

Do Indian States have the power to devise their own policies?

A study on fiscal space

With the decentralization process of the 1990s, linked to economic liberalization, there emerged new decisional scope for regional governments to shape their own policies. Education, health and infrastructures are among the states' prerogatives. However, the decentralization process remains partial: the macro-economic policies as well as most of the taxing powers continue to be of the responsibility of the Central Government. The delinking of taxing powers and spending decisions has led to important fiscal imbalances in a context of greater competition among the states, each striving to increase its own financial capacities, by attracting private investments for instance.

With these constraints, have the states managed to increase their fiscal capacities to customize their own policies? If so, do we observe any variations in the sectoral priorities of the states in the post-reform period?

Using data on states' revenue and expenditure compiled by the Reserve Bank of India for the period 1993 – 2003 this paper provides elements to answer these questions.

A close look at the states' fiscal space show that between 1993 and 2003, states' spending capacities decreased mostly because of indebtedness. The data also show that the size of a state's fiscal space does not necessarily depend on its level of wealth. Under harsh financial constraints, India's states had to make spending choices – and these choices appeared to differ from one state to another. This partly explains the growth divergence observed by many scholars among states during this period.

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1. INTRODUCTION: BACKGROUND OF THE STUDY

1.1. 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 FDIs 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 now 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?

States 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.

1.2. The creation of fiscal imbalances

However, as Raja J Chelliah explains (2005:3400), while expenditure decentralization is rather easily realizable, 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 explains (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 Commission usually raises the states’ share of central taxes and closes 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). As a consequence, the indebtedness of the states has grown fast. For instance, while the share of public debt as percentage of GSDP for Orissa, one of the poorest and most indebted States of India, was 30% in 1980-81, it was 65% in 2002-03 (Chelliah, 2006:3402).

For Chelliah, these facts are responsible for 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).

1.3. The Fiscal Responsibility Act: an attempt to manage the fiscal deficit

To face the continuing high level of the combined fiscal deficit, the Government of India (GoI) took recently remedial measures. The **Fiscal Reforms and Budget Management Act (FRBMA)** was enacted on August 26, 2003 and the Act and 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).

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

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%

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.”

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.				

1.4. States' new decisional space versus 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 paper. 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. The data used and the methodology are explained in Appendix.

2. DO THE STATES 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.”

2.1. How can “fiscal space” be measured?

We decided to use two measures of fiscal space, both declined in various ratios.

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 is 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.

2.2. What do the data show?²

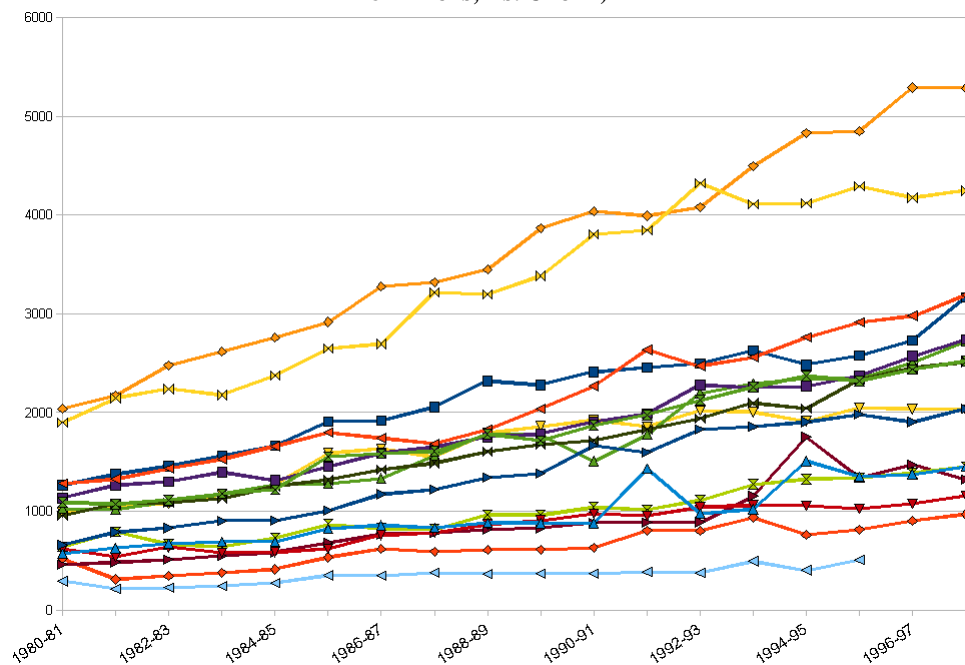
Globally, there has been **a global increase in revenue receipts** from the 1980s for all the states, both in absolute and per capita terms.

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.

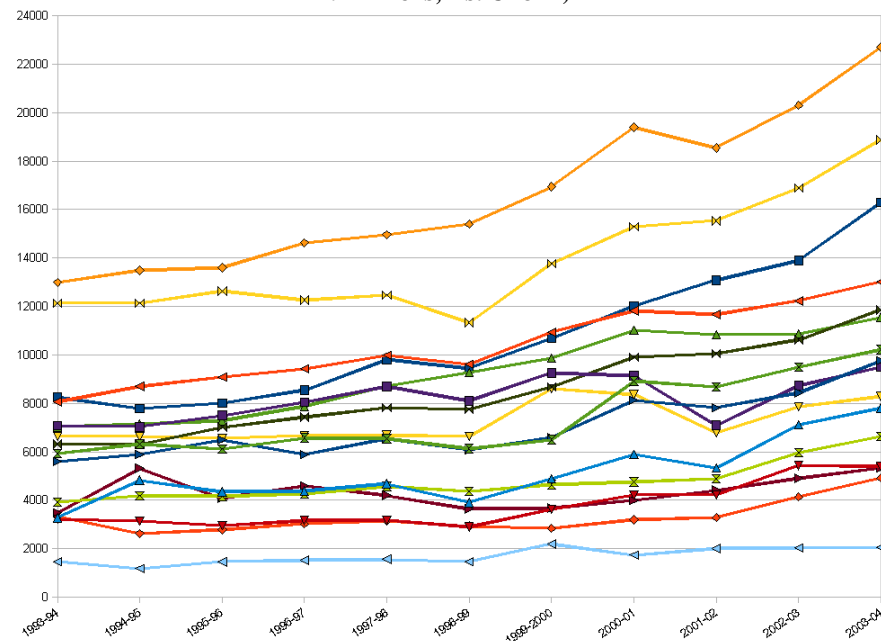
It is important to look both at the absolute values and the per capita values. Indeed, by looking at the per capita revenue receipts, we see that the “richer” states have witnessed greater fluctuations than the “poorer” ones. However, when the revenue receipts are normalized, we still observe the same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

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

REVENUE RECEIPTS IN 16 MAJOR STATES 1980-81 TO 1997-98 (IN CONSTANT 1980-81 PRICES, RS. CRORE)



REVENUE RECEIPTS IN 16 MAJOR STATES 1993-94 TO 2002-03 (IN CONSTANT 1993-94 PRICES, RS. CRORE)



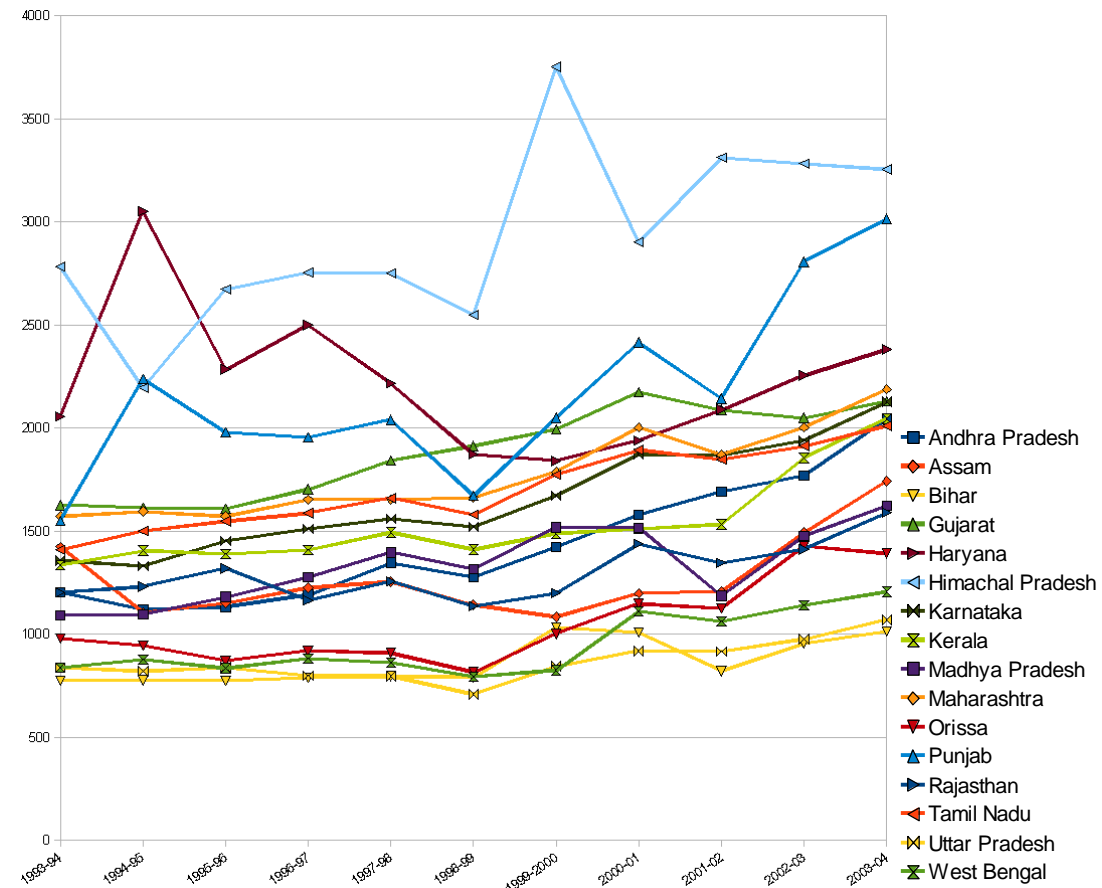
(Source: Handbook of Statistics and own calculations with data from EPW database)

