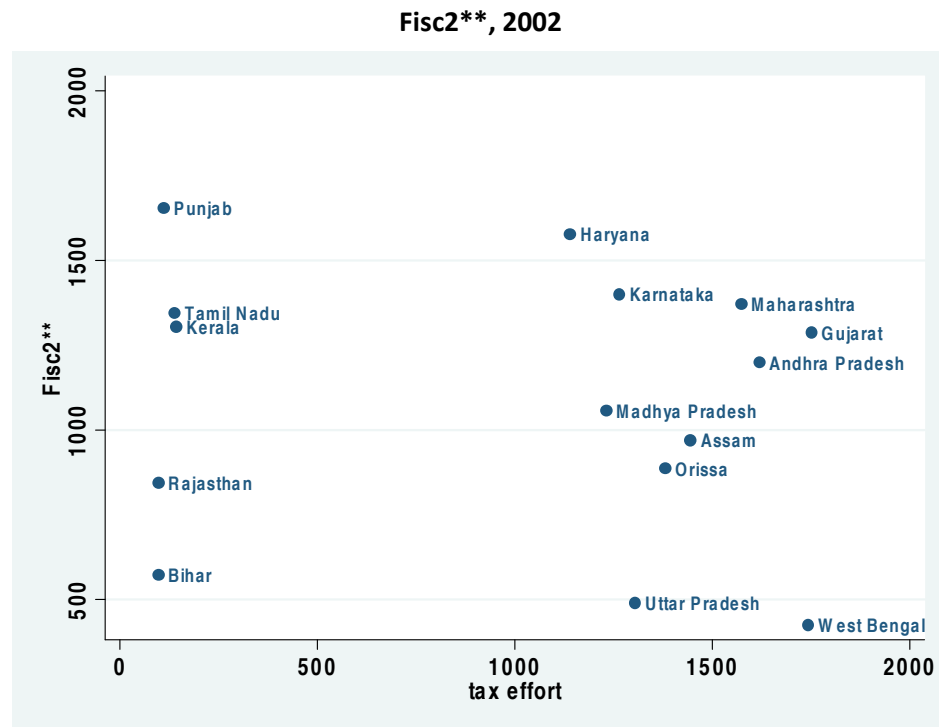
However, states of the second group are not those having the greater fiscal space. The best example is West Bengal. It is the state that performs the worst in terms of fiscal space, but it ranks second in Purohit’s ranking. It would mean that West Bengal cannot really count on its own taxable capacities

to increase its fiscal space probably because its taxable capacities are too weak (or because West Bengal spends too much on interest and debt and on administrative services).

Correlation between fiscal space (fisc 1, fisc1* and fisc2) and tax effort in 2002.**

(Source: Handbook of Statistics, own calculations, Purohit 2006. Graph made with Stata)





This points out to the issues of the states' level of development and management capacities. **While the states were given more responsibilities and decisional space, it has been often pointed out that their tax assignments are often too weak to balance their spending⁴.** The majority of the states therefore remain largely dependent on the central transfers. However, states that were at a higher level of development at the beginning of the reforms were maybe better prepared to the task of increasing their own resources.

Thus, from 1993-94 to 2002-2003, states' fiscal space as a share of the total revenue receipts (fiscal space 1 and fiscal space 2*) has on average declined, or at best stagnated. This is probably due to the large increase in compelled revenue expenditure (revenue expenditure on interest and debt payments that have known a sharp increase especially starting from 1994-95, and revenue expenditure on administration). On the other hand, in per capita terms (fiscal space 2 and fiscal space 2**), fiscal spaces have on average slightly increased. In absolute terms (fiscal space 2) we found that all states have seen their fiscal space rising or stagnating.

In this context of tightening of fiscal constraints (debts repayment...) and at the same time of absolute increase in revenue receipts, have the states changed their spending pattern? How do the states use their fiscal space?

⁴ See for instance Mahesh C Purohit, 2006.

III. Fiscal space for what?

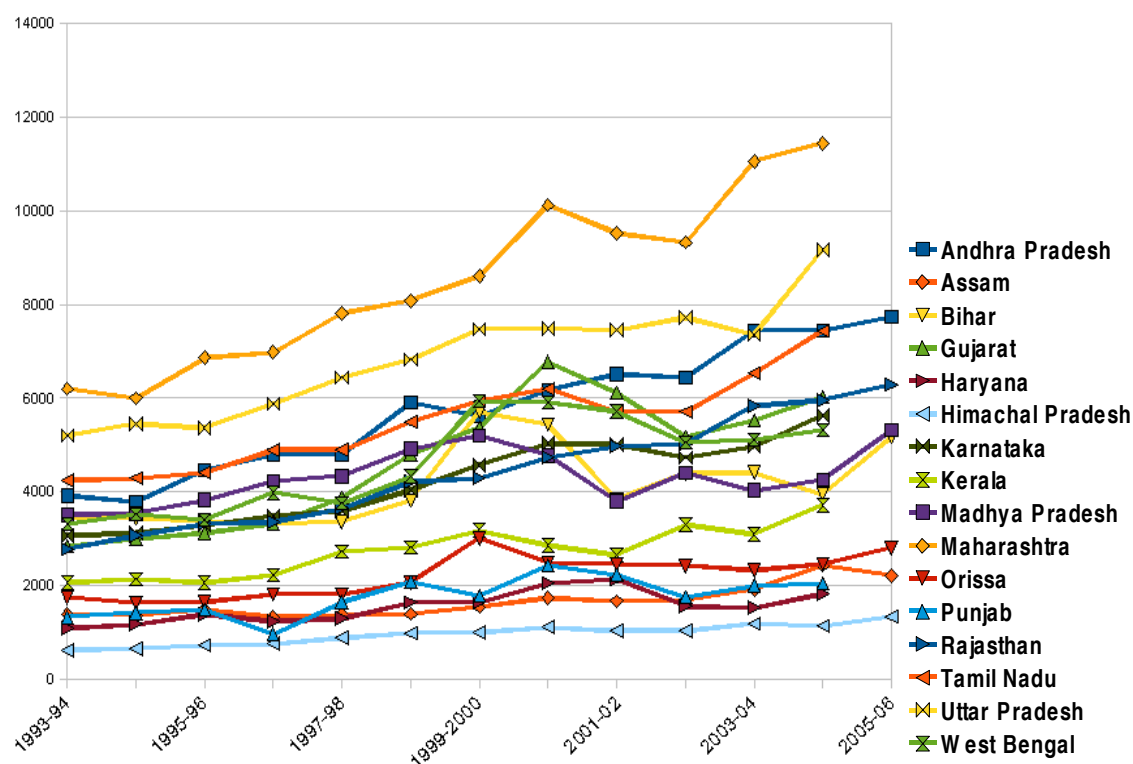
Social sector (revenue and capital) expenditure

The social sector expenditure for the Reserve Bank of India refers to expenditure on social services, rural development and food storage and warehousing under revenue expenditure, capital outlay and loans and advances by the State Governments.

In absolute terms, the social sector expenditure increased for all states. On average it was multiplied by 1.71 between 1993-94 and 2004-05. Gujarat knew the fastest increase while Bihar the smallest. However, Bihar is one of the states that relatively spend the most on social sector.

Social sector expenditure in 16 states from 1993-94 to 2005-06 (crore, 1993-94 constant prices)

(Source: RBI 2008, own calculation with data from EPW)



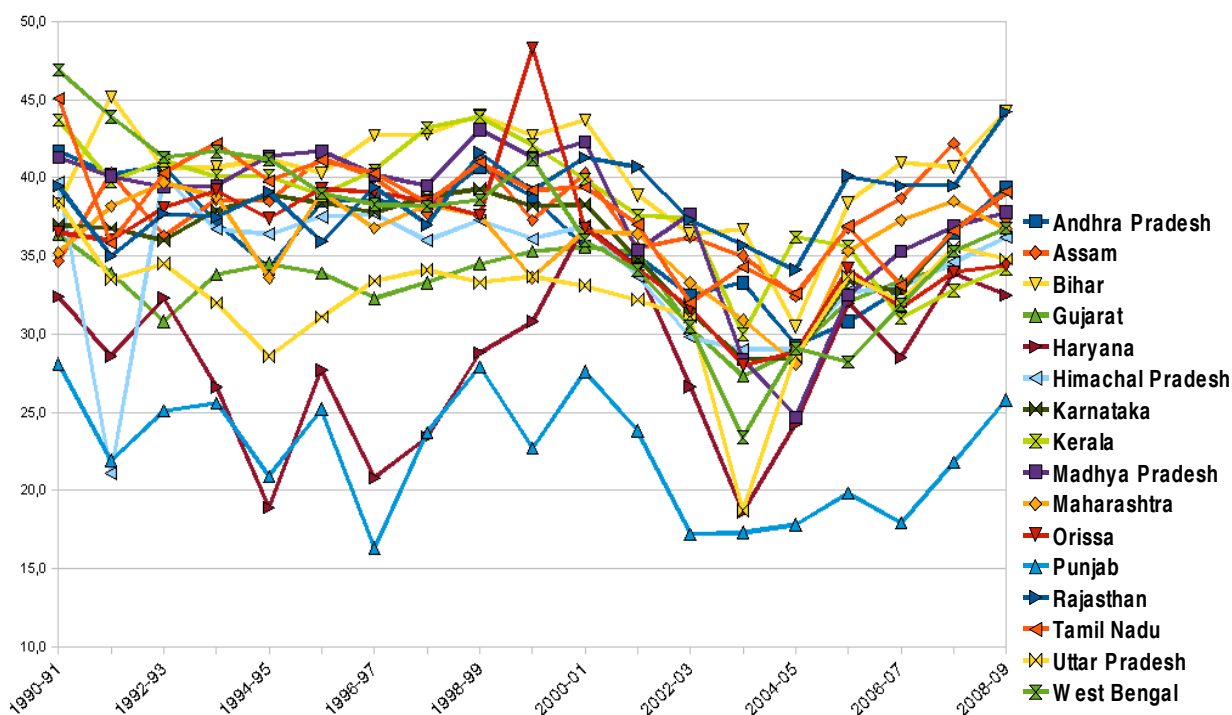
Year	AP	Assam	Bihar	Gujarat	Haryana	HP	Karnat.	Kerala	MP	Mahara.	Orissa	Punjab	Rajast.	TN	UP	WB
1993-94	3919	1397	3434	2844	1093	621	3063	2061	3508	6204	1747	1335	2783	4251	5212	3323
1994-95	3782	1365	3437	2992	1177	658	3123	2134	3556	6007	1638	1424	3066	4293	5459	3520
1995-96	4464	1498	3377	3123	1384	732	3281	2068	3827	6864	1657	1484	3326	4409	5370	3400
1996-97	4797	1340	3326	3316	1238	763	3493	2234	4226	6982	1821	970	3365	4895	5883	3987
1997-98	4789	1381	3369	3880	1301	890	3597	2723	4341	7813	1810	1651	3653	4890	6445	3753
1998-99	5912	1398	3825	4806	1644	986	4038	2821	4918	8081	2069	2075	4216	5497	6832	4330

1999-2000	5613	1546	5708	5378	1642	1007	4574	3179	5200	8608	3012	1784	4296	5934	7470	5940
2000-01	6178	1742	5441	6777	2055	1116	5038	2859	4783	10122	2489	2438	4735	6204	7494	5905
2001-02	6513	1671	3839	6112	2135	1035	5011	2658	3802	9521	2461	2225	4971	5698	7453	5719
2002-03	6444	1702	4398	5176	1569	1032	4736	3302	4408	9326	2424	1758	5019	5713	7723	5052
2003-04	7437	1924	4419	5524	1529	1194	4969	3099	4035	11059	2335	2000	5839	6531	7352	5110
2004-05	7450	2426	3948	6037	1833	1145	5636	3721	4254	11443	2457	2058	5959	7442	9164	5325
Variation (%)	90,1	73,7	15,0	112,3	67,7	84,3	84,0	80,5	21,3	84,4	40,7	54,2	114,1	75,1	75,8	60,3
Multipled by...	1,9	1,74	1,15	2,12	1,68	1,84	1,84	1,81	1,21	1,84	1,41	1,54	2,14	1,75	1,76	1,6

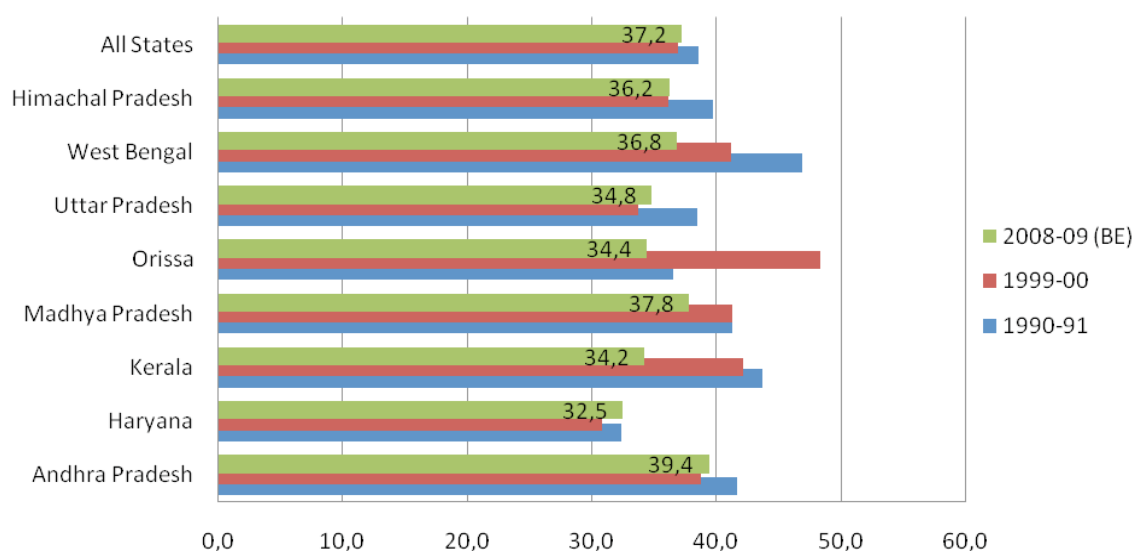
When we speak in relative terms, things are different. **The share of social sector expenditure in the total expenditure did not increase between 1990-91 and now.** In average it even declined. There was even a sharp drop in 2003-2004 for all states. It is interesting to see that the states that have the smaller share of social sector expenditure in their total expenditure (Punjab and Haryana) are not the poorer states. On the other hand, the states that relatively spend the most on social sector are Bihar, Rajasthan, and Kerala. The first two belong to the poorer Indian states.

Share of social sector expenditure in total expenditure in 16 states from 1990-91 to 2008-09

(Source: RBI, 2008)



Social Sector Expenditure to Total Expenditure in selected States



Developmental (revenue) expenditure

In the national accounts, the “developmental expenditure” category is divided into two categories: the social services and the economic expenditure.