- Andhra Pradesh
- ◆ Assam
- ▼ Bihar
- ▲ Gujarat
- ▼ Haryana
- ▲ Himachal Pradesh
- ◆ Karnataka
- ▲ Kerala
- Madhya Pradesh
- ◆ Maharashtra
- ▼ Orissa
- ▲ Punjab
- ◆ Rajasthan
- ▲ Tamil Nadu
- ◆ Uttar Pradesh
- ▲ West Bengal

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)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-00	2000-01	2001-02	2002-03	2003-04	Variation (%)	Taux de croissance annuel moyen (%)
Andra Pradesh	8251	7791	8005	8544	9807	9443	10682	12025	13082	13895	16299	97,6%	7,0%
Assam	3318	2628	2785	3025	3158	2929	2836	3192	3284	4136	4920	48,3%	4,0%
Bihar	6629	6629	6563	6659	6694	6625	8611	8363	6783	7869	8291	25,1%	2,3%
Gujarat	7030	7136	7279	7880	8716	9266	9874	11018	10822	10863	11549	64,3%	5,1%
Haryana	3482	5310	4087	4598	4194	3642	3682	3988	4415	4902	5323	52,9%	4,3%
Himachal Pradesh	1465	1176	1458	1530	1556	1468	2200	1732	2012	2031	2050	39,9%	3,4%
Karnataka	6325	6310	7016	7426	7814	7750	8677	9904	10047	10623	11861	87,5%	6,5%
Kerala	3922	4172	4168	4270	4572	4358	4647	4762	4881	5965	6643	69,4%	5,4%
Madhya Pradesh	7070	7030	7500	8035	8693	8102	9257	9139	7090	8732	9502	34,4%	3,0%
Maharashtra	12987	13482	13595	14620	14961	15398	16937	19396	18542	20299	22700	74,8%	5,7%
Orissa	3208	3142	2947	3165	3181	2903	3625	4226	4208	5434	5385	67,9%	5,3%
Punjab	3277	4824	4355	4387	4677	3911	4892	5881	5326	7119	7805	138,2%	9,1%
Rajasthan	5597	5889	6487	5882	6536	6076	6595	8129	7815	8434	9760	74,4%	5,7%
Tamil Nadu	8066	8698	9084	9428	9986	9616	10932	11814	11668	12231	13019	61,4%	4,9%
Uttar Pradesh	12131	12124	12637	12258	12471	11332	13760	15280	15537	16879	18875	55,6%	4,5%
West Bengal	5921	6313	6120	6572	6540	6134	6495	8912	8678	9491	10214	72,5%	5,6%
Total	98677	102654	104085	108278	113556	108951	123703	137761	134189	148904	164195	66,4%	5,2%

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 simple indicators.

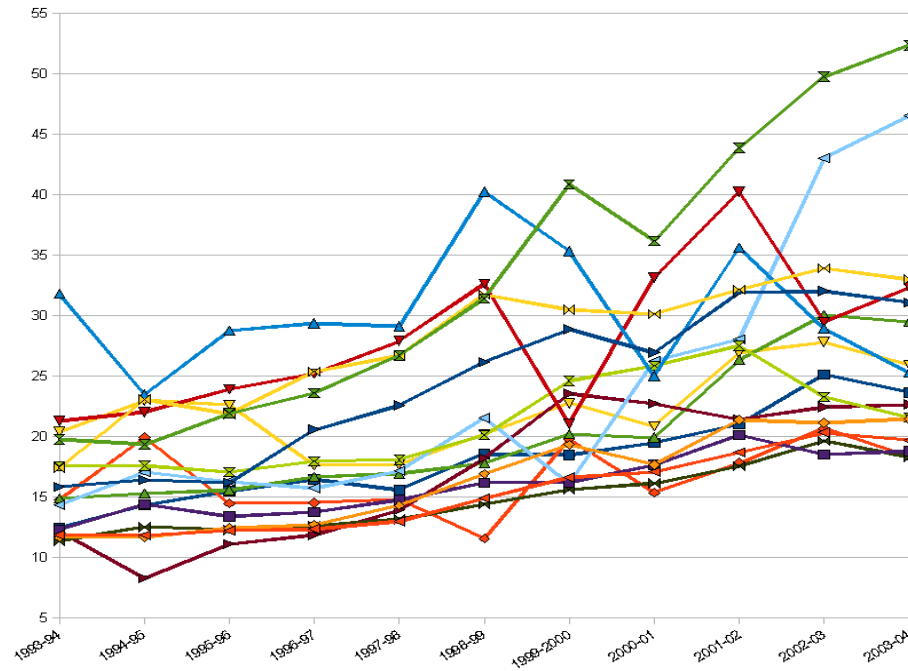
A first way of assessing the fiscal space of a state is to look at the interest payment on revenue receipts ratio (IPRR ratio). As Satyapriya Rath, (O.S.D., Finance Department, Government of Orissa) explained³, this ratio is often used by the Government of Orissa and the donor agencies to assess a state's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

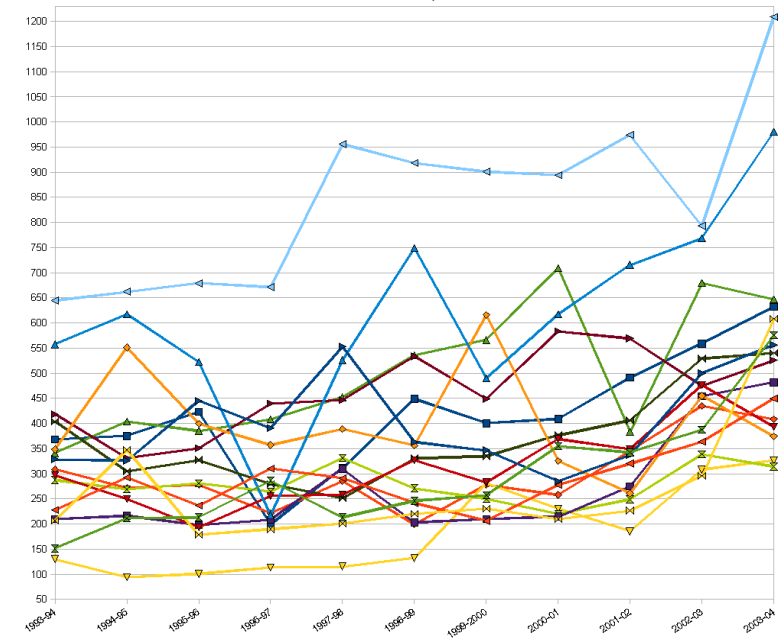
Besides, **capital expenditure in itself gives indications about the fiscal capacities of a state.** If capital expenditure increases steadily over a certain period of time, it means that the state has enough fiscal space to make durable investments which are supposed to be better for its medium-term/long-term development.

³ In a personal interview conducted in 2009.

IPRR RATIO IN 16 MAJOR STATES (IN CONSTANT 1993-94 PRICES)



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)

- Andhra Pradesh
- ◆ Assam
- ▼ Bihar
- ▲ Gujarat
- ▼ Haryana
- ◀ Himachal Pradesh
- ✱ Karnataka
- ✱ Kerala
- Madhya Pradesh
- ◆ Maharashtra
- ▼ Orissa
- ▲ Punjab
- ▶ Rajasthan
- ◆ Tamil Nadu
- ✱ Uttar Pradesh
- ✱ West Bengal

Despite fluctuations, per capita capital expenditure has 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.

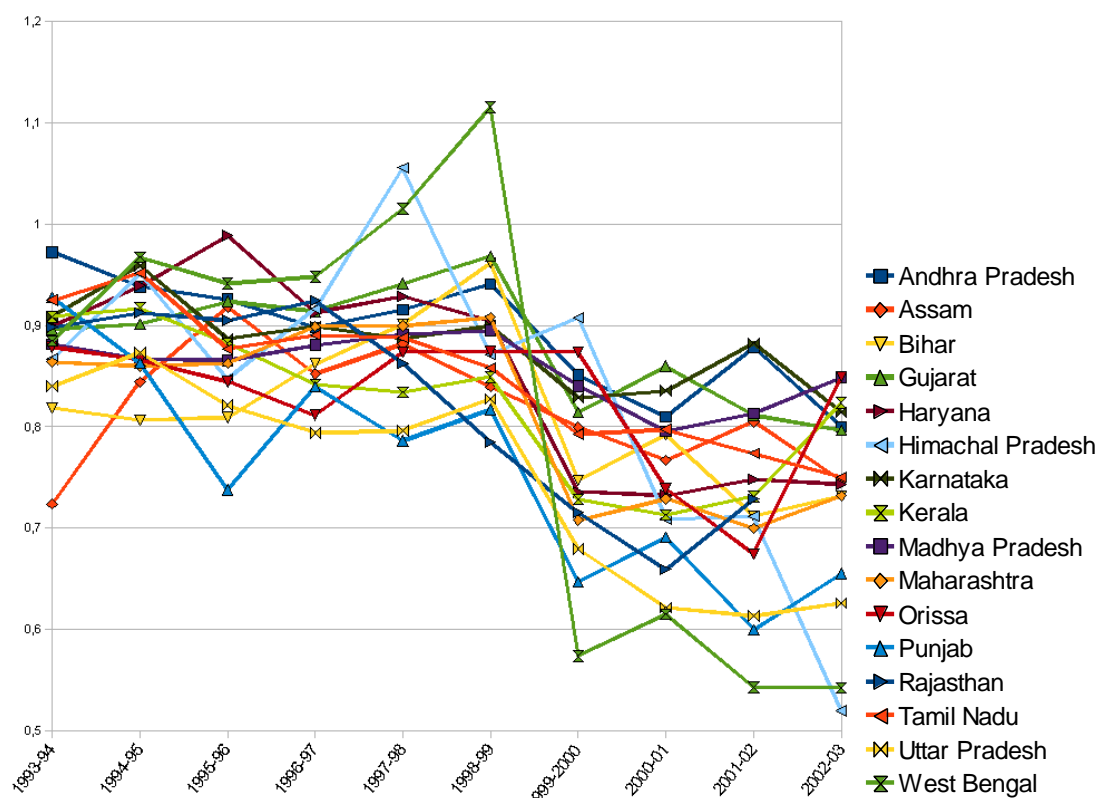
Our measures of fiscal space give a picture somewhat different.

By looking at our first measure of fiscal space, it appears that all states except Assam have experienced a decrease in their fiscal space over the period 1993-94 to 2002-03. On average, the fiscal space has decreased by 16.6% from 1993-94 to 2002-03.

The states' performance is nevertheless lukewarm: for instance while Assam's fiscal space has increased by 4.2% over the period, Punjab's fiscal space decreased by almost 30% and Himachal Pradesh's by 40%.

FISCAL SPACE 1
(SOURCE: HANDBOOK OF STATISTICS AND OWN CALCULATIONS)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	Variation (%) between 1993-4 and 2002-3
Andhra Pradesh	0,97	0,94	0,93	0,90	0,92	0,94	0,85	0,81	0,88	0,80	-17,5%
Assam	0,72	0,84	0,92	0,85	0,88	0,84	0,80	0,77	0,81	0,75	4,2%
Bihar	0,82	0,81	0,81	0,86	0,90	0,96	0,75	0,79	0,71	0,73	-11,0%
Gujarat	0,90	0,90	0,92	0,91	0,94	0,97	0,81	0,86	0,81	0,80	-11,1%
Haryana	0,90	0,94	0,99	0,91	0,93	0,90	0,74	0,73	0,75	0,74	-17,8%
Himachal Pradesh	0,87	0,95	0,85	0,92	1,06	0,87	0,91	0,71	0,71	0,52	-40,2%
Karnataka	0,91	0,96	0,89	0,90	0,89	0,90	0,83	0,84	0,88	0,81	-11,0%
Kerala	0,91	0,92	0,88	0,84	0,83	0,85	0,73	0,71	0,73	0,82	-9,9%
Madhya Pradesh	0,88	0,87	0,87	0,88	0,89	0,89	0,84	0,80	0,81	0,85	-3,4%
Maharashtra	0,86	0,86	0,86	0,90	0,90	0,91	0,71	0,73	0,70	0,73	-15,1%
Orissa	0,88	0,87	0,84	0,81	0,87	0,87	0,87	0,74	0,67	0,85	-3,4%
Punjab	0,93	0,86	0,74	0,84	0,79	0,82	0,65	0,69	0,60	0,66	-29,0%
Rajasthan	0,88	0,90	0,91	0,90	0,92	0,86	0,78	0,72	0,66	0,73	-17,0%
Tamil Nadu	0,92	0,95	0,88	0,89	0,89	0,86	0,79	0,80	0,77	0,75	-18,5%
Uttar Pradesh	0,84	0,87	0,82	0,79	0,80	0,83	0,68	0,62	0,61	0,63	-25,0%
West Bengal	0,88	0,97	0,94	0,95	1,02	1,12	0,57	0,61	0,54	0,54	-38,6%

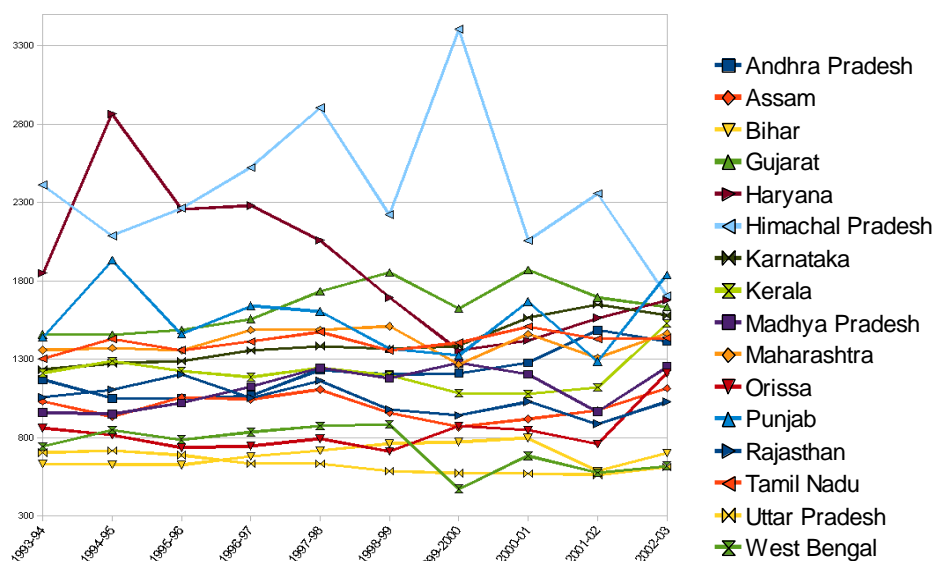


However, when this measure is normalized by the size of the population, States' fiscal capacities increased. On average the “fiscal space 1*” increased by 9.47% over the period considered. Not surprisingly, states that are relatively less populated (Himachal Pradesh, Haryana) enjoyed a bigger “fiscal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

During the 1990s (1991-2001), Indian population growth witnessed a slowing down and increased on average by 2% per year. In the meantime, as we saw above, Indian state's revenue receipts increased on average by 5.2% per year explaining why our second measure of fiscal space increased over the period.

FISCAL SPACE 1*
(SOURCE: HANDBOOK OF STATISTICS AND OWN CALCULATIONS)

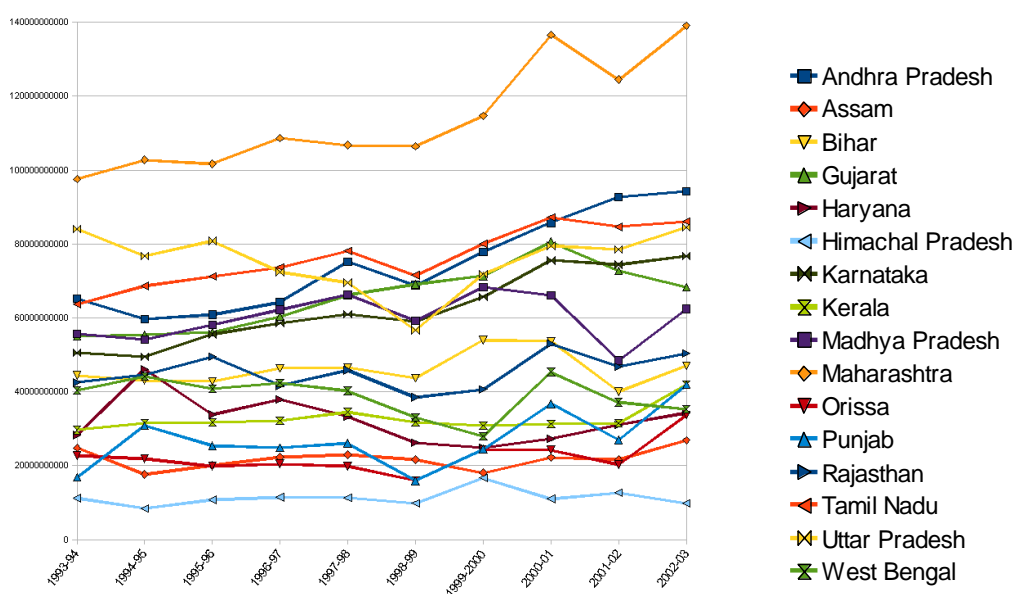
	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	Variation (%) between 1993-4 and 2002-3
Andra Pradesh	1170	1050	1049	1069	1233	1202	1211	1278	1485	1415	20,9%
Assam	1031	934	1057	1045	1107	959	868	918	973	1115	8,1%
Bihar	634	627	626	680	717	761	772	798	584	700	10,4%
Gujarat	1457	1454	1486	1556	1733	1853	1623	1869	1694	1633	12,1%
Haryana	1849	2865	2257	2281	2059	1693	1355	1420	1562	1676	-9,4%
Himachal Pradesh	2412	2087	2264	2523	2903	2221	3405	2057	2356	1705	-29,3%
Karnataka	1233	1275	1288	1357	1384	1367	1385	1566	1648	1579	28,1%
Kerala	1212	1289	1226	1186	1247	1198	1084	1077	1121	1528	26,1%
Madhya Pradesh	961	950	1022	1125	1245	1177	1276	1205	965	1253	30,4%
Maharashtra	1358	1372	1356	1486	1487	1510	1266	1460	1309	1465	7,9%
Orissa	861	817	735	746	794	713	875	848	759	1213	40,9%
Punjab	1438	1931	1460	1640	1605	1366	1326	1668	1285	1839	27,9%
Rajasthan	1057	1106	1204	1053	1162	980	941	1029	887	1029	-2,6%
Tamil Nadu	1303	1428	1357	1413	1474	1355	1406	1509	1429	1435	10,1%
Uttar Pradesh	704	717	689	634	634	587	574	572	562	611	-13,2%
West Bengal	742	849	787	836	874	885	474	683	577	619	-16,6%