TOTAL EXPENDITURE (I+II+III+IV+V)	
I. Developmental Expenditure (A + B)	
A. Social	
1	Education, sports, art and culture
2	Medical and public health
3	Family welfare
4	Water supply and sanitation
5	Housing
6	Urban development
7	Welfare of Scheduled Caste ,Scheduled Tribes and other backward Classes
8	Labour and Labour welfare
9	Social Security and Welfare
10	Nutrition
11	Relief on account of Natural Calamities
12	Others
B. Economic	
1	Agriculture and Allied Activities (i to xii)
(i)	Crop Husbandry

- (ii) Soil and Water Conservation
- (iii) Animal Husbandry
- (iv) Dairy Development
- (v) Fisheries
- (vi) Forestry and Wild Life
- (vii) Plantations
- (viii) Food Storage and Warehousing
- (ix) Agricultural Research and Education
- (x) Agricultural Finance Institutions
- (xi) Co-operation
- (xii) Other Agricultural Programmes
- 2 Rural Development
- 3 Special Area Programmes
- 4 Irrigation and Flood Control
 - of which :
 - (i) Major and Medium Irrigation
 - (ii) Minor Irrigation
 - (iii) Flood Control and Drainage
- 5 Energy
 - of which : Power
- 6 Industry and Minerals (i to iii)
 - (i) Village and Small Industries
 - (ii) Industries@
 - (iii) Others
- 7 Transport and Communications ((i + ii)
 - (i) Roads and Bridges
 - (ii) Others
- 8 Science, Technology and Environment
- 9 General Economic Services (i to iv)
 - (i) Secretariat - Economic Services
 - (ii) Tourism
 - (iii) Civil Supplies
 - (iv) Others

II. Non-Developmental Expenditure (General services) (A to F)

A. Organs

B. Fiscal

- 1 Collection of Taxes and Duties
- 2 Transfers to Road Fund, Education Cess Fund, etc.
- 3 Other Fiscal Services

C. Interest

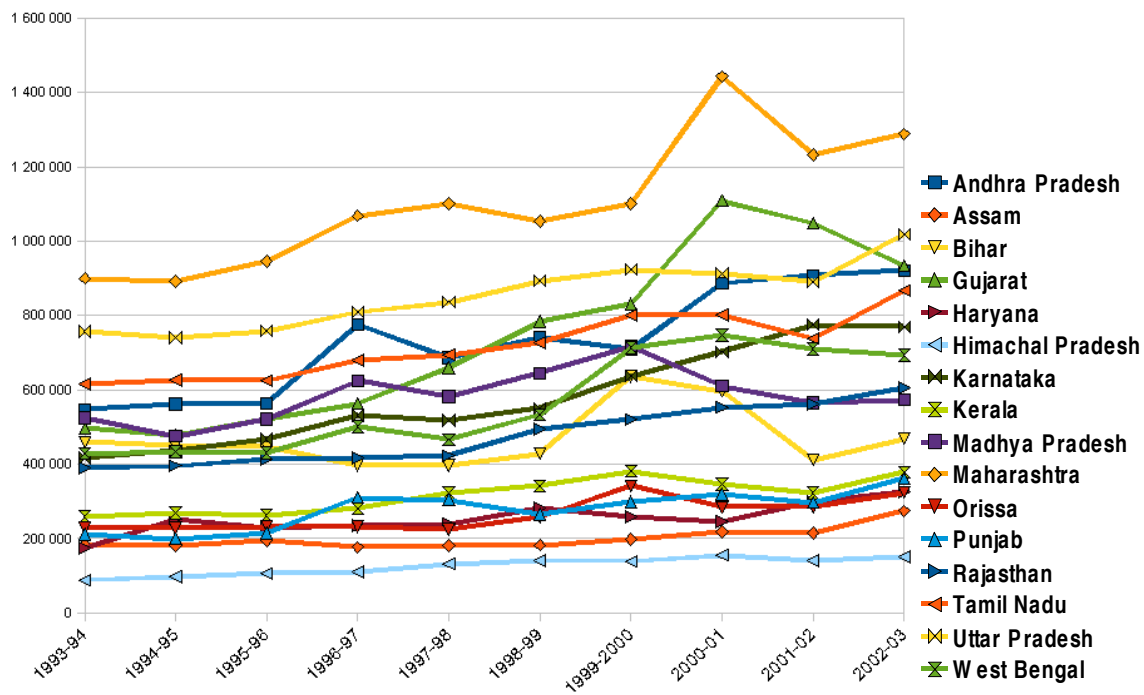
- 1 Appropriation for Reduction or Avoidance of Debt
- 2 Interest Payments (i to iv)
 - (i) Interest on Loans from the Centre
 - (ii) Interest on Internal Debt
 - of which : Interest on market loans
 - (iii) Interest on Small Savings, Provident Funds, etc.

	(iv) Others
D. Administrative	
	1 Secretariat-General Services
	2 District Administration
	3 Police
	4 Public Works
	5 Others
E. Pensions	
F. Miscellaneous	
III. Grants-in-Aid and	
IV. Compensation and assignments to Local Bodies and Panchayati Raj Institutions	
V. Reserve with Finance Department	

Development expenditure in 16 states from 1993-94 to 2002-03 (1993-94 constant prices, lakhs)

(Source: Handbook of statistics)

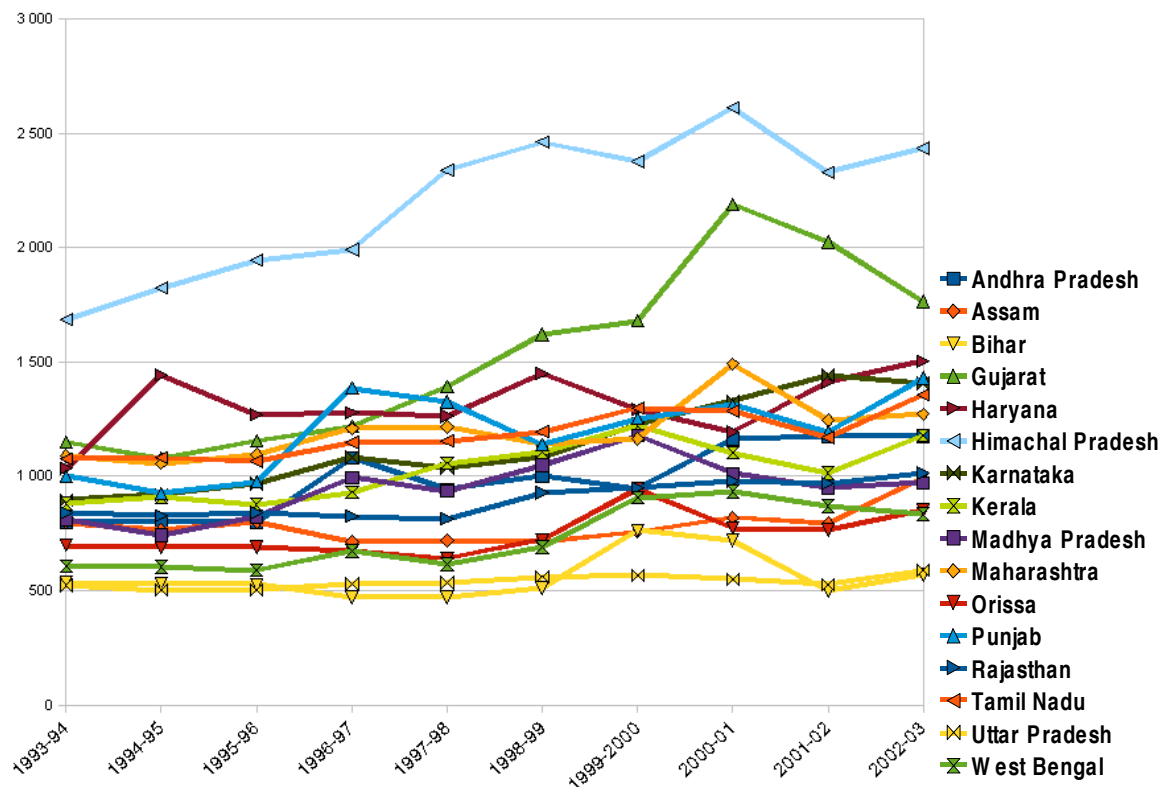
Year	AP	Assam	Bihar	Guj.	Har.	HP	Karn.	Ker.	MP	Mah.	Ori.	Pun.	Raj.	TN	UP	WB
1993-94	547141	185465	459862	496734	175127	88742	417940	258597	525026	900497	228350	211109	390990	615846	757066	428772
1994-95	561431	182038	451546	477304	251095	97758	436150	269607	475442	892067	229073	199541	395349	626107	740908	433452
1995-96	563359	193480	446558	522568	227144	106130	467775	262216	522058	946681	233413	214426	413672	624735	758603	431114
1996-97	775768	176566	396824	563630	235056	110549	532609	281246	625007	1068761	232403	310954	417196	680768	809902	500831
1997-98	686201	181083	396685	659399	238638	132296	517890	323143	581807	1101209	224456	303523	423092	694424	835919	466933
1998-99	740042	182837	428754	784279	281822	141694	551231	341581	645201	1053596	257420	266322	494895	727028	893521	533464
1999-2000	710558	197831	636650	832154	258519	139320	637566	380968	718158	1101799	341917	298881	520677	800773	923703	713349
2000-01	887312	218583	596950	1109312	245625	155915	702867	347256	610799	1443647	284643	319447	553235	801115	913362	746852
2001-02	907895	215615	411601	1049046	298562	141541	775512	322521	566286	1233055	286280	296848	562882	739058	891391	709679
2002-03	921629	274895	468567	934835	326726	150597	769748	378894	573869	1288810	323921	362363	605480	867494	1018737	693418
Variation	68,44	48,22	1,89	88,2	86,57	69,7	84,18	46,52	9,3	43,12	41,85	71,65	54,86	40,86	34,56	61,72
Multiplied by...	1,68	1,48	1,02	1,88	1,87	1,7	1,84	1,47	1,09	1,43	1,42	1,72	1,55	1,41	1,35	1,62



Approximately all states increased their “developmental” spending. For Bihar and Madhya Pradesh however, the developmental expenditure stagnated.

Per capita development expenditure 1993-94 to 2002-03 (1993-94 constant prices, lakhs)

(Source: Handbook of statistics, Census, own calculations with data from EPW database)



Expenditure on social services

Revenue expenditure on Social services in 16 states from 1993-94 to 2002-03 (1993-94 constant prices, lakhs)

(Source: Handbook of statistics and own calculations with data from EPW database.)

Year	AP	Assam	Bihar	Guj.	Har.	HP	Kar.	Ker.	MP	Mah.	Ori.	Punj.	Raj.	TN	UP	WB
1993-94	295348	121564	241581	233289	87494	48329	237850	177655	267507	463131	132466	114687	219102	358607	405308	269808
1994-95	304950, 96	116412, 59	274540, 28	240056, 01	105439, 7	51377, 65	249349, 74	186201, 18	278547, 15	474015, 1	130905, 14	112073, 47	235300, 29	363013, 46	423747, 7	280079, 91
1995-96	378665, 84	120199, 43	289218, 53	266639, 79	129578, 49	59035, 84	266934, 37	177557, 73	295211, 31	539242, 29	138956, 45	133623, 45	257125, 11	371325, 7	456716, 93	279837, 86
1996-97	398132, 67	121850, 02	266925, 46	278960, 05	106106, 69	60689, 52	285612, 23	186971, 95	324185, 51	567027, 47	148775, 6	129136, 82	269832, 19	403658, 56	487470, 81	324938, 91
1997-98	387850, 39	127417, 15	276824, 29	332180, 61	112114, 84	71216, 03	304666, 64	198035, 77	346087, 91	638562, 94	151960, 41	151852, 95	291142, 63	412563, 48	532413, 19	318124, 9
1998-99	467259, 15	127543, 56	273241, 41	395321, 67	138570, 18	80310, 65	321385, 66	202765, 43	398035, 2	667856, 2	173530, 52	179344, 28	348666, 02	478813, 14	579178, 6	368530, 12
1999-2000	466030, 7	139275, 65	426334, 66	442516, 57	144127, 76	81503, 73	368367, 71	246149, 58	435395, 02	749408, 41	246565, 5	177934, 8	369596, 83	511802, 63	555463, 62	520875, 71
2000-01	496013, 65	159366, 82	428086, 73	540197, 7	152036, 05	88746, 35	409691, 7	228452, 79	390286, 68	941417, 32	190803, 24	187702, 62	401658, 401658	502604, 5	569258, 86	516436, 74
2001-02	491696, 03	148719, 52	293931, 82	522757, 79	158283, 73	83601, 45	421560, 44	219683, 24	290086, 56	871028, 11	194638, 34	185555, 4	411826, 85	476011, 36	566687, 5	495617, 82
2002-03	524989, 87	194674, 51	319952, 67	468971, 93	170919, 99	84151, 94	407672, 06	236478, 64	344057, 06	911031, 37	225465, 03	221177, 4	427463, 59	499666, 82	648973, 75	497443, 46
Variation	77,75	60,14	32,44	101,03	95,35	74,12	71,4	33,11	28,62	96,71	70,21	92,85	95,1	39,34	60,12	84,37
Multiplied by,,,	1,78	1,6	1,32	2,01	1,95	1,74	1,71	1,33	1,29	1,97	1,7	1,93	1,95	1,39	1,6	1,84

The table above presents the revenue expenditure on social services⁵. The evolution of these expenditures is very similar to the evolution of expenditures on social sector (that take into account revenue expenditure, capital outlay and loans and advances by the State Governments). It would mean that the revenue expenditures on social services represent an important share in the social sector expenditures (that also include rural development and food storage and warehousing).

On the whole, revenue expenditure on social services increased for all states, especially for Gujarat and Rajasthan.

Education and health

In 2002-2003, on average, spending on education represented 55% of the total expenditure on social services, and medical and public health expenditures represented 13% of the total. The expenditures on education and health represent thus almost 70% of the total expenditure on social services. That is why we decided to look closer at the spending on these sectors.

⁵ As presented on the table above, under the « social » category, 12 other categories are included (Education, Health, Family welfare, Water supply and sanitation, Housing, Urban development, Welfare of ST, SC and OBC, Labour welfare, Social security, Nutrition, Relief on account of Natural Calamities, others).

It is first impressive to see that, on average, the share of education and health in total expenditure on social services decreased from 1993-94 to 2002-03. This decrease was bigger for health than for education.

Share of expenditure on education and health in the total expenditure on social services from 1993-94 to 2002-03.

(Source: Handbook of statistics and own calculations.)