If we look at our second measure (fiscal space 2), we also see that 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 CRORES)
(SOURCE: HANDBOOK OF STATISTICS AND OWN CALCULATIONS)

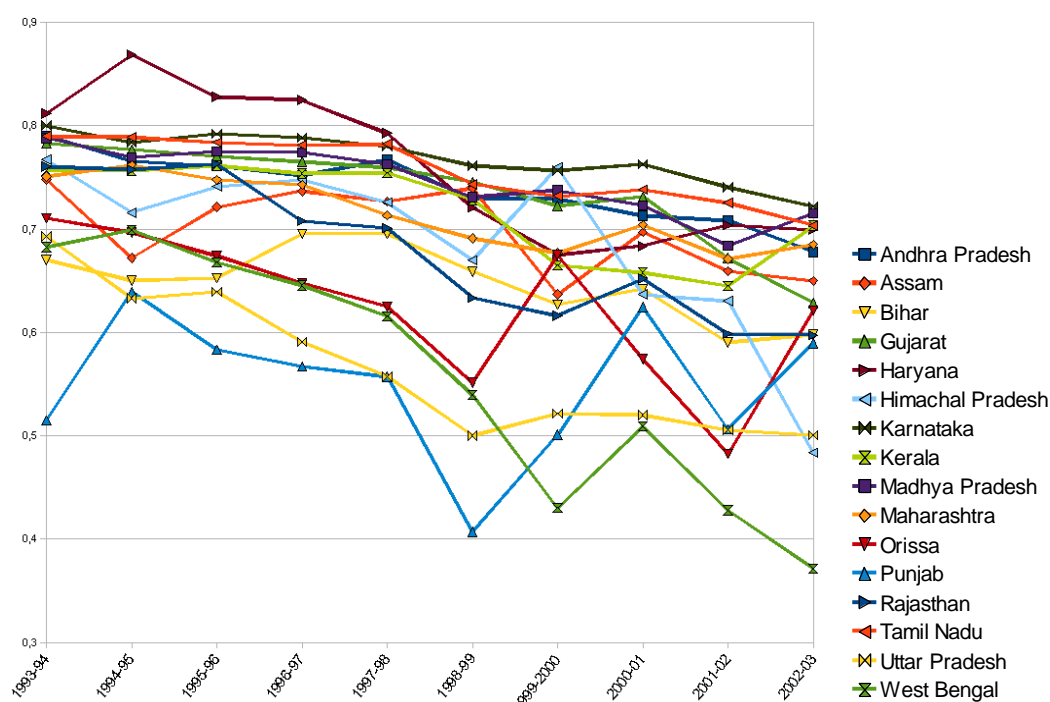
	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	Variation (%) between 1993-4 and 2002-3
Andra Pradesh	6521	5966	6091	6423	7523	6884	7788	8572	9265	9420	44%
Assam	2482	1766	2009	2229	2295	2166	1806	2225	2165	2688	8%
Bihar	4443	4310	4284	4630	4654	4365	5400	5368	4005	4706	6%
Gujarat	5503	5546	5609	6031	6620	6909	7134	8056	7272	6828	24%
Haryana	2826	4614	3383	3793	3324	2625	2486	2726	3107	3427	21%
Himachal Pradesh	1124	842	1081	1144	1129	983	1672	1103	1269	982	-13%
Karnataka	5061	4947	5559	5855	6095	5901	6566	7556	7439	7669	52%
Kerala	2968	3156	3173	3218	3449	3174	3091	3132	3149	4195	41%
Madhya Pradesh	5572	5411	5814	6221	6632	5921	6827	6609	4848	6245	12%
Maharashtra	9750	10273	10167	10860	10672	10640	11464	13654	12444	13904	43%
Orissa	2279	2189	1986	2050	1988	1601	2447	2427	2030	3375	48%
Punjab	1687	3084	2540	2488	2606	1592	2450	3673	2697	4195	149%
Rajasthan	4256	4461	4949	4164	4582	3850	4063	5300	4678	5038	18%
Tamil Nadu	6371	6862	7119	7364	7811	7149	7999	8720	8463	8605	35%
Uttar Pradesh	8407	7673	8081	7240	6950	5668	7179	7948	7856	8454	1%
West Bengal	4042	4414	4087	4242	4025	3310	2793	4535	3713	3528	-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)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	Variation (%) between 1993-4 and 2002-3
Andra Pradesh	0,79	0,77	0,76	0,75	0,77	0,73	0,73	0,71	0,71	0,68	-14%
Assam	0,75	0,67	0,72	0,74	0,73	0,74	0,64	0,7	0,66	0,65	-13%
Bihar	0,67	0,65	0,65	0,7	0,7	0,66	0,63	0,64	0,59	0,6	-10%
Gujarat	0,78	0,78	0,77	0,77	0,76	0,75	0,72	0,73	0,67	0,63	-19%
Haryana	0,81	0,87	0,83	0,82	0,79	0,72	0,68	0,68	0,7	0,7	-14%
Himachal Pradesh	0,77	0,72	0,74	0,75	0,73	0,67	0,76	0,64	0,63	0,48	-38%
Karnataka	0,8	0,78	0,79	0,79	0,78	0,76	0,76	0,76	0,74	0,72	-10%
Kerala	0,76	0,76	0,76	0,75	0,75	0,73	0,67	0,66	0,65	0,7	-8%
Madhya Pradesh	0,79	0,77	0,78	0,77	0,76	0,73	0,74	0,72	0,68	0,72	-9%
Maharashtra	0,75	0,76	0,75	0,74	0,71	0,69	0,68	0,7	0,67	0,68	-9%
Orissa	0,71	0,7	0,67	0,65	0,63	0,55	0,67	0,57	0,48	0,62	-13%
Punjab	0,51	0,64	0,58	0,57	0,56	0,41	0,5	0,62	0,51	0,59	16%
Rajasthan	0,76	0,76	0,76	0,71	0,7	0,63	0,62	0,65	0,6	0,6	-21%
Tamil Nadu	0,79	0,79	0,78	0,78	0,78	0,74	0,73	0,74	0,73	0,7	-11%
Uttar Pradesh	0,69	0,63	0,64	0,59	0,56	0,5	0,52	0,52	0,51	0,5	-28%
West Bengal	0,68	0,7	0,67	0,65	0,62	0,54	0,43	0,51	0,43	0,37	-46%



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)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	Variation (%) between 1993-4 and 2002-3
Andra Pradesh	951	857	862	895	1033	931	1038	1125	1197	1199	26%
Assam	1065	744	830	903	912	845	691	835	797	970	-9%
Bihar	519	506	505	548	553	521	648	647	485	572	10%
Gujarat	1273	1254	1240	1303	1399	1427	1440	1590	1403	1288	1%
Haryana	1669	2651	1890	2061	1757	1349	1243	1326	1469	1576	-6%
Himachal Pradesh	2135	1571	1980	2058	1996	1707	2851	1847	2087	1587	-26%
Karnataka	1086	1042	1150	1190	1217	1157	1265	1430	1383	1400	29%
Kerala	1010	1063	1058	1062	1128	1027	990	994	989	1304	29%
Madhya Pradesh	859	843	915	989	1066	961	1120	1095	812	1056	23%
Maharashtra	1180	1215	1176	1228	1179	1149	1211	1409	1256	1371	16%
Orissa	696	658	587	596	568	450	676	659	542	887	27%
Punjab	799	1430	1155	1108	1137	681	1027	1508	1085	1654	107%
Rajasthan	915	933	1006	823	881	720	739	938	805	843	-8%
Tamil Nadu	1113	1184	1213	1240	1299	1174	1298	1397	1340	1345	21%
Uttar Pradesh	581	520	537	471	444	355	441	478	463	489	-16%
West Bengal	573	614	558	569	530	428	355	566	455	424	-26%

What do these results tend to show?

As we saw above, the total revenue receipts have increased for all the states over the same period of time, which 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.

For the States 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.

However, 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. It indicates a rather good States' budget control.

On the other hand, West Bengal's fiscal space has witnessed a substantial decrease. The state's compelled expenditure has been multiplied by 3.17, while its revenue receipts have been multiplied by 1.6.

	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.

2.3. How can the disparities in fiscal space be explained?

2.3.1. Spending on interest payment and servicing of debt

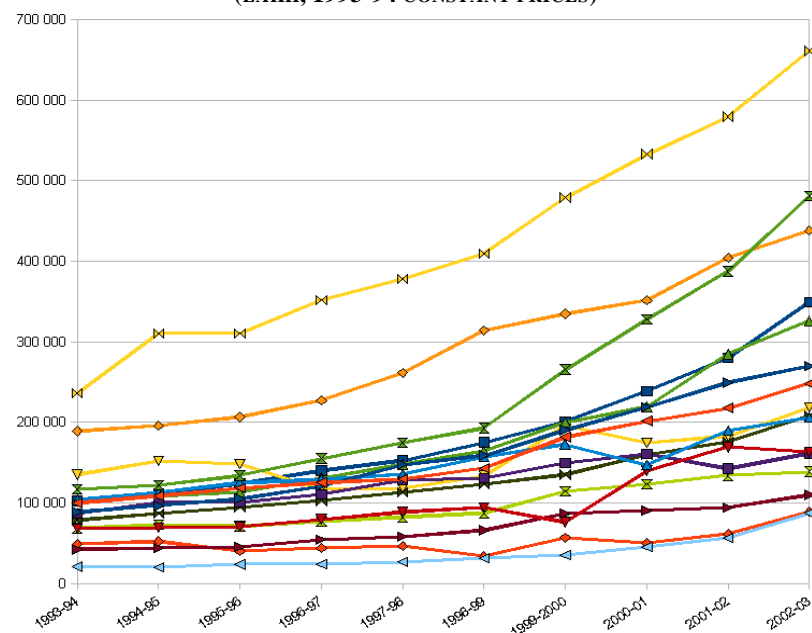
For most states, the decline in fiscal space is due both to the increase in spending on administration and mostly on interest and debt. Nevertheless, between 1993-94 and 2002-03 for all states the increase in spending on debt was much higher than for the spending on administrative services. The surge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

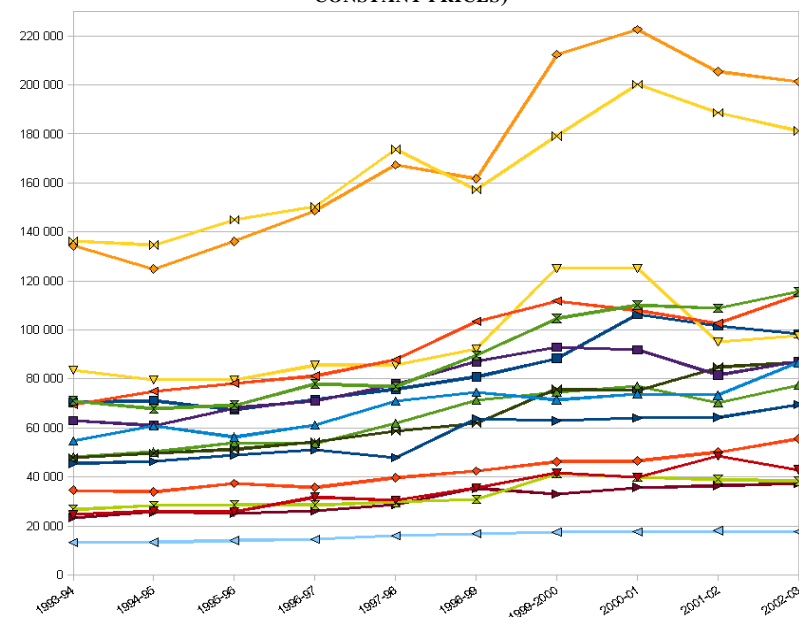
EVOLUTION OF REVENUE EXPENDITURE ON INTEREST PAYMENT AND SERVICING OF DEBT AND ON ADMINISTRATIVE SERVICES, 1993-94 TO 2002-03, (1993-94 CONSTANT PRICES)
(SOURCE: HANDBOOK OF STATISTICS AND OWN CALCULATION)

	Revenue expenditure on interest payment and servicing of debt has been multiplied by...	Revenue expenditure on administrative services has 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	1,50
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)**



**REVENUE EXPENDITURE ON ADMINISTRATIVE SERVICES (LAKH, 1993-94
CONSTANT PRICES)**



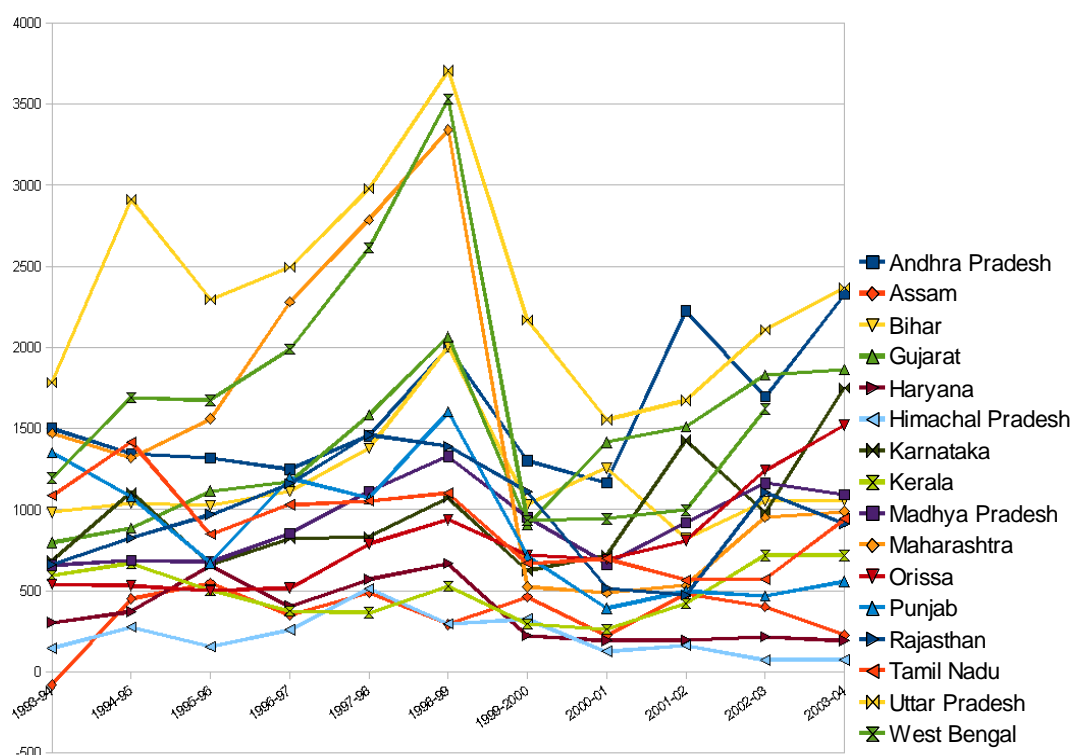
SOURCE: HANDBOOK OF STATISTICS AND OWN CALCULATIONS WITH DATA FROM EPW DATABASE

- Andhra Pradesh
- ◆ Assam
- ▼ Bihar
- ▲ Gujarat
- ▶ Haryana
- ◀ Himachal Pradesh
- ✕ Karnataka
- ✕ Kerala
- Madhya Pradesh
- ◆ Maharashtra
- ▼ Orissa
- ▲ Punjab
- ▶ Rajasthan
- ◀ Tamil Nadu
- ✕ Uttar Pradesh
- ✕ West Bengal

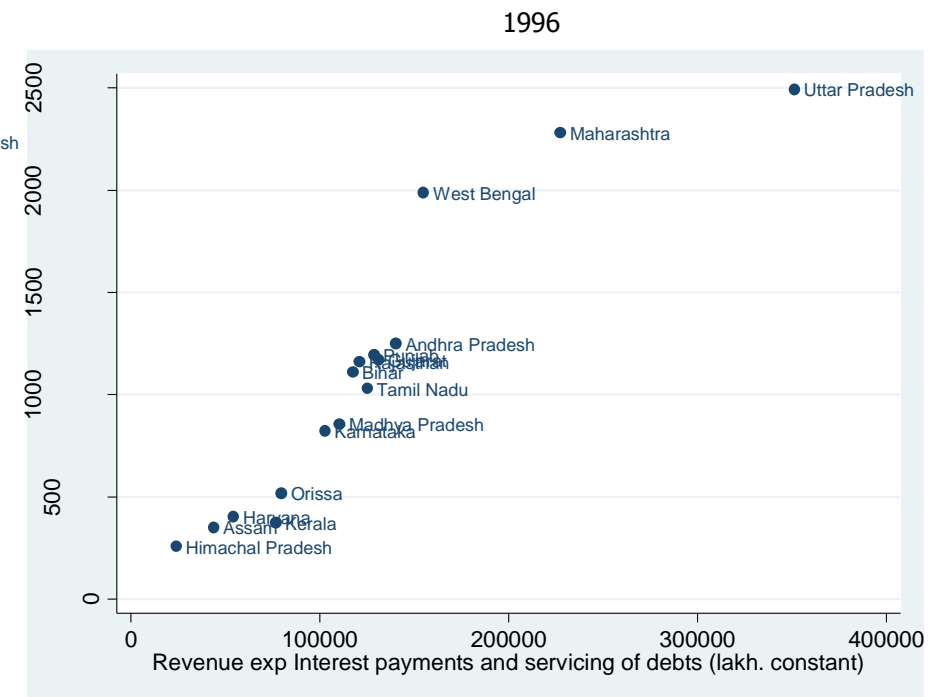
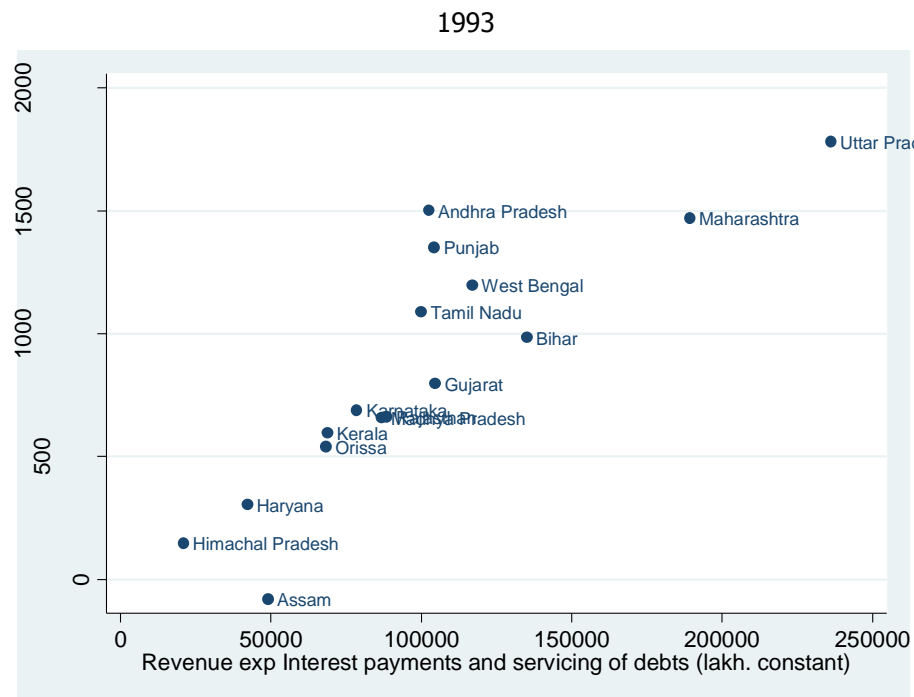
The loans from the Centre possibly played a role in the increase in spending on interests and debt. The amount of loans given by the Centre peaked at the end of the 1990s (in 1998-99). For some states (Uttar Pradesh, Gujarat, Maharashtra, West Bengal, Rajasthan), it steadily increased from 1993-94 to reach its peak in 1998-99 before decreasing. For other states (Orissa, Andhra Pradesh, Karnataka), it increased especially since 2000.