Education

Year	AP	Assam	Bihar	Guj.	Har.	HP	Kar.	Ker.	MP	Mah.	Ori.	Punj.	Raj.	TN	UP	WB	Average
1993-94	0,49	0,65	0,58	0,59	0,53	0,54	0,54	0,64	0,46	0,58	0,52	0,6	0,56	0,49	0,58	0,61	0,56
1994-95	0,49	0,66	0,6	0,59	0,46	0,5	0,53	0,65	0,45	0,57	0,55	0,62	0,57	0,5	0,61	0,58	0,56
1995-96	0,37	0,67	0,62	0,6	0,41	0,5	0,52	0,62	0,48	0,56	0,51	0,56	0,56	0,5	0,62	0,58	0,54
1996-97	0,38	0,67	0,68	0,6	0,54	0,52	0,52	0,6	0,47	0,56	0,53	0,64	0,57	0,49	0,61	0,59	0,56
1997-98	0,41	0,67	0,7	0,54	0,54	0,52	0,53	0,57	0,44	0,56	0,55	0,63	0,57	0,51	0,56	0,58	0,56
1998-99	0,4	0,69	0,67	0,57	0,59	0,54	0,55	0,58	0,46	0,56	0,54	0,65	0,56	0,54	0,65	0,54	0,57
1999-2000	0,45	0,7	0,68	0,54	0,55	0,6	0,55	0,62	0,49	0,65	0,48	0,66	0,56	0,57	0,66	0,61	0,59
2000-01	0,47	0,69	0,69	0,48	0,53	0,56	0,57	0,63	0,47	0,66	0,56	0,62	0,53	0,56	0,66	0,54	0,58
2001-02	0,46	0,69	0,69	0,42	0,54	0,57	0,54	0,61	0,46	0,66	0,53	0,59	0,54	0,56	0,65	0,55	0,57
2002-03	0,48	0,68	0,68	0,5	0,53	0,58	0,57	0,57	0,43	0,59	0,48	0,6	0,51	0,54	0,57	0,56	0,55
Variation	-3,43	4,62	16,58	-14,85	1,25	8,44	5,41	-11,89	-7,82	1,61	-7,55	-0,43	-8,22	10,33	-2,02	-7,89	-1,09
Multiplied by,,,	0,97	1,05	1,17	0,85	1,01	1,08	1,05	0,88	0,92	1,02	0,92	1	0,92	1,1	0,98	0,92	0,99

Health

Year	AP	Assam	Bihar	Guj.	Har.	HP	Kar.	Ker.	MP	Mah.	Ori.	Punj.	Raj.	TN	UP	WB	Average
1993-94	0,17	0,14	0,19	0,15	0,11	0,2	0,16	0,16	0,15	0,15	0,14	0,19	0,18	0,15	0,23	0,19	0,17
1994-95	0,16	0,15	0,18	0,16	0,12	0,2	0,17	0,16	0,15	0,14	0,14	0,18	0,18	0,16	0,19	0,17	0,16
1995-96	0,1	0,12	0,1	0,13	0,08	0,15	0,12	0,15	0,11	0,12	0,11	0,14	0,13	0,13	0,14	0,16	0,12
1996-97	0,12	0,13	0,12	0,13	0,11	0,17	0,12	0,14	0,12	0,12	0,11	0,16	0,14	0,13	0,14	0,15	0,13
1997-98	0,12	0,13	0,11	0,12	0,12	0,15	0,12	0,14	0,11	0,11	0,11	0,17	0,14	0,13	0,15	0,15	0,13
1998-99	0,12	0,1	0,12	0,13	0,12	0,16	0,13	0,14	0,13	0,11	0,12	0,18	0,13	0,13	0,11	0,17	0,13
1999-2000	0,12	0,11	0,12	0,13	0,11	0,16	0,13	0,14	0,12	0,11	0,09	0,19	0,13	0,13	0,12	0,13	0,13

2000-01	0,13	0,1	0,12	0,1	0,1	0,15	0,13	0,14	0,12	0,1	0,11	0,2	0,12	0,12	0,12	0,14	0,13
2001-02	0,13	0,1	0,12	0,08	0,1	0,15	0,12	0,15	0,13	0,11	0,11	0,19	0,12	0,13	0,12	0,14	0,12
2002-03	0,12	0,09	0,12	0,1	0,11	0,15	0,14	0,13	0,12	0,1	0,11	0,18	0,12	0,13	0,14	0,15	0,13
Variation	-30,6	-35,8	-36,6	-34,9	-5,2	-26,4	-17,5	-16,2	-22,2	-32,7	-21	-7,5	-34,2	-18,2	-40,6	-19,9	-25,4
Multiplied by...	0,69	0,64	0,63	0,65	0,95	0,74	0,83	0,84	0,78	0,67	0,79	0,92	0,66	0,82	0,59	0,8	0,75

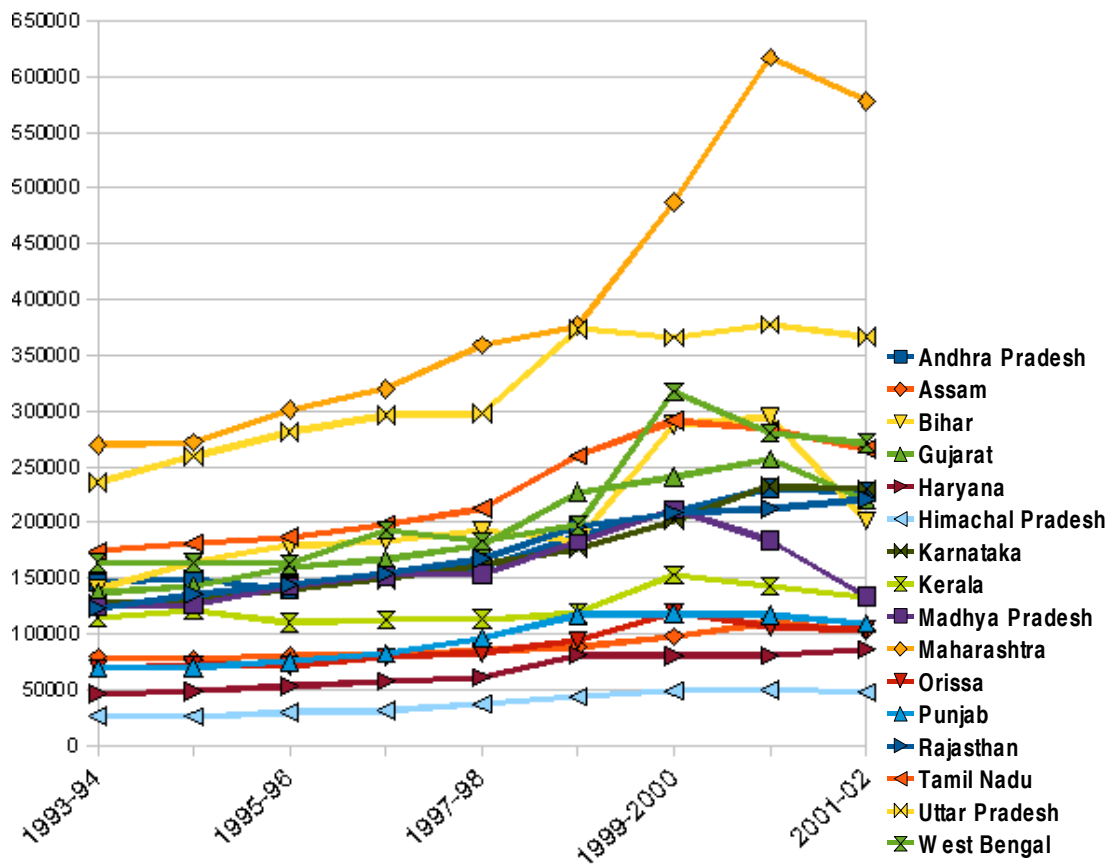
For all the states studied, the spending on education did not decrease (both in current and constant prices). However, **for some states (Bihar and Uttar Pradesh), spending on public health did witness a real drop (in constant prices)**. For Bihar, it was reduced by 15%. A cut in spending on health may be a consequence of the bad fiscal situation of these states. Indeed, Bihar and Uttar Pradesh belong to the group of states that suffered the most from a reduction in fiscal space over the period.

Revenue expenditure on education and health from 1993-94 to 2002-03 (constant 1993-94 prices, lakhs).

(Source: Handbook of statistics and own calculations.)

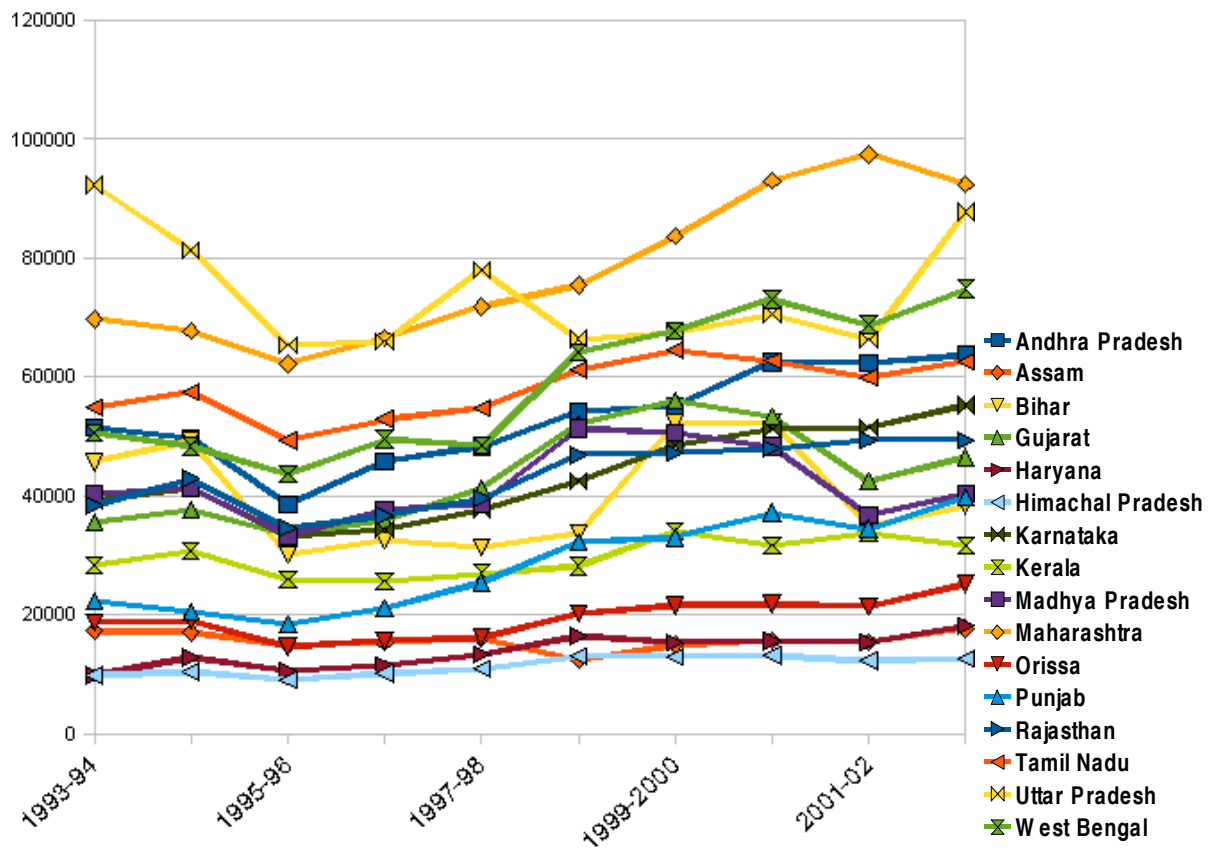
Education

Year	AP	Ass.	Bi.	Guj.	Har .	HP	Kar.	Ker.	MP	Mah	Ori.	Pun.	Raj.	TN	UP	WB	Average
1993-94	145	791	140	136	460	258	127	114	124	269	688	687	122	174	235	163	1277
	939	91	136	920	25	85	812	551	267	461	15	69	867	092	808	342	42,5
1994-95	149	771	164	142	483	258	131	120	125	272	716	696	135	181	259	163	1336
	808	95	096	684	89	44	127	800	852	098	35	77	290	179	468	676	76
1995-96	139	803	179	159	530	294	139	110	143	301	713	752	144	186	280	162	1409
	037	99	101	421	77	01	857	287	033	004	88	12	342	875	984	379	87
1996-97	152	811	182	167	572	314	148	112	152	319	787	821	154	198	296	193	1505
	161	60	835	087	94	76	941	307	292	962	01	60	305	377	237	321	38
1997-98	158	848	193	179	608	369	162	113	153	359	829	959	166	212	297	183	1588
	921	71	049	385	10	18	061	107	455	164	81	03	984	370	817	309	19
1998-99	188	885	183	227	811	434	176	118	183	376	943	116	196	259	373	197	1815
	121	35	104	204	57	09	734	536	568	439	08	591	395	793	724	566	74
1999-2000	210	974	287	241	797	486	201	152	211	487	118	118	208	291	365	317	2149
	285	99	872	026	57	17	755	702	911	713	928	256	301	174	677	357	27
2000-01	230	109	294	257	807	500	232	142	183	617	106	116	212	283	377	280	2235
	844	911	322	086	17	20	684	920	885	199	644	594	556	546	902	104	58
2001-02	227	103	201	220	857	475	229	133	133	578	103	109	220	266	366	271	2060
	218	016	365	562	50	22	600	184	561	063	494	301	619	177	744	180	85
2002-03	250	132	216	234	910	488	230	134	147	538	108	132	220	267	369	277	2125
	526	671	369	367	31	75	911	354	326	590	285	047	011	625	940	397	20
Variation (%)	71,6	67,5	54,4	71,1	97,	88,	80,6	17,2	18,5	99,8	57,3	92,0	79,0	53,7	56,8	69,8	67,29
	6	3	0	7	79	82	6	9	6	8	6	1	6	3	8	3	
Multiplied by...	1,72	1,68	1,54	1,71	1,98	1,89	1,81	1,17	1,19	2,00	1,57	1,92	1,79	1,54	1,57	1,70	1,67



Health

Year	AP	Assam	Bihar	Guj.	Har.	HP	Kar.	Ker.	MP	Mah.	Ori.	Pun.	Raj.	TN	UP	WB	Average
1993-94	51616	17241	45704	35605	9829	9882	39124	28422	40351	69816	18744	22291	38457	54912	92283	50688	39060
1994-95	49672	17049	49279	37770	12887	10476	41449	30689	41279	67727	18955	20582	42933	57553	81299	48406	39250
1995-96	38573	14835	30110	33377	10532	9081	33259	25941	33370	62255	14664	18384	34672	49347	65372	43689	32341
1996-97	45858	15370	32502	35929	11553	10189	34336	25590	37656	66642	15760	21182	36689	52846	65969	49537	34851
1997-98	48342	16068	31351	41348	13345	10934	37689	26952	38710	71881	16144	25513	39598	54825	78041	48468	37451
1998-99	54179	12441	33712	52187	16438	13074	42502	28198	51365	75451	20248	32241	46933	61235	66380	64197	41924
1999-2000	55224	14986	52227	56129	15399	12949	48498	34156	50560	83665	21552	33073	47272	64559	67514	67811	45348
2000-01	62565	15653	52465	53273	15582	13132	51230	31729	48328	93011	21872	37177	47970	62674	70593	73082	46896
2001-02	62379	15463	35021	42436	15406	12284	51555	33783	36716	97459	21415	34472	49364	59935	66281	68770	43921
2002-03	63719	17739	38395	46566	18201	12669	55330	31711	40369	92412	25204	39756	49368	62623	87810	74816	47293
Variation (%)	23,45	2,89	-15,99	30,79	85,18	28,20	41,42	11,57	0,04	32,37	34,47	78,35	28,37	14,04	-4,85	47,60	27,37
Multiplied by...	1,23	1,03	0,84	1,31	1,85	1,28	1,41	1,12	1,00	1,32	1,34	1,78	1,28	1,14	0,95	1,48	1,27



Nevertheless, education seems to be the top priority for Bihar. **With Assam, Bihar is the state that spends the most on education in relative terms** (in 2002-03 it represented almost 70% of the spending on social services). On the other hand, for Madhya Pradesh the share is only 43% (and it decreased by 3 percentage points between 1993-94 and 2002-03).