Over the period considered, states that received the higher loans from the Centre were also those spending the most on interest and debt.

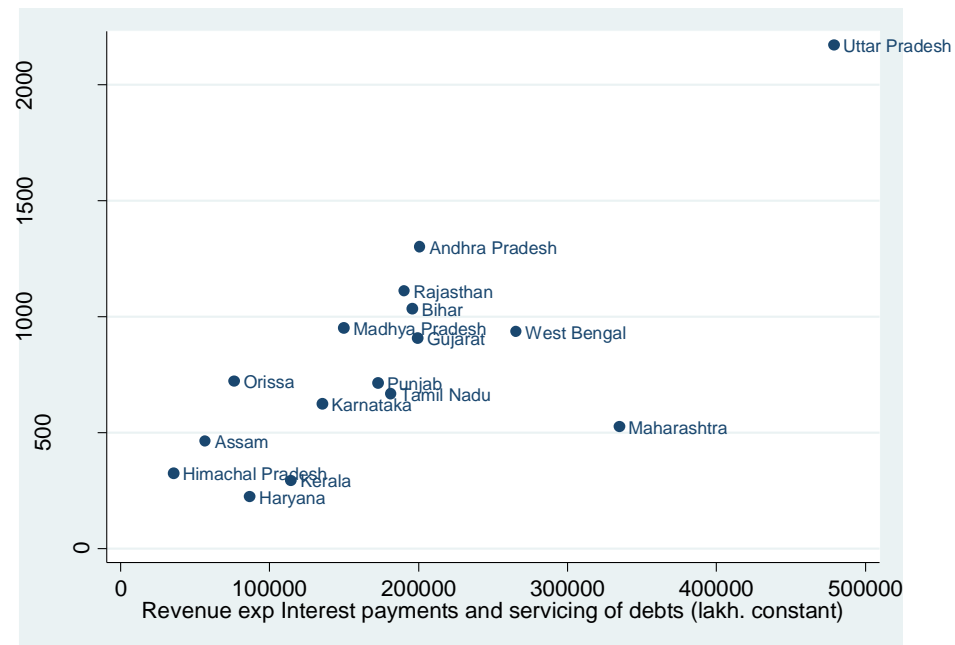
LOANS FROM THE CENTRE (CRORE, 1993-94 CONSTANT PRICES)
(SOURCE: HANDBOOK OF STATISTICS AND OWN CALCULATIONS WITH DATA FROM EPW DATABASE)



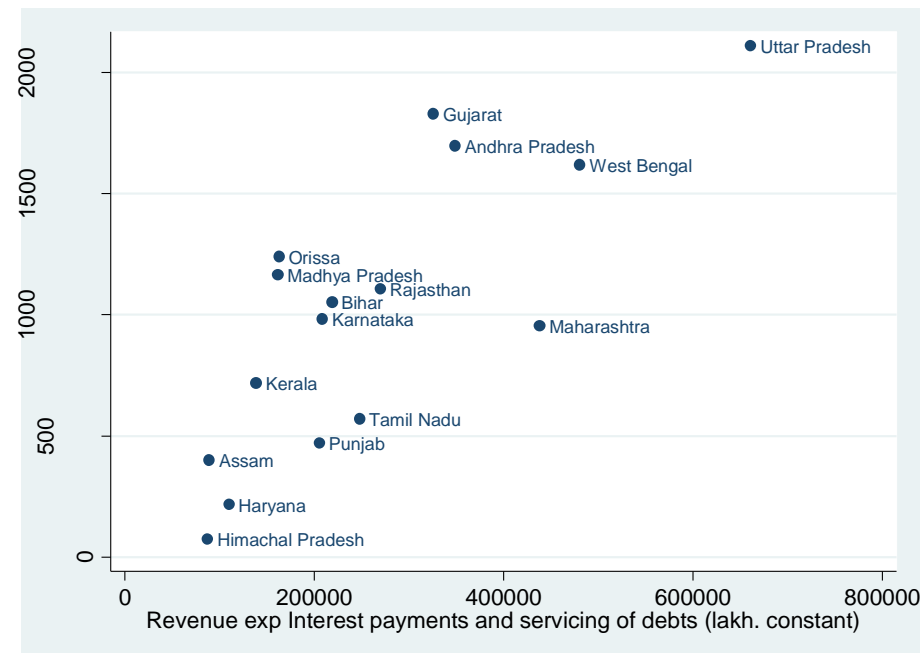
CORRELATION BETWEEN LOANS RECEIVED FROM THE CENTRE AND REVENUE EXPENDITURE ON INTEREST PAYMENTS AND SERVICING OF DEBT IN 1993, 1996, 1999, 2002. (SOURCE: HANDBOOK OF STATISTICS, AND OWN CALCULATIONS, GRAPH MADE WITH STATA)



1999



2002



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?

2.3.2. Level of wealth

As we have seen, richer states seem to have bigger revenue receipts. It is not a surprise to see that poor states such as Uttar Pradesh, Bihar and Orissa have a more limited fiscal space. In the meantime, 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 declining. Punjab, which is also a rather rich state, does not perform well either.

That being said, is there a relationship between a state's fiscal space and its level of wealth and development?

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

As shown in the tables below, there is no strong difference in average 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 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.

AVERAGE FISCAL SPACE AMONG POORER STATES AND RICHER STATES

<i>Average fiscal space 1</i>	<i>Poorer states</i>	<i>Richer states</i>
1993-2003	.8160	.8465
1993-1994	.8834	.8994
1996-1997	.8689	.8891
1998-1999	.9146	.8845
2002-2003	.7551	.7178

<i>Average fiscal space 2*</i>	<i>Poorer states</i>	<i>Richer states</i>
1993-2003	.6817	.6904
1993-1994	.7540	.7467
1996-1997	.6937	.7464
1998-1999	.6354	.6834
2002-2003	.6137	.6264

<i>Average fiscal space 2**</i>	<i>Poorer states</i>	<i>Richer states</i>
1993-2003	808.0	1342.6
1993-1994	798.3	1283.0
1996-1997	724.4	1406.4
1998-1999	651.4	1209.0
2002-2003	802.9	1314.9

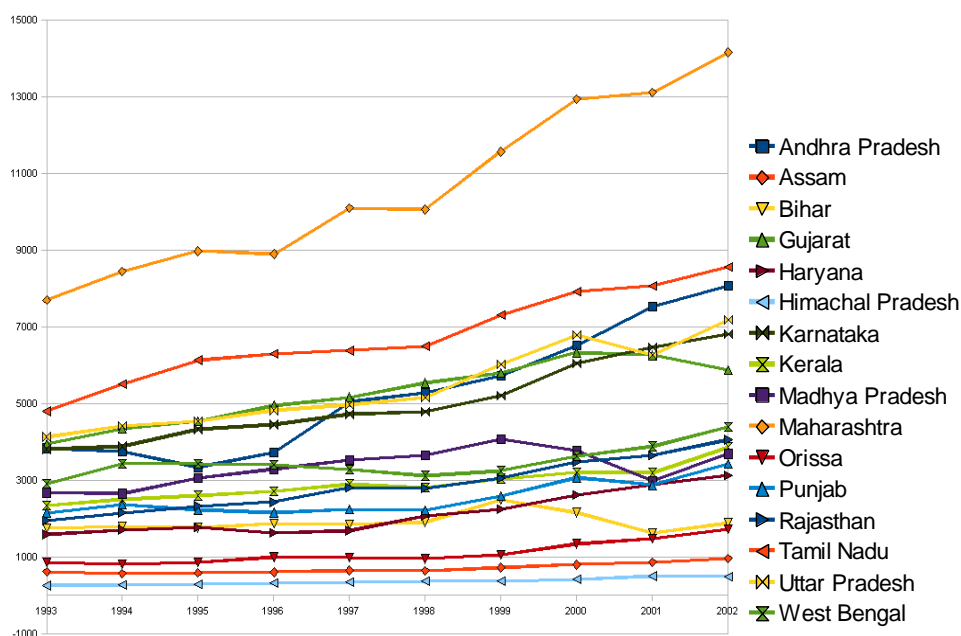
2.3.3. Tax effort

How can we further explain the differences in fiscal spaces?

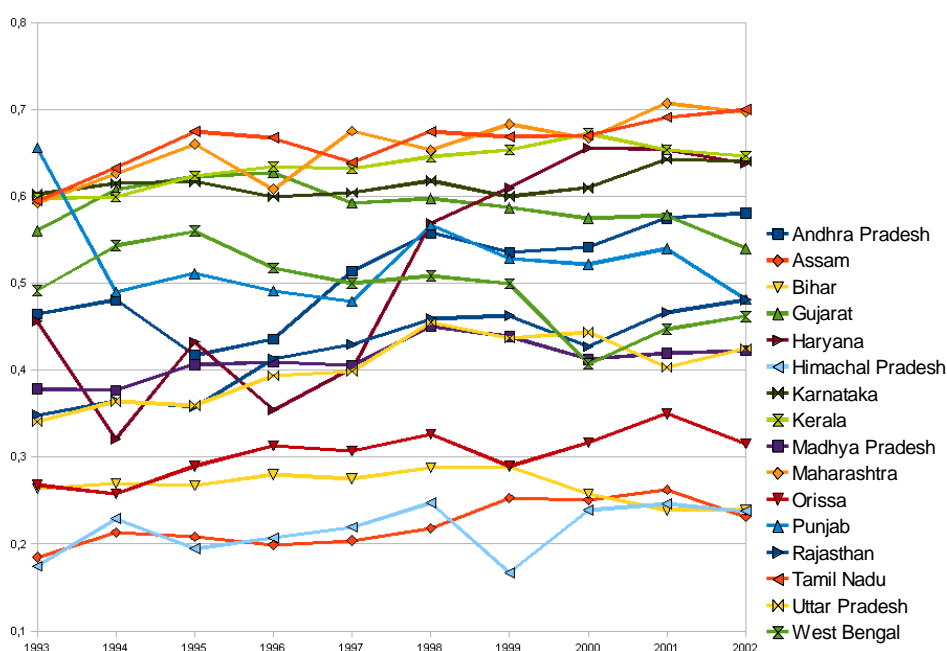
It may be a matter of tax effort - a combination of taxable capacity and political choice.

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)

	Total taxable capacity	Tax efforts (in %)	Rank
Andhra Pradesh	720844	1620	3
Assam	153571	1445	5
Bihar	270115	97	15
Goa	43753	113	13
Gujarat	617638	1752	1
Haryana	367011	1140	10
Karnataka	674802	1265	8
Kerala	422217	142	11
Madhya Pradesh	504885	1231	9
Maharashtra	1496162	1573	4
Orissa	227521	1381	6
Punjab	426115	111	14
Rajasthan	570500	97	16
Tamil Nadu	717279	138	12
Uttar Pradesh	986585	1305	7
West Bengal	728650	1743	2

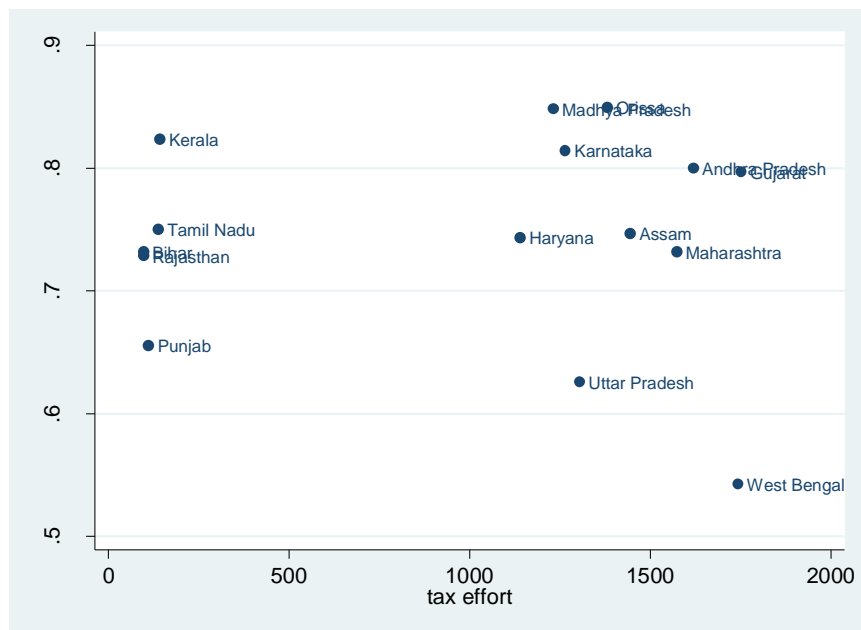
However, when we plot the states’ tax efforts with the fiscal space, we find no correlation. There are actually two groups of countries: the first one (on the left) is composed of Punjab, Bihar, Tamil Nadu, Rajasthan, and Kerala – states that, according to Purohit, do not take advantage of their fiscal 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.

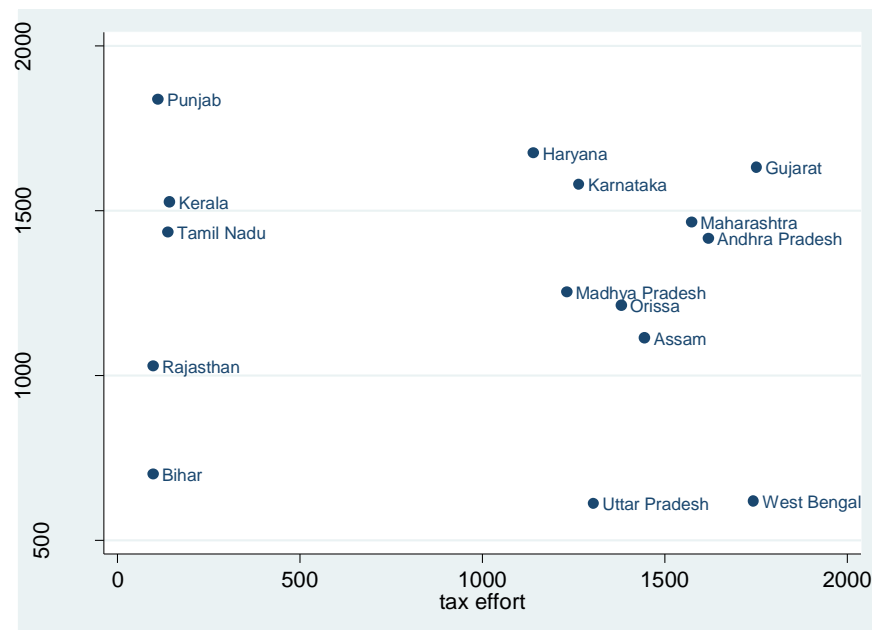
The best example is West Bengal. It is the state that performs the worst in terms of fiscal space, but it ranks second in Purohit’s ranking. This suggests that West Bengal cannot count on its own taxable capacities to increase its fiscal space either because its taxable capacities are too weak or because West Bengal spends too much on interest and debt and on administrative services.

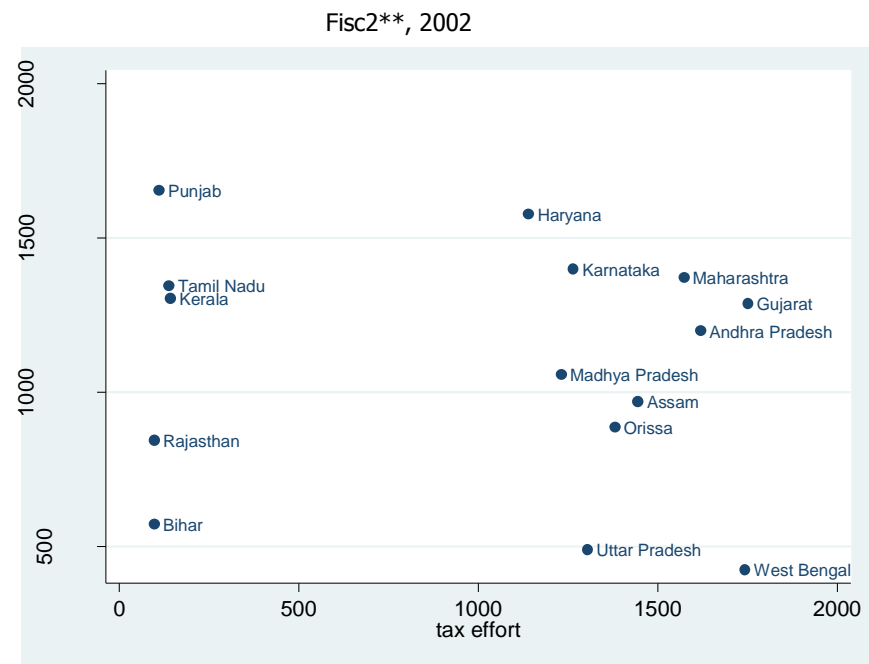
CORRELATION BETWEEN FISCAL SPACE (FISC 1, FISC1* AND FISC2) AND TAX EFFORT IN 2002.**
(SOURCE: HANDBOOK OF STATISTICS, OWN CALCULATIONS, PUROHIT 2006. GRAPH MADE WITH STATA)

Fiscal space 1, 2002



Fisc1*, 2002





It points out 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.