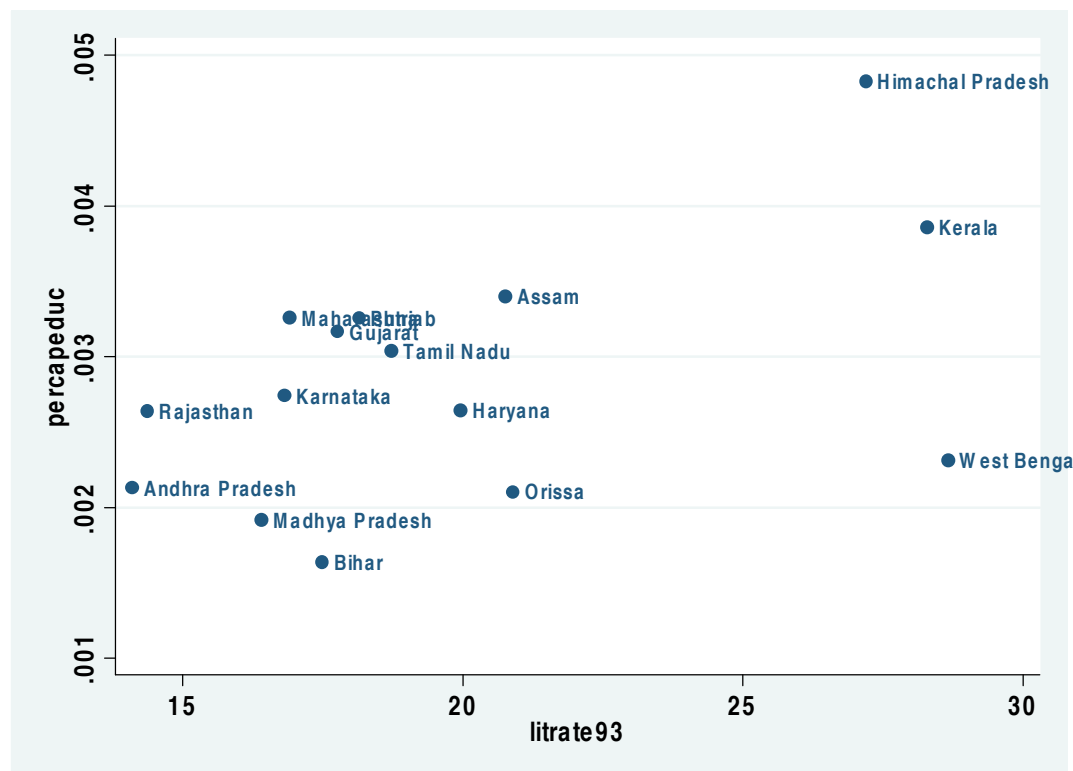
Over the period, the increase in revenue expenditure on education was the most spectacular for Haryana and Maharashtra: it was almost multiplied by 2.

Spending on education is important since it appears positively correlated to the literacy rate.

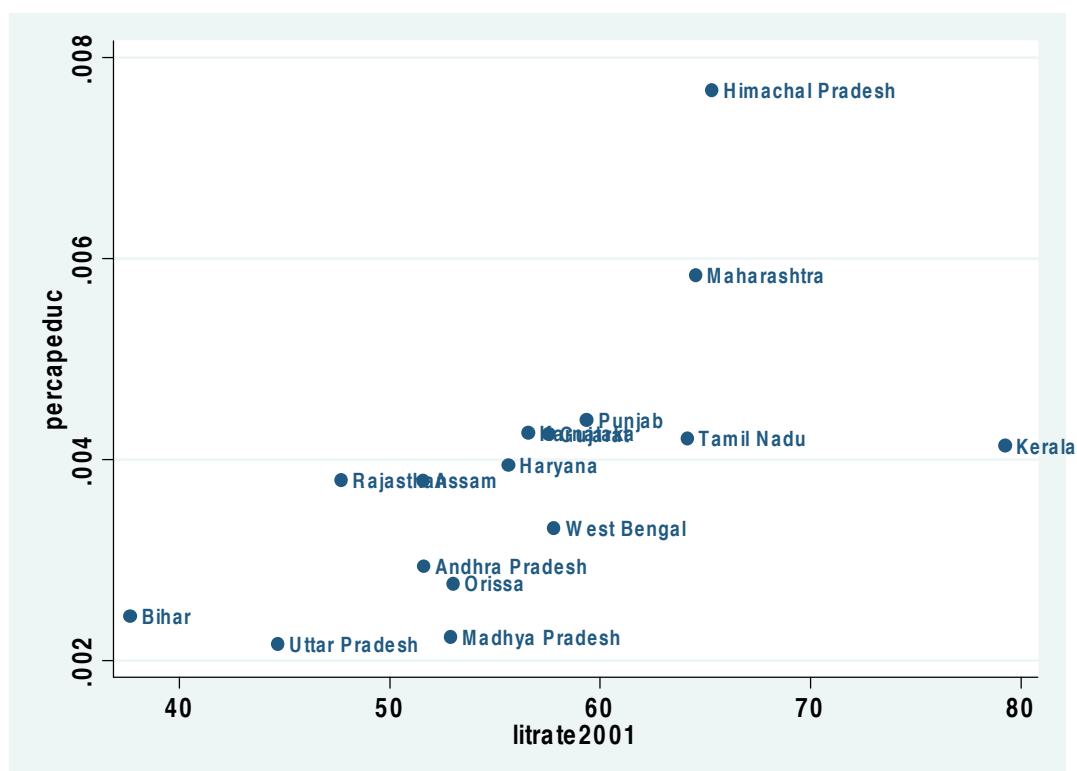
Correlation between per capita revenue expenditure on education and literacy rate (1993, 2001)
(constant 1993-94 prices).

(Source: Handbook of Statistics, Census, own calculations. Graph made with Stata)

1993



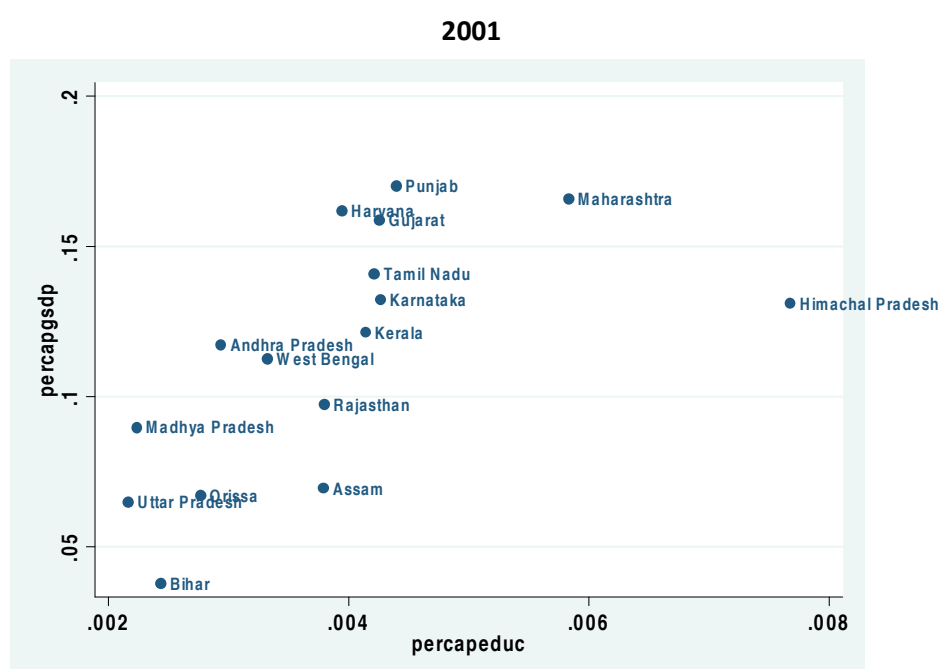
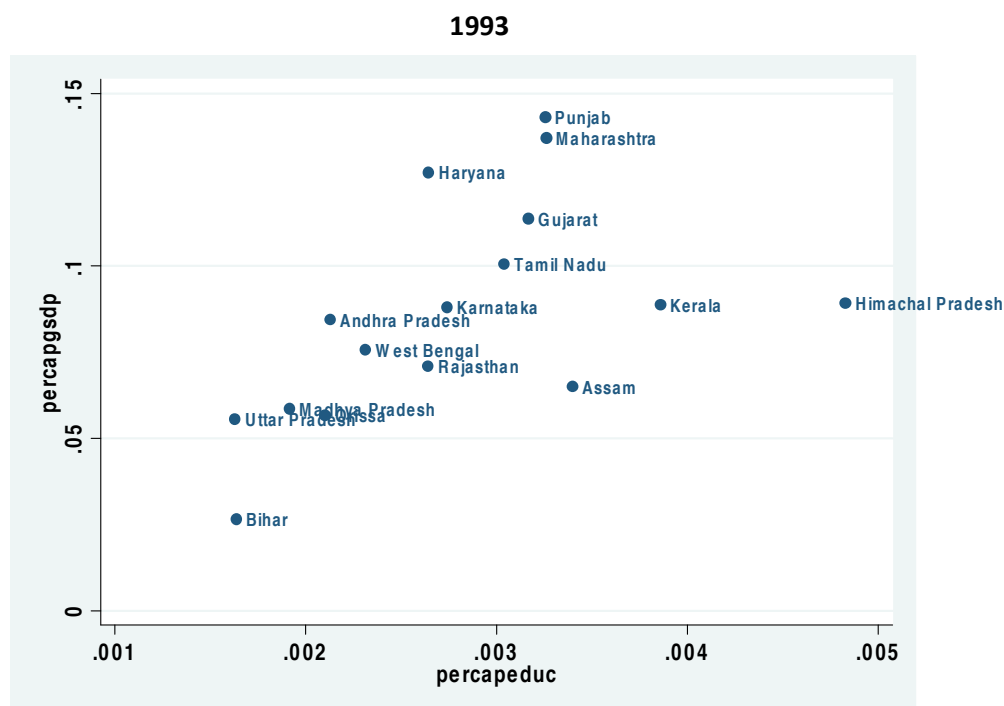
2001



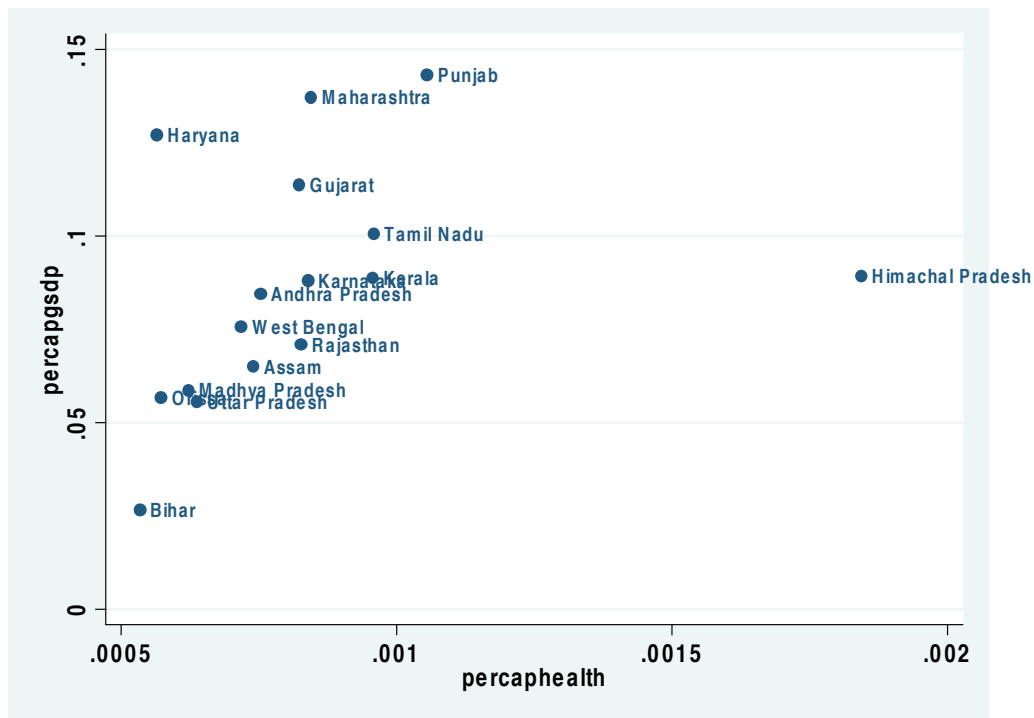
Spending on education is also correlated to the level of wealth (GSDP per capita). **Richer states tend to spend more on education (as measured by spending on education per capita) than poorer states.** Since they have more revenue receipts, it is normal that they can spend more on these sectors in absolute terms.

Correlation between per capita revenue expenditure on education and health and per capita GSDP (1993, 2001) (constant 1993-94 prices).

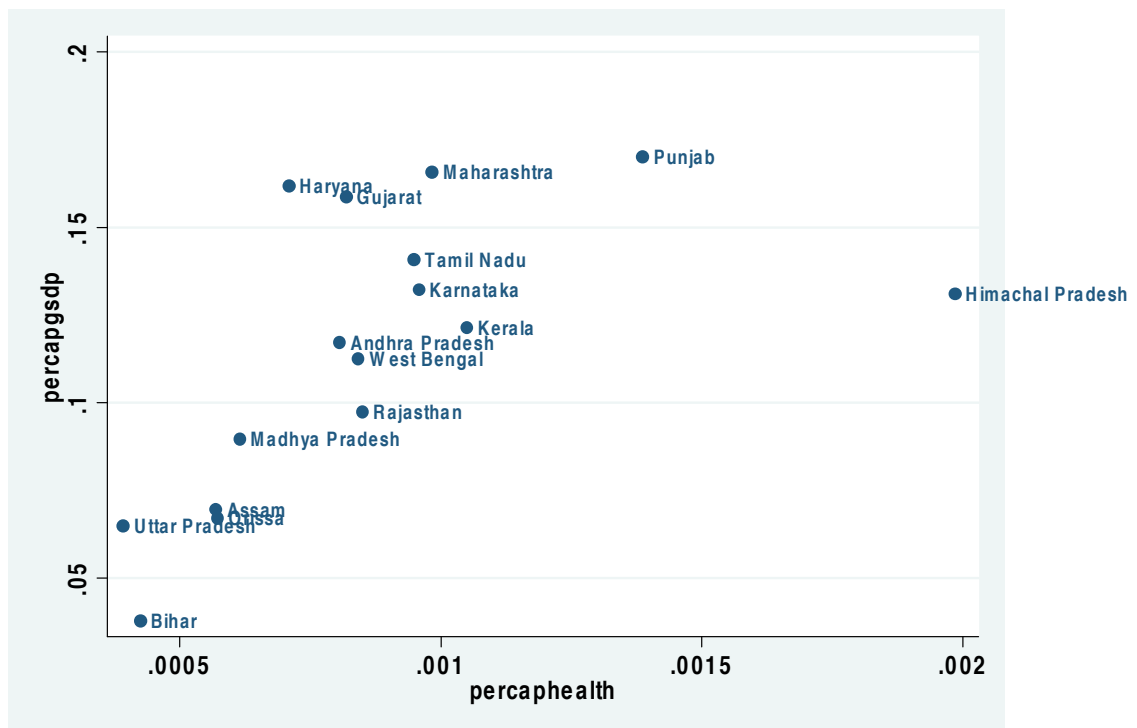
(Source: Handbook of Statistics, Census, EPW database, own calculations. Graph made with Stata)



1993



2001



However, in relative terms, it seems that poorer states spend more on education and health. Indeed the share of spending on education or on health in the total developmental spending is often higher for poorer states than for richer states.

Nevertheless, the trend seems to have changed: in 2002-2003, poorer states on average spent relatively less on health than richer states.

Average share of “Education, sports, art and culture” expenditure in development spending	Poorer states	Richer states
1993-2003	36.11638	32.11711
1993-94	31.78964	31.08247
1996-97	35.25605	29.48599
1998-99	37.52259	33.80095
2002-03	37.69851	32.71114

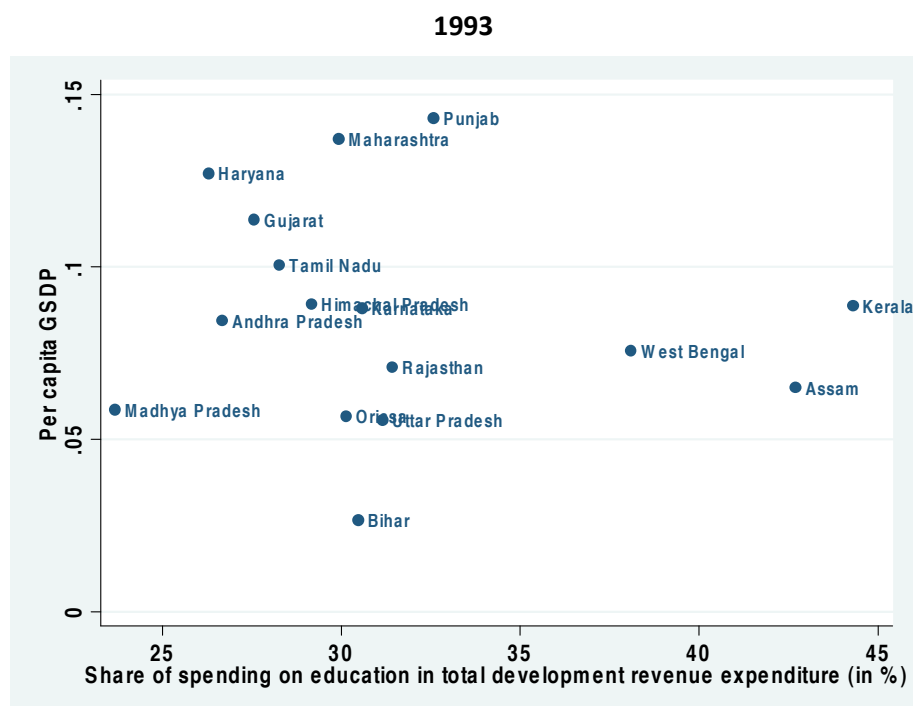
Average share of “Medical and public health” expenditure in development spending	Poorer states	Richer states
1993-2003	8.500061	7.713559
1993-94	9.801187	8.937067
1996-97	7.805497	7.107752
1998-99	8.345189	8.171124
2002-03	7.705937	7.758557

(Source: Handbook of statistics, own calculations using Stata.)

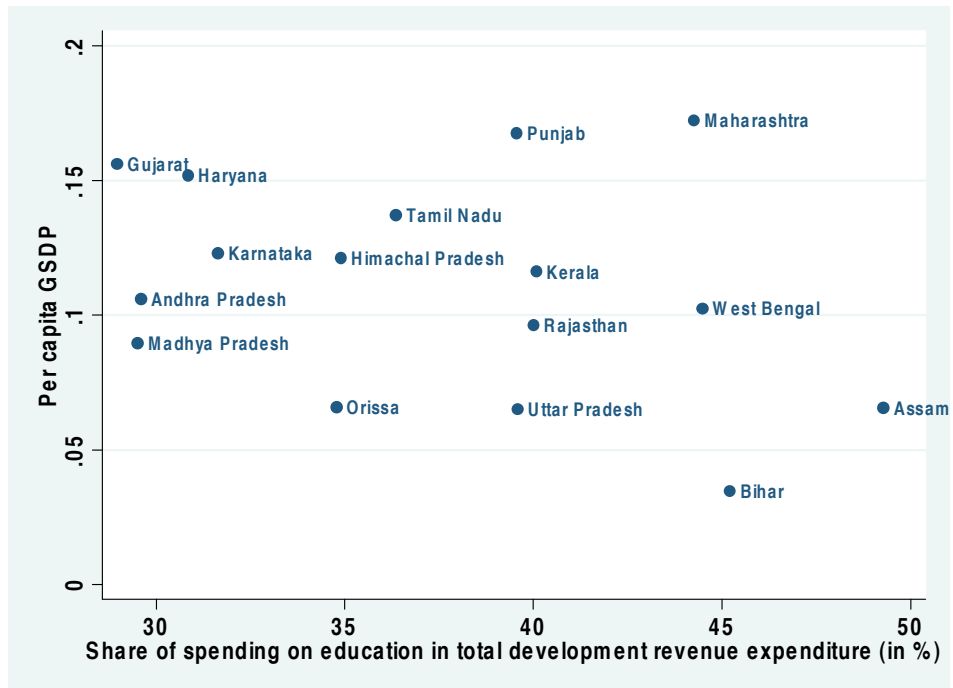
Correlation between share of spending on education and health in total revenue expenditure and per capita GSDP (1993, 2001) (constant 1993-94 prices).

(Source: Handbook of Statistics, Census, EPW database, own calculations. Graph made with Stata)

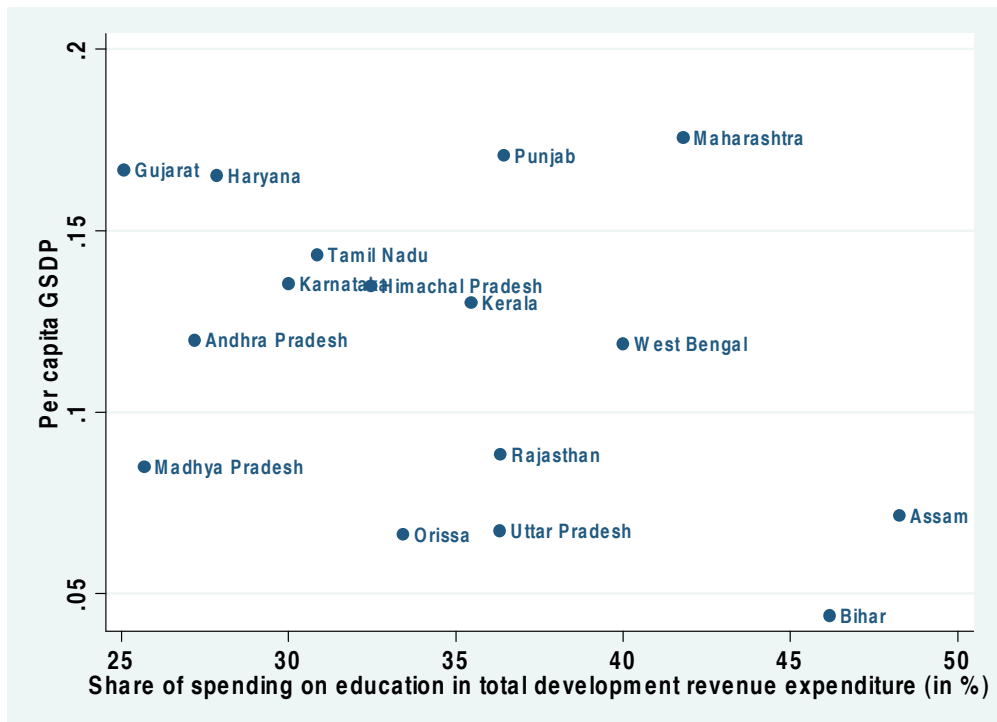
Education



1999

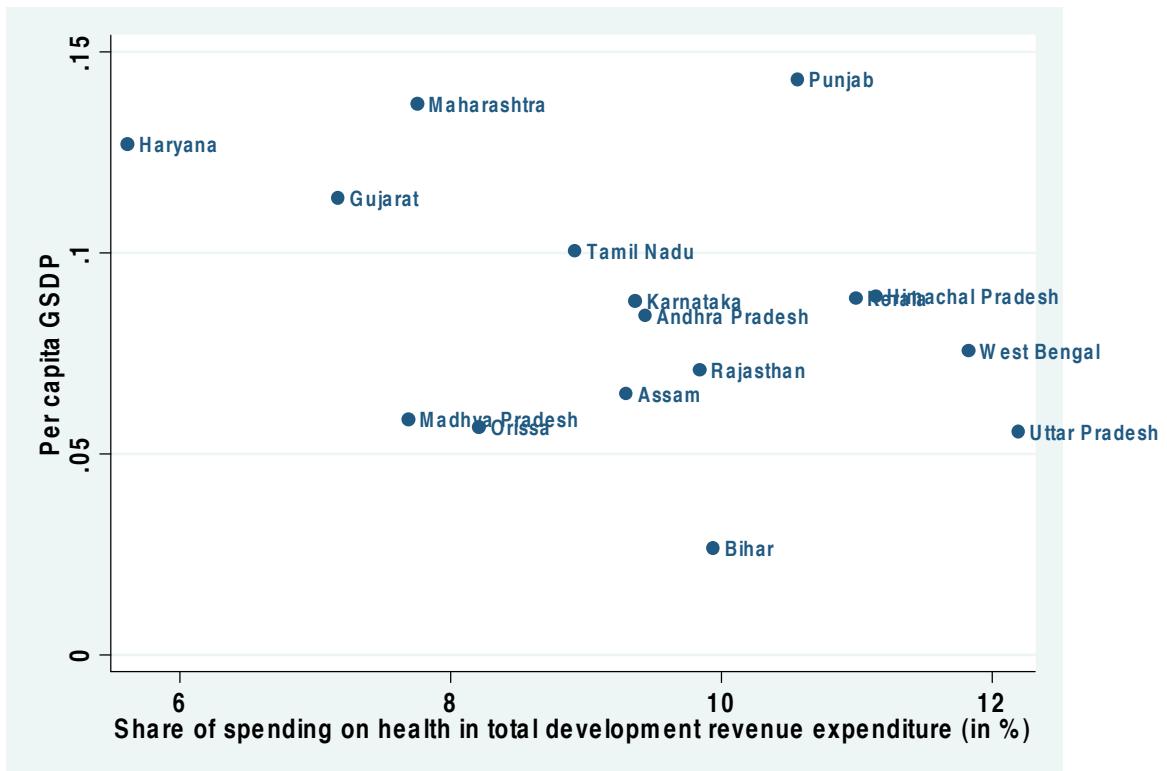


2002

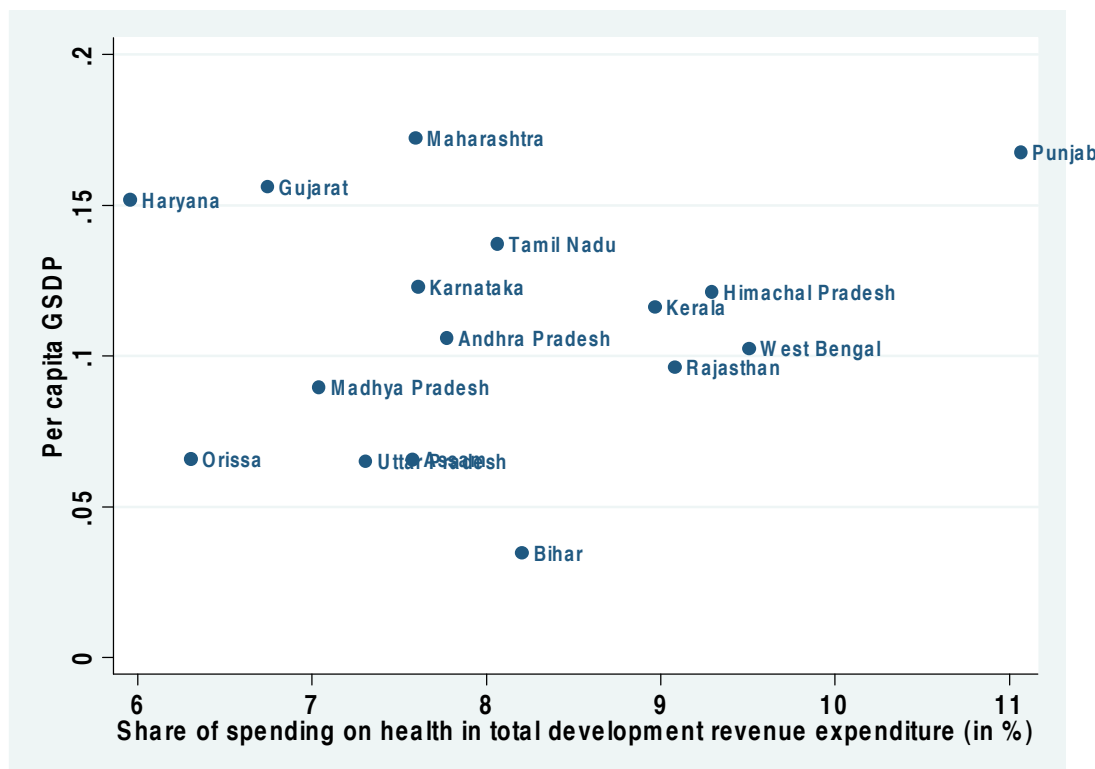


Health

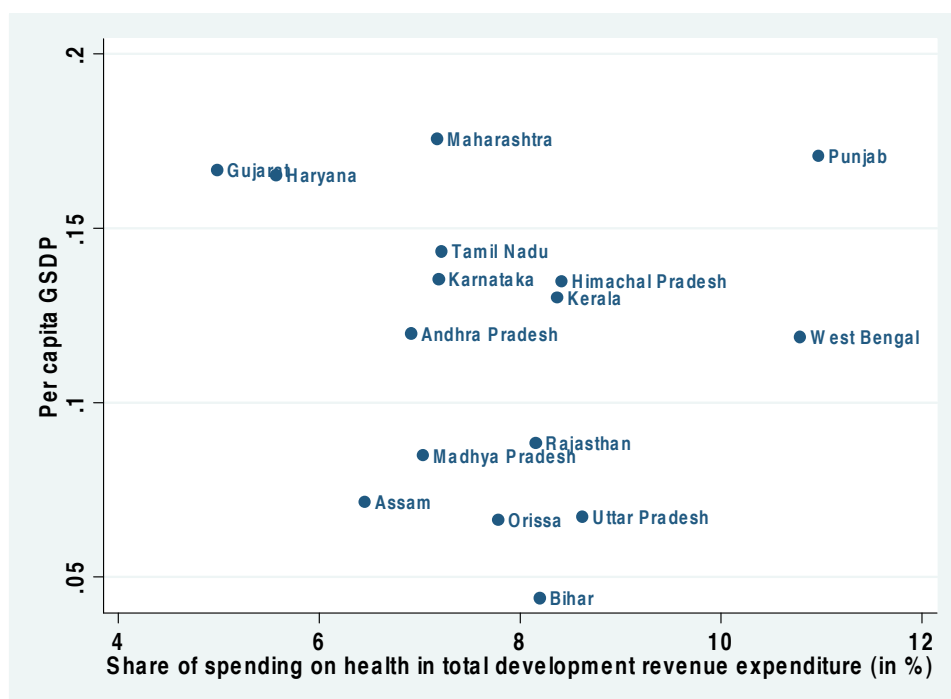
1993



1999



2002



Economic expenditure

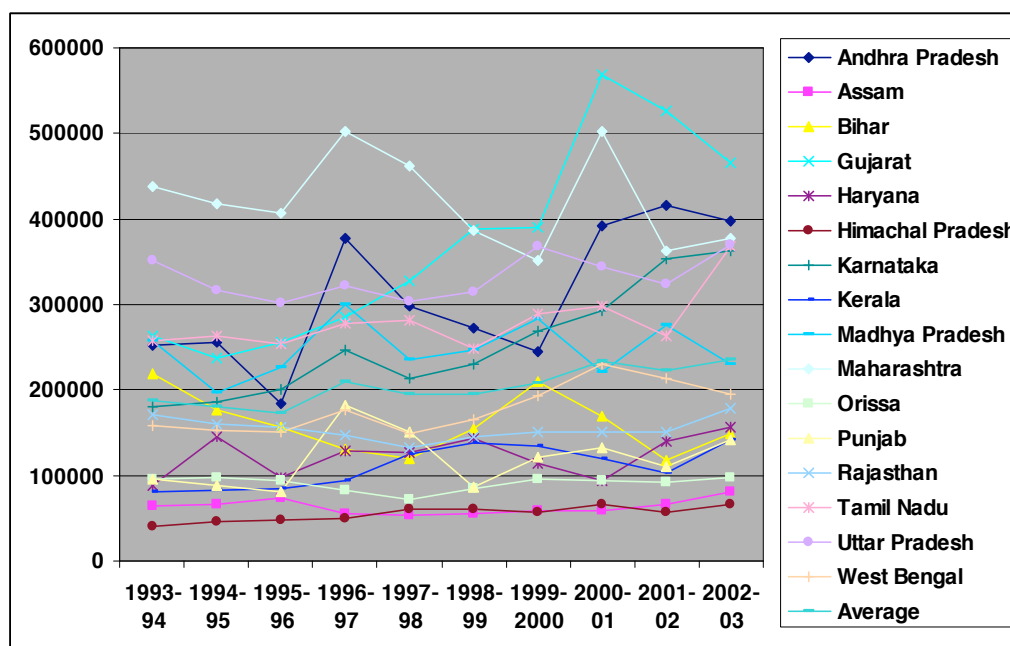
Let's now turn to economic expenditure (category B under “developmental expenditure”).

Revenue expenditure on economic services (constant 1993-94 prices, lakhs)

(Source: Handbook of Statistics, own calculations from EPW database)

Year	AP	Ass.	Bihar	Guj.	Har.	HP	Kar.	Ker.	MP	Mah.	Ori.	Pun.	Raj.	TN	UP	WB	Average
1993-94	251793	63901	218281	263445	87633	40413	180090	80942	257519	437366	95884	96422	171888	257239	351758	158964	188346,13
1994-95	256479,97	65625,21	177005,8	237247,98	145655,74	46380,41	186799,96	83405,8	196894,67	418051,54	98167,65	87467,25	160049,1	263093,76	317159,93	153372,27	180803,56
1995-96	184693,49	73280,28	157339,55	255927,75	97565,87	47093,83	200840,95	84658,67	226846,81	407439,2	94456,64	80802,67	156546,9	253409,44	301885,58	151275,84	173378,97
1996-97	377635,17	54715,74	129899,1	284669,8	128949,5	49859,05	246996,32	94273,86	300821,19	501733,04	83626,9	181817,41	147364,12	277109,49	322431,1	175891,75	209862,09
1997-98	298350,16	53666,08	119860,7	327218,16	126522,78	61079,59	213223,58	125107,64	235718,66	462646,32	72495,85	151669,59	131949,55	281860,5	303506,08	148808,29	194605,22
1998-99	272783,01	55293,27	155513,1	388957,02	143251,53	61382,95	229845,71	138815,34	247165,73	385739,36	83889,22	86977,43	146229,2	248215,07	314342,78	164934,03	195208,41
1999-2000	244527,09	58555,46	210315,02	389637,07	114390,91	57816,16	269198,49	134818,53	352390,74	95351,44	120946,69	151080,35	288970,7	368239,46	192473,51	208217,16	
2000-01	391298,78	59216,44	168863,15	569114,26	93589,25	67168,3	293175,06	118803,24	220512,65	502230,15	93839,54	131743,88	151577,1	298510,78	344102,97	230415,44	233385,06
2001-02	416198,77	66895,76	117668,98	526288,11	140278,01	57939,46	353952,06	102837,71	276199,04	362027,12	91641,82	111292,68	151054,88	263046,15	324703,68	214060,69	223505,31
2002-03	396639,16	80220,38	148614,78	465862,63	155806,34	66445,08	362075,75	142415,3	229812,33	377779,07	98455,74	141185,31	178015,93	367827,55	369763,34	195974,24	236055,81
Variation	57,53	25,54	-31,92	76,83	77,79	64,42	101,05	75,95	-10,76	-13,62	2,68	46,42	3,57	42,99	5,12	23,28	34,18
Multiplied by...	1,58	1,26	0,68	1,77	1,78	1,64	2,01	1,76	0,89	0,86	1,03	1,46	1,04	1,43	1,05	1,23	1,34

The revenue expenditure on economic services increased for all states, except Bihar, over the period. We also see that for some states, the expenditure knew great variations.



Which budget item benefited the most from this increase in spending on economic services?

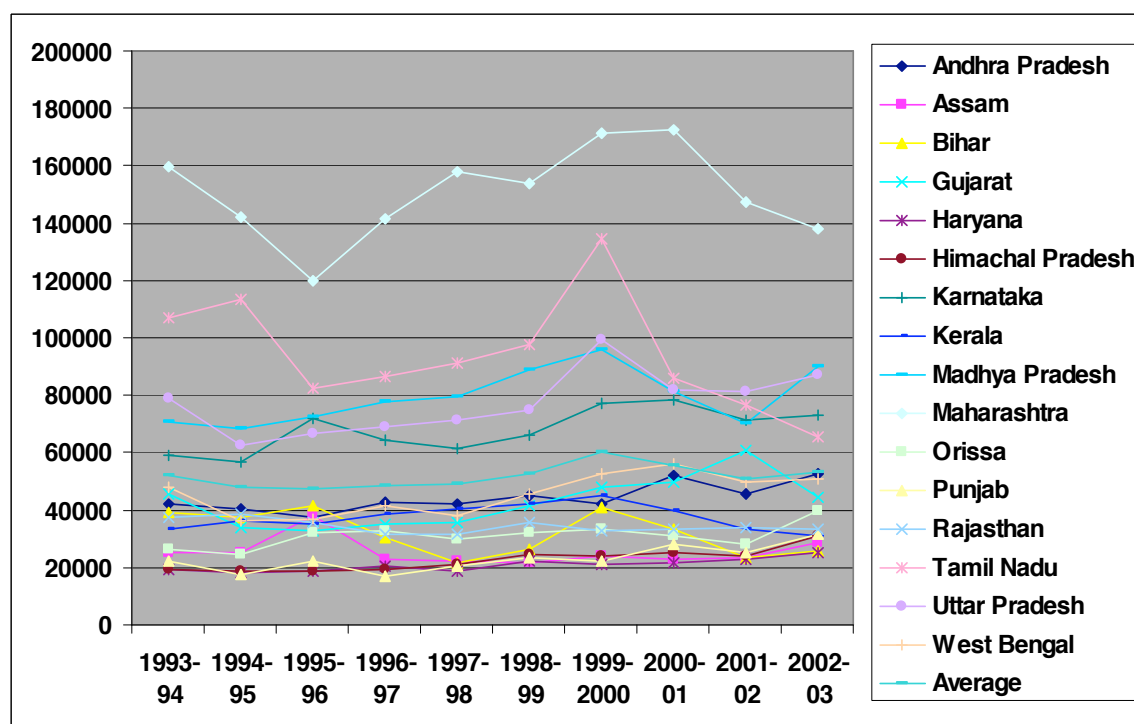
Agriculture

It is apparently not agriculture. On average, spending on agriculture increased by 11.8% in 10 years. For Bihar, Gujarat, Kerala, Maharashtra, Rajasthan and Tamil Nadu it decreased. For some states (Bihar) this reduction took place both in constant and current prices.

Revenue expenditure on agriculture (constant 1993-94 prices, lakhs)

(Source: Handbook of Statistics, own calculations from EPW database)

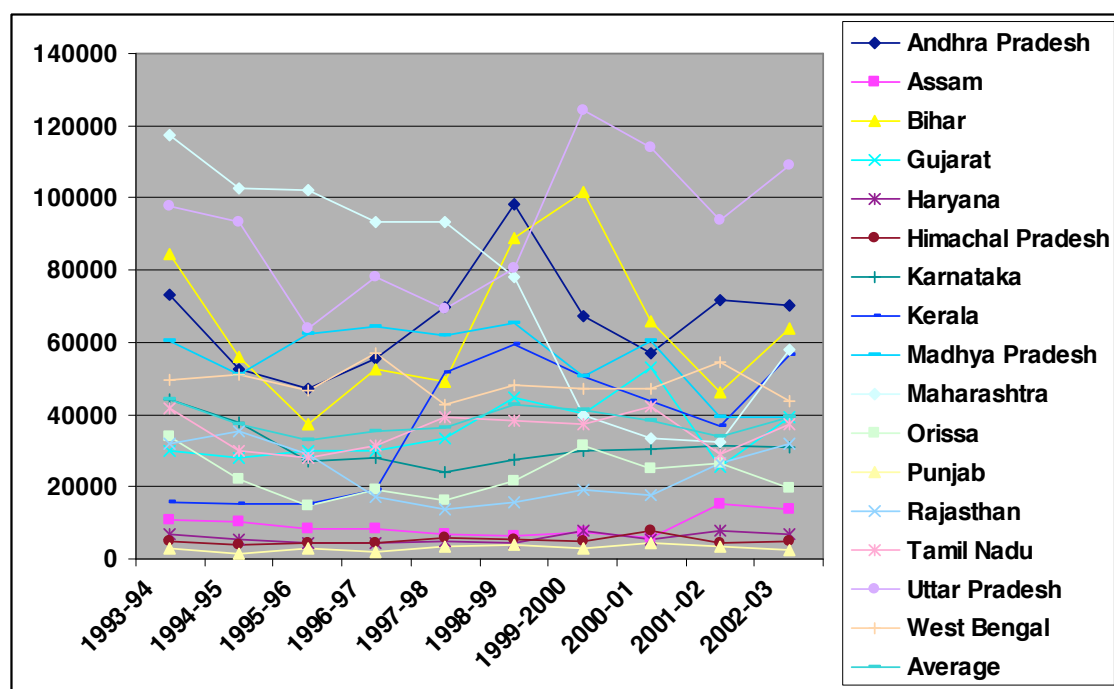
Year	AP	Assam	Bihar	Guj.	Har.	HP	Kar.	Ker.	MP	Mah.	Ori.	Pun.	Raj.	TN	UP	WB
1993-94	42185	25362	39007	45505	19235	19023	58912	33365	70678	159392	26194	22077	37187	107238	79149	47738
1994-95	40290	25376	37709	33696	17993	18995	56446	36472	68322	142149	24443	17332	38769	113383	62317	36490
1995-96	37585	37776	41782	32803	18841	18859	71821	34853	72400	119712	32264	22212	35724	82454	66507	36563
1996-97	42814	23069	30451	34842	20614	19434	64201	38344	77956	141785	32706	17250	31609	86475	69009	41436
1997-98	42286	22468	21560	35820	18870	21253	61495	40400	79708	158120	29598	20569	31309	91392	71539	37825
1998-99	45019	21410	26561	41339	22046	24797	66293	42252	89016	153811	32176	23592	35538	97860	74789	45557
1999-2000	42077	23872	40710	47821	20933	23911	77270	44970	95684	171467	33260	22230	32563	134632	99312	52774
2000-01	51960	23001	33523	49609	21728	25209	78153	39718	81220	172265	31086	28105	33479	86068	81645	56216
2001-02	45574	23419	23288	60647	22809	23859	71350	33476	70110	147392	28151	25079	33699	76814	81036	49715
2002-03	52486	28614	25766	44620	25220	31021	72858	31261	90242	138047	39611	31309	33522	65434	87264	51109
Variation (%)	24,42	12,82	-33,94	-1,94	31,12	63,07	23,67	-6,31	27,68	-13,39	51,22	41,82	-9,86	-38,98	10,25	7,06
Multiplied by...	1,24	1,13	0,66	0,98	1,31	1,63	1,24	0,94	1,28	0,87	1,51	1,42	0,90	0,61	1,10	1,07



Rural development

Spending on rural development on average stagnated from 1993-94 to 2002-03; it increased by only 6.45% (as we will see below, this is mostly driven by Kerala). However, the situation is much contrasted. Some states sharply cut their spending on rural development. This is the case of Bihar, Karnataka, Madhya Pradesh, Maharashtra and Orissa. Maharashtra's spending was reduced by half. Orissa's spending declined by more than 40%. On the other hand, Kerala's spending on rural development was multiplied by 3.54 in not even 10 years.

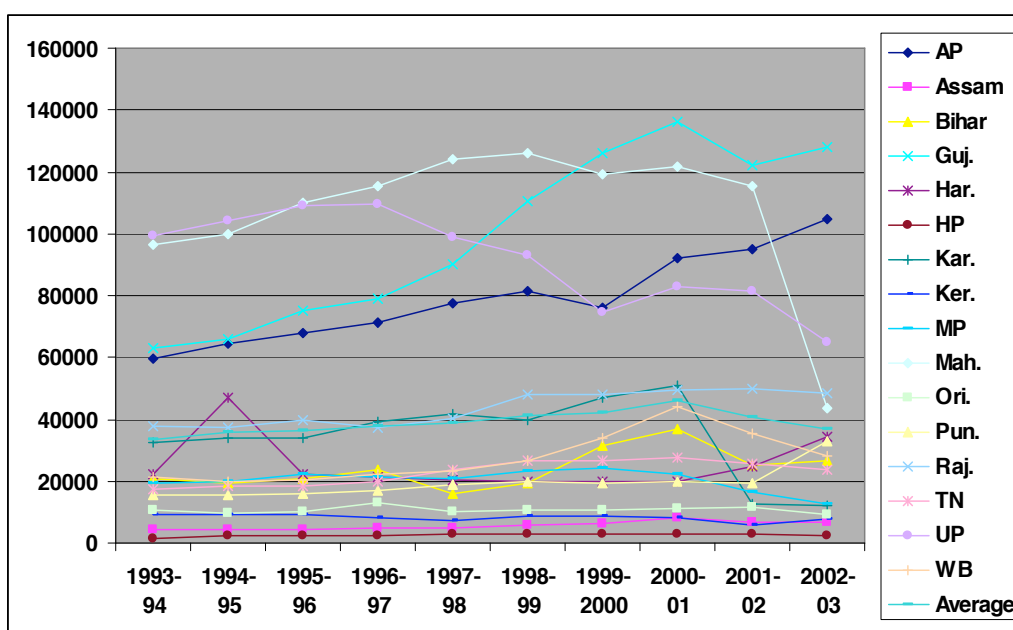
Year	AP	Assam	Bihar	Guj.	Har.	HP	Kar.	Ker.	MP	Mah	Ori.	Punj.	Raj.	TN	UP	WB
1993-94	73101	10963	84300	30149	6766	4870	44073	15964	60596	117343	33697	2988	31789	41925	97696	49562
1994-95	52521	10197	56179	28145	5641	4045	37878	15173	51047	102701	22252	1633	35261	29806	93305	50900
1995-96	47181	8132	37291	30028	4436	4283	27199	15032	62596	102260	14770	3120	29215	28049	64054	46803
1996-97	55685	8230	52397	30168	4411	4339	28043	19202	64188	93100	19107	1891	17207	31445	78030	57035
1997-98	69784	6703	49174	33358	4672	5662	24227	51534	61901	93573	15996	3356	13844	39083	69489	42924
1998-99	98293	6613	89154	44545	4178	5185	27263	59193	65167	78337	21817	3700	15645	38205	80344	47923
1999-2000	67483	7544	101506	40142	7676	4906	29946	50743	50754	39849	31472	3058	19038	37278	124450	46971
2000-01	57052	5763	65589	53255	5410	7895	30508	43829	60385	33278	25214	4218	17853	42320	113761	47132
2001-02	71925	15096	46416	25666	7869	4366	31391	36970	39181	32185	26748	3664	26388	29212	93853	54698
2002-03	70432	13874	64015	39464	7097	4685	30844	56436	39449	58013	19771	2568	32100	37442	108883	43577
Variation (%)	-3,7	26,6	-24,1	30,9	4,9	-3,8	-30	253,5	-34,9	-50,6	-41,3	-14	1	-10,7	11,5	-12,1
Multiplied by...	0,96	1,27	0,76	1,31	1,05	0,96	0,70	3,54	0,65	0,49	0,59	0,86	1,01	0,89	1,11	0,88



Irrigation and flood control

On average spending on irrigation was multiplied by 1.2 (an increase of 22.2%). For some states, the increase was important (Andhra Pradesh, Gujarat, Punjab); for others, spending on irrigation decreased a lot (Karnataka, Maharashtra).

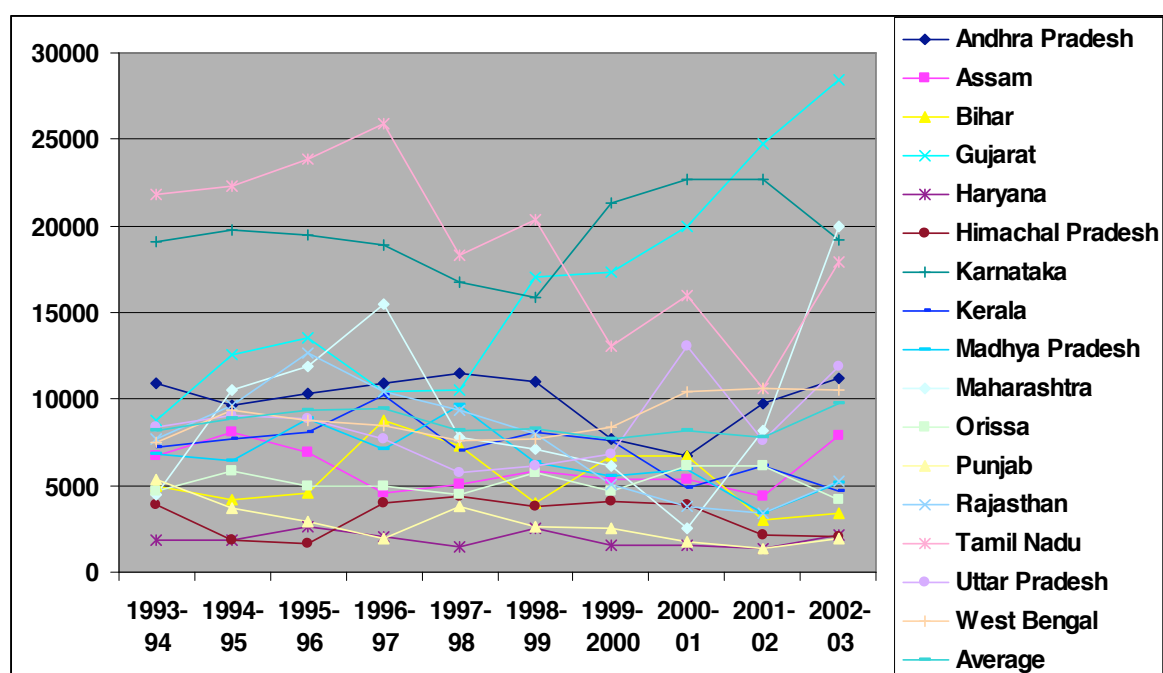
Year	AP	Assa m	Bihar	Guj.	Har.	HP	Kar.	Ker.	MP	Mah.	Ori.	Pun.	Raj.	TN	UP	WB
1993-94	59715	4455	20943	63041	22541	1582	32431	9123	19502	96531	10742	15621	37829	17393	99488	21112
1994-95	64572	4490	19554	65915	47080	2348	33838	9266	19693	99806	9866	15274	37513	18337	104445	19902
1995-96	68114	4183	20622	75269	22236	2327	34040	9372	22256	109900	9942	15767	39584	18346	109130	20269
1996-97	71131	4726	23574	78947	21210	2285	39149	8040	21264	115358	13276	17159	37126	19935	109675	22197
1997-98	77553	4959	16159	89945	20604	2705	41702	7127	20842	124162	10104	18884	40085	23962	99112	23398
1998-99	81409	5915	19562	110567	19861	2997	39752	8908	23126	125891	10828	19712	48123	26667	93117	26819
1999-2000	76013	6277	31422	126020	19687	2871	46980	8900	24343	119414	10586	19263	47873	26443	74645	34107
2000-01	92135	8334	36644	136430	19742	3099	51093	8088	22468	121882	10927	19805	49213	27665	82739	44081
2001-02	94881	6951	25098	122226	24675	2743	12509	5962	16528	115447	11620	19436	49974	25816	81213	35512
2002-03	104682	6853	26797	128028	34491	2393	12073	7624	12611	43845	9066	32971	48485	23869	64942	28153
Variati on (%)	75,3	53,8	28,0	103,1	53,0	51,3	-62,8	-16,4	-35,3	-54,6	-15,6	111,1	28,2	37,2	-34,7	33,3
Multipl ied by...	1,8	1,5	1,3	2,0	1,5	1,5	0,4	0,8	0,6	0,5	0,8	2,1	1,3	1,4	0,7	1,3



Industry and minerals

Revenue expenditure on industry increased on average by 26.6%. Once again, the situation is however contrasted. On the one hand, it is clear that some states put the accent on this sector between 1993-94 and 2002-03. For instance, Maharashtra multiplied its spending on industry by almost 4.5! On the other hand, the state cut its spending on irrigation and rural development by half, decreased its spending on agriculture by 13%. On the other hand, Punjab decreased sharply its spending on industry (it decreased by almost 64%). Rajasthan and Bihar also witnessed an important decline in spending on industry.

Year	AP	Assam	Bihar	Guj.	Har.	HP	Kar.	Ker.	MP	Mah.	Ori.	Pun.	Raj.	TN	UP	WB	Average
1993-94	10866	6717	4990	8739	1851	3893	19072	7256	6848	4483	4669	5353	7730	21784	8402	7543	8137
1994-95	9656	8066	4146	12520	1842	1891	19800	7734	6443	10494	5856	3733	9675	22314	9010	9332	8907
1995-96	10335	6882	4538	13570	2615	1675	19474	8104	8817	11894	4919	2946	12680	23890	8899	8766	9375
1996-97	10914	4621	8728	10430	2020	3980	18928	10214	7071	15507	4926	1915	10402	25875	7686	8467	9480
1997-98	11465	5083	7313	10508	1433	4345	16730	6991	9672	7829	4492	3833	9340	18347	5767	7612	8172
1998-99	10974	5858	3964	17008	2548	3840	15843	8092	6372	7149	5702	2583	7963	20398	6121	7723	8259
1999-2000	7681	5324	6678	17367	1590	4116	21310	7555	5574	6184	4637	2500	5049	13024	6813	8337	7734
2000-01	6713	5336	6677	19992	1536	3880	22738	4900	5899	2564	6148	1791	3784	15938	13095	10412	8213
2001-02	9704	4426	3011	24724	1409	2129	22681	6112	3426	8195	6095	1364	3374	10572	7588	10591	7838
2002-03	11205	7926	3410	28488	2103	2085	19231	4663	5203	19969	4156	1937	5284	17968	11929	10482	9752
Variation (%)	3,1	18	-31,7	226	13,6	-46,4	0,83	-35,7	-24	345,4	-11	-63,8	-31,7	-17,5	42	39	26,6
Multiplied by...	1,03	1,18	0,68	3,26	1,14	0,54	1,01	0,64	0,76	4,45	0,89	0,36	0,68	0,82	1,42	1,39	1,27



Energy

In 2002-03, states were spending on average almost 20% of their total revenue expenditure on economic services.

States spend very differently on energy. While some states spend almost nothing on this sector, others spend much more. Punjab increased its spending hugely. It was multiplied by almost 500. Tamil Nadu also saw a fast increase in spending dedicated to energy. On the whole, only Assam, Bihar, Orissa and West Bengal witnessed a decline in spending on energy.

Year	AP	Ass	Bihar	Gujar.	Har.	HP	Kar.	Ker.	MP	Maha.	Ori.	Pun.	Raj.	TN	UP	WB	Average
1993-94	3391	44	51513	81542	6023	1139	6118	259	68863	2637	7930	69	38893	457	8479	4646	17625,188
1994-95	3405	40	41814	65131	41117	3771	15380	536	20706	1809	22351	77	16928	393		4675	14883
1995-96	2904	40	38789	58789	17196	3385	26299	551	28211	1885	20687	85	20097	410	2849	6822	14312
1996-97	171975	9	236	82016	48103	3631	75300	1013	98187	69247	828	105465	34969	199	3	12584	43985
1997-98	67955	38	12187	107139	48374	6253	45234	1683	30312	1942	560	64393	21549	85		6619	25895
1998-99	3919	3	1303	119747	56342	4825	47521	1319	31054	1853	876	58	21176	80		3411	18343
1999-2000	10559	8	186	98458	26415	5668	53005	75	82081	2276	291	26472	32461	157		3383	21343
2000-01	142001	7	190	248356	8542	7700	62757	89	27450	157774	418	37946	31395	189		9193	45875
2001-02	138116	1000	193	240394	45963	4676	153226	630	128938	44572	965	26884	20493	2147	21243	6115	52222
2002-03	107797	13	7066	173449	49689	5413	165772	13161	67503	45051	3641	32680	42803	122101	53221	3157	55782
Variation (%)	3078,9	-71,3	-86,3	112,7	725,0	375,3	2609,6	4981,6	-2,0	1608,4	-54,1	47262,4	10,1	26617,9	527,7	-32,0	5479,0
Multiplied by...	31,8	0,3	0,1	2,1	8,2	4,8	27,1	50,8	1,0	17,1	0,5	473,6	1,1	267,2	6,3	0,7	55,8

Transports and communication

On average, transports and communication represent 12% of the economic revenue expenditure. In 2002-03, it went from 5,02% in Madhya Pradesh, up to 25% for Himachal Pradesh.

We can see that on average, spending on transports and communication increased by 42%. Andhra Pradesh, Himachal Pradesh and Karnataka saw the fastest increase. Spending on transports and communication decreased for Madhya Pradesh, Punjab, Rajasthan and Tamil Nadu. These states spend less than the average on this sector.

Year	AP	Assam	Bihar	Gujarat	Har.	HP	Kar.	Ker.	MP	Maha.	Orissa	Pun.	Raj.	TN	UP	WB	Average
1993-94	16324	11596	13636	28841	29625	5739	13579	10429	28045	49030	8961	25257	14203	23838	29853	17465	20401
1994-95	14828	11975	13704	25868	29956	10325	17519	9154	28820	54482	9406	24775	15866	23793	24704	19456	20914
1995-96	14214	10666	11559	33825	30389	10204	16250	11637	30109	55404	8809	25612	13939	25922	22253	20798	21349
1996-97	20616	10221	12841	35501	31386	10911	15441	11468	30100	59327	9016	25294	12203	27855	22813	20580	22223
1997-98	23270	9781	8847	39150	31437	13268	17272	11879	30938	68831	7574	27329	11208	28494	22060	17512	23053
1998-99	24350	10737	11115	43751	36297	13295	18088	13004	30097	9773	6844	28360	12808	22857	20833	18575	20049
1999-2000	30902	11269	23314	42043	36494	12247	23341	15545	21801	2036	8849	30008	10365	21833	29574	27914	21721
2000-01	27850	11787	19440	42496	35077	15500	27018	15262	19707	3002	8995	28063	11794	17144	34151	34272	21972
2001-02	34916	11258	14442	40033	35905	16411	33680	13693	15592	4535	7708	24148	12313	16395	34272	31865	21698
2002-03	34307	14070	15446	37595	35417	16631	33865	19424	11541	56189	13130	23691	9669	20002	36256	31480	25545
Variation (%)	110,2	21,3	13,3	30,4	19,6	189,8	149,4	86,3	-58,9	14,6	46,5	-6,2	-31,9	-16,1	21,4	80,2	41,9
Multiplied by...	2,1	1,2	1,1	1,3	1,2	2,9	2,5	1,9	0,4	1,1	1,5	0,9	0,7	0,8	1,2	1,8	1,4

Sciences, technology and environment

Although revenue expenditure on sciences, technology and environment represent a very minor part of the total revenue expenditure (on average 0.2%), looking at this category shows important disparities between the states. It is moreover an important sector especially for the future growth prospects.

Revenue expenditure on sciences, technology and environment was multiplied on average by 3 over the period. However, once again the situation is very different according to the state we look at. For instance, in Bihar there is no expenditure recorded under this category.

West Bengal, which spent almost nothing on this sector in 1993-94, spent in 2002-03 more than the average. On the other hand, Andhra Pradesh that spent more than three times the average in 1993-94 spent in 2002-03 twenty times less than in 1993-94. Orissa was the state that spent the most on this sector in 2002-03.

Year	AP	Assam	Bihar	Gujarat	Hary.	HP	Karn.	Kerala	MP	Maha.	Orissa	Pun.	Rajasthan	TN	UP	WB	Average
1993-94	956	236		77	222	49	219	346	104	399	794	79	443	287	710	3	307,750
1994-95	213	214		64	264	54	272	496	202	651	473	87	420	372	503	3	268
1995-96	442	249		58	353	51	462	556	725	251	442	88	355	470	685	3	324
1996-97	258	98		90	209	94	451	905	284	229	628	18	289	599	576	3	296
1997-98	535	39		201	150	94	222	678	155	337	861	43	415	429	556	2	295
1998-99	607	52		225	216	99	357	878	111	379	1523	65	368	479	456	3	364
1999-2000	211	57		1079	195	54	491	904	170	517	805	47	224	374	500	6	352
2000-01	213	63		295	222	115	214	739	178	582	1304	97	228	1046	605	103	375
2001-02	314	86		224	200	77	201	578	134	48	933	84	206	369	424	85	248
2002-03	48	108		164	247	101	883	853	340	438	1183	492	197	216	403	70	359
Variation (%)	-95,0	-54,1		112,9	11,1	106,1	303,4	146,6	226,9	9,7	49,0	522,9	-55,4	-24,6	-43,2	2228,2	215,3
Multiplied by...	0,1	0,5		2,1	1,1	2,1	4,0	2,5	3,3	1,1	1,5	6,2	0,4	0,8	0,6	23,3	3,1

What are the sectoral priorities of the states?

In fact, by looking at these various spending, we can guess some strategies followed by the different states.

To understand better the priorities of the states, we can look at the evolution both of the spending on various sectors and of the share of these spending in the total expenditure.

Evolution of spending on various sectors from 1993-94 to 2002-03

(Source: RBI 2008, Handbook of Statistics, own calculation)

States	Development expenditure were multiplied by...	Revenue exp. on social services were multiplied by...	Revenue exp. on education were multiplied by...	Revenue exp. on health were multiplied by...	Revenue exp. on economic services were multiplied by...	Revenue exp. on agriculture were multiplied by...	Revenue exp. on rural development were multiplied by...	Revenue exp. on irrigation were multiplied by...	Revenue exp. on industry were multiplied by...	Revenue exp. on energy were multiplied by...	Revenue exp. on transport were multiplied by...	Revenue exp. on sciences were multiplied by...
AP	1.68	1.78	1.72	1.23	1.58	1.24	0.96	1.75	1.03	31.8	2.1	0.1
Assam	1.48	1.6	1.68	1.03	1.26	1.13	1.27	1.54	1.18	0.3	1.2	0.5
Bihar	1.02	1.32	1.54	0.84	0.68	0.66	0.76	1.28	0.68	0.1	1.1	
Guj.	1.88	2.01	1.71	1.31	1.77	0.98	1.31	2.03	3.26	2.1	1.3	2.1
Har.	1.87	1.95	1.98	1.85	1.78	1.31	1.05	1.53	1.14	8.2	1.2	1.1
HP	1.7	1.74	1.89	1.28	1.64	1.63	0.96	1.51	0.54	4.8	2.9	2.1
Kar.	1.84	1.71	1.81	1.41	2.01	1.24	0.70	0.37	1.01	27.1	2.5	4.0
Kerala	1.47	1.33	1.17	1.12	1.76	0.94	3.54	0.84	0.64	50.8	1.9	2.5
MP	1.09	1.29	1.19	1.00	0.89	1.28	0.65	0.65	0.76	1.0	0.4	3.3
Maha.	1.43	1.97	2.00	1.32	0.86	0.87	0.49	0.45	4.45	17.1	1.1	1.1
Orissa	1.42	1.7	1.57	1.34	1.03	1.51	0.59	0.84	0.89	0.5	1.5	1.5
Punjab	1.72	1.93	1.92	1.78	1.46	1.42	0.86	2.11	0.36	473.6	0.9	6.2
Raj.	1.55	1.95	1.79	1.28	1.04	0.90	1.01	1.28	0.68	1.1	0.7	0.4
TN	1.41	1.39	1.54	1.14	1.43	0.61	0.89	1.37	0.82	267.2	0.8	0.8
UP	1.35	1.6	1.57	0.95	1.05	1.10	1.11	0.65	1.42	6.3	1.2	0.6
WB	1.62	1.84	1.70	1.48	1.23	1.07	0.88	1.33	1.39	0.7	1.8	23.3
Average	1.53	1.71	1.67	1.27	1.34	1.12	1.06	1.2	1.27	55.8	1.4	3.1

Evolution of the share of various sectors in total economic services expenditure (ESE) from 1993-94 to 2002-03

(Source: RBI 2008, Handbook of Statistics, own calculation)

States	Share of agriculture in total ESE was multiplied by...	Share of rural development in total ESE was multiplied by...	Share of irrigation in total ESE was multiplied by...	Share of industry in total ESE was multiplied by...	Share of energy in total ESE was multiplied by...	Share of transport in total ESE was multiplied by...	Share of sciences in total ESE was multiplied by...
AP	0,79	0,61	1,11	0,65	20,18	1,33	0,03
Assam	0,90	1,01	1,23	0,94	0,23	0,97	0,37
Bihar	0,97	1,12	1,88	1,00	0,20	1,66	
Guj.	0,55	0,74	1,15	1,84	1,20	0,74	1,20
Har.	0,74	0,59	0,86	0,64	4,64	0,67	0,63
HP	0,99	0,59	0,92	0,33	2,89	1,76	1,25
Kar.	0,62	0,35	0,19	0,50	13,48	1,24	2,01
Kerala	0,53	2,01	0,47	0,37	28,88	1,06	1,40
MP	1,43	0,73	0,72	0,85	1,10	0,46	3,66
Maha.	1,00	0,57	0,53	5,16	19,78	1,33	1,27
Orissa	1,47	0,57	0,82	0,87	0,45	1,43	1,45
Punjab	0,97	0,59	1,44	0,25	323,46	0,64	4,25
Raj.	0,87	0,98	1,24	0,66	1,06	0,66	0,43
TN	0,43	0,62	0,96	0,58	186,85	0,59	0,53
UP	1,05	1,06	0,62	1,35	5,97	1,16	0,54
WB	0,87	0,71	1,08	1,13	0,55	1,46	18,89
Average	0,89	0,80	0,95	1,07	38,18	1,07	2,37

States	Share of education in total social sector expenditure was multiplied by...	Share of health in total social sector expenditure was multiplied by...
AP	0,97	0,69
Assam	1,05	0,64
Bihar	1,17	0,63
Guj.	0,85	0,65
Har.	1,01	0,95
HP	1,08	0,74
Kar.	1,05	0,83
Kerala	0,88	0,84
MP	0,92	0,78
Maha.	1,02	0,67
Orissa	0,92	0,79
Punjab	1,00	0,92
Raj.	0,92	0,66
TN	1,10	0,82
UP	0,98	0,59
WB	0,92	0,80
Average	0,99	0,75

On average, we see that expenditure on social services, and especially on education, increased for most of the states. However, relatively speaking, the share of education in total social sector expenditure stagnated.

Regarding the spending on economic services, expenditure on energy witnessed the most striking and impressive growth for 10 states out of 16. For these states we can say that energy represents an important priority. For these 10 states (except Gujarat) the share of energy in the total economic revenue expenditure, increased sharply as well.

Some states seem to follow a particular and original strategy. For instance, Bihar and Rajasthan (two agrarian states) increased their spending on irrigation a lot (both in absolute and relative terms). It is also the case of Assam.

If Kerala raised its expenditure on energy, it also increased its spending on "rural development". The share of rural development in the total economic services revenue expenditure was indeed doubled.

As for Maharashtra and Gujarat, it appears that the focus was put on industry; spending on this sector increased for these two states, both in absolutely and relatively speaking.

Few states put the accent on sciences and technology. This is especially the case of West Bengal, Karnataka, Punjab and to a lesser extent Madhya Pradesh. For Madhya Pradesh, one of the today poorer states, an important effort was given to raise the expenditure on this sector; the share of spending on sciences and technology in the total economic revenue expenditure was indeed multiplied by 3.66 in not even 10 years.

Orissa seems to be the only state that gives the priority to agriculture. Strangely, its spending on rural development and irrigation decreased over the period. Spending on industry and especially on energy were cut.

To finance their sectoral priorities, states also follow different strategies. On average, they decreased their spending on rural development (except Kerala). Spending on agriculture also declined or stagnated.

Maharashtra and Karnataka cut mostly their spending on irrigation.

As we said above, a lot of states decided to increase largely their spending on energy. On the other hand, 4 states cut radically their spending on this sector: these are Assam, Bihar, Orissa, and West Bengal.

The same happened for the sciences and technology sector. Several states witnessed a pronounced decline in spending on this sector as well. Sciences, technology and energy require important investments and steady expenditure that may represent an entry barrier for some states.

Gujarat, as well as Madhya Pradesh, decreased its spending on transports. Gujarat, as most of the states did, also decreased its spending on rural development.

On the whole, we can draw approximately three different strategies:

- focus mostly on irrigation or agriculture
- focus mostly on industry or energy
- focus mostly on sciences and technology

Irrigation and agriculture

<i>At the expense of...</i>	Focus on irrigation	Focus on agriculture
<i>...energy</i>	Assam, Bihar	Orissa
<i>...sciences and technology</i>	Assam, Bihar, Rajasthan	
<i>...industry</i>	Rajasthan	

Energy and industry

<i>At the expense of...</i>	Focus on energy	Focus on industry
<i>...industry</i>	Andhra Pradesh, Himachal Pradesh, Punjab, Tamil Nadu	
<i>...sciences and technology</i>	Andhra Pradesh, Tamil Nadu, Uttar Pradesh	
<i>...irrigation</i>	Karnataka, Maharashtra, Uttar Pradesh	
<i>...rural development or agriculture</i>	Andhra Pradesh, Karnataka, Maharashtra, Himachal Pradesh, Tamil Nadu	Gujarat

Sciences and technology

<i>At the expense of...</i>	Focus on sciences and technology
<i>...irrigation</i>	Madhya Pradesh
<i>...rural development or agriculture</i>	Madhya Pradesh, West Bengal
<i>...transport</i>	Madhya Pradesh
<i>...energy</i>	West Bengal

Mix

Kerala and Haryana follow an original strategy.

They both focus on energy but Kerala also spends a lot on rural development at the expense of irrigation and industry. Haryana spends also mostly on human development at the expense of sciences and technology, rural development and industry. However, Haryana is the only state that did not witness an absolute decrease in its spending on economic services over the period (all the ratios are positive).

Conclusion

Along with the decentralization process, states have gained a new decisional space to shape their own development strategies. However, between 1993-94 and 2002-03 states saw their fiscal space decreasing in relative terms, especially due to indebtedness. The size of the fiscal space does not necessarily depend on the level of wealth of the state.

Although states did not see their fiscal capacities increase very much, they made various spending choices. While some states (like Assam, Bihar or Rajasthan) increased their spending on irrigation, others saw their energy sector growing very rapidly (Punjab, Tamil Nadu...) or focus on sciences and technology (Madhya Pradesh, West Bengal).

If states do not have a huge fiscal power to shape their policies, clear and various strategies are still observable through their spending. In other words, their breathing space is not as large as we could have expected, but they can still use it in the way they choose.

Appendix

Methodology and data used

From current to constant prices...

The data on the states' revenue and expenditure are from the Reserve Bank of India (Handbook of Statistics on State Government Finances, 2004). Data on "Social expenditure" are also from the Reserve Bank of India ("State Finances, A Study of Budgets of 2008-09", 2008). These data were transformed from current prices to constant 1993-94 prices using the data on GDSP (series 1993-94)⁶ from the Economic and Political Weekly database (accessed from the NCAER library).

An index of inflation was calculated for each state by comparing the GSDP at current price and at constant prices 1993-94 for each year from 1993-94 to 2002-03.

The data on revenue and on expenditure were then deflated thanks to these indexes.

Per capita data: demographic data

Data on population are from the Census (1991 and 2001). Since census is conducted only every 10 years, we only have data on population for 1991 and 2001. However, we extrapolated the population for each of the period we studied so that we could construct per capita data.

To do so, we calculated the average annual growth rate between 1991 and 2001 (see the formula below). We then used this average growth rate to know the increase in population year after year.

⁶ The 1980-81 series were also used for the graph page 6.

$$AAGR = \left(\sqrt[9]{\frac{\text{population 2001}}{\text{population 1991}}} - 1 \right) \times 100$$

Population 1991 = y

Population 1992 = y1 = y + (y.AAGR)

Population 1993 = y2 = y1 + (y.AAGR)

etc...

After calculating the population for all the years of our period, we were able to construct easily per capita data.

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