To sum up, between 1993-94 and 2002-2003, states' fiscal space as a share of the total revenue receipts (fiscal space 1 and fiscal space 2*) 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 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?

3. FISCAL SPACE FOR WHAT?

3.1. Did the social sector (revenue and capital) expenditure increase?

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, representing an average increase of 5.5% per year. Gujarat knew the fastest increase while Bihar the smallest.

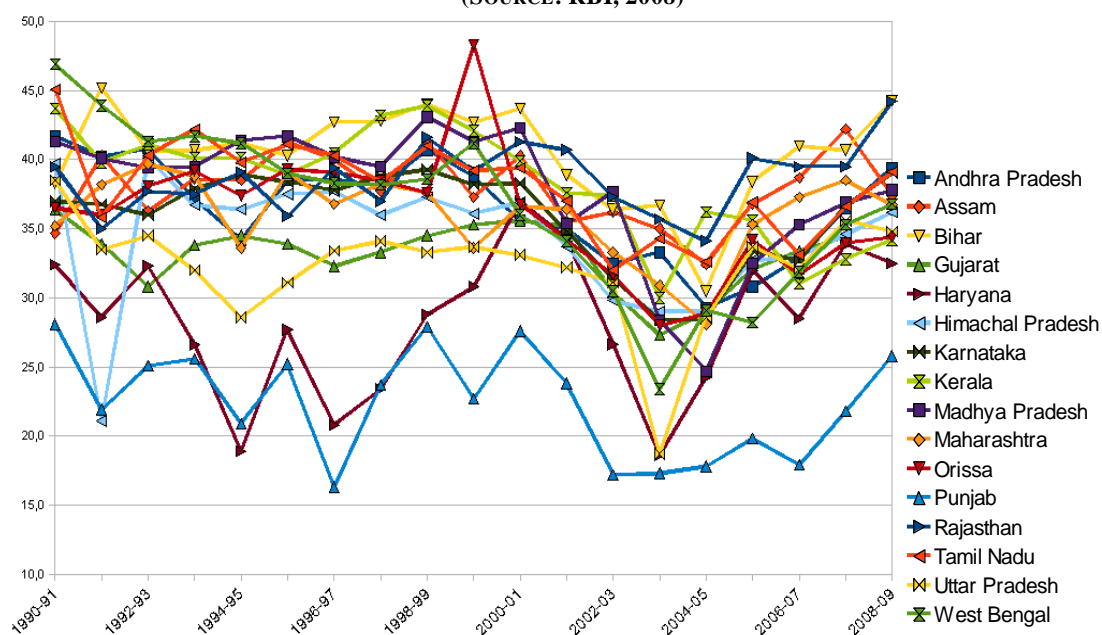
⁴ See for instance Mahesh C Purohit, 2006.

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)

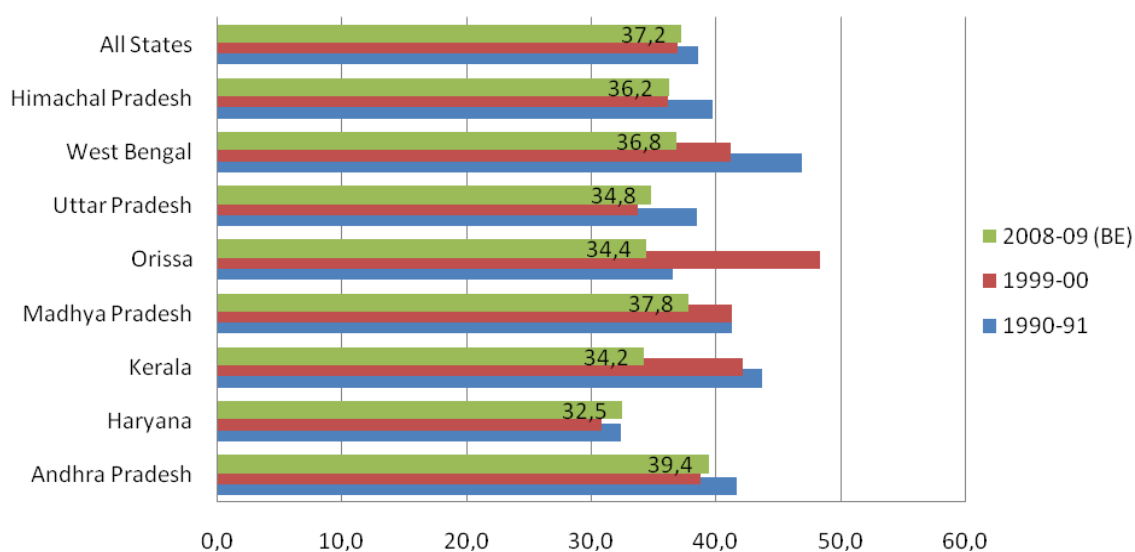
	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	2003-04	2004-05	Average annual growth rate (%)
Andra Pradesh	3919	3782	4464	4797	4789	5912	5613	6178	6513	6444	7437	7450	6,6%
Assam	1397	1365	1498	1340	1381	1398	1546	1742	1671	1702	1924	2426	5,7%
Bihar	3434	3437	3377	3326	3369	3825	5708	5441	3839	4398	4419	3948	1,4%
Gujarat	2844	2992	3123	3316	3880	4806	5378	6777	6112	5176	5524	6037	7,8%
Haryana	1093	1177	1384	1238	1301	1644	1642	2055	2135	1569	1529	1833	5,3%
Himachal Pradesh	621	658	732	763	890	986	1007	1116	1035	1032	1194	1145	6,3%
Karnataka	3063	3123	3281	3493	3597	4038	4574	5038	5011	4736	4969	5636	6,3%
Kerala	2061	2134	2068	2234	2723	2821	3179	2859	2658	3302	3099	3721	6,1%
Madhya Pradesh	3508	3556	3827	4226	4341	4918	5200	4783	3802	4408	4035	4254	1,9%
Maharashtra	6204	6007	6864	6982	7813	8081	8608	10122	9521	9326	11059	11443	6,3%
Orissa	1747	1638	1657	1821	1810	2069	3012	2489	2461	2424	2335	2457	3,5%
Punjab	1335	1424	1484	970	1651	2075	1784	2438	2225	1758	2000	2058	4,4%
Rajasthan	2783	3066	3326	3365	3653	4216	4296	4735	4971	5019	5839	5959	7,9%
Tamil Nadu	4251	4293	4409	4895	4890	5497	5934	6204	5698	5713	6531	7442	5,8%
Uttar Pradesh	5212	5459	5370	5883	6445	6832	7470	7494	7453	7723	7352	9164	5,8%
West Bengal	3323	3520	3400	3987	3753	4330	5940	5905	5719	5052	5110	5325	4,8%

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



3.2. 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)	
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

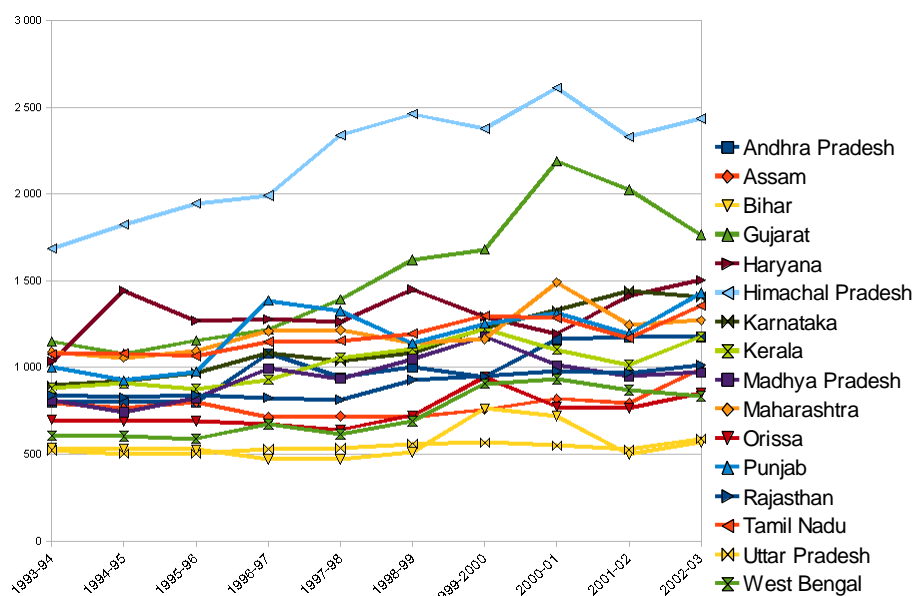
	8	Science, Technology and Environment
	9	General Economic Services (i to iv)
		(i) Secretariat - Economic Services
		(ii) Tourism
		(iii) Civil Supplies
		(iv) Others
I.	Non-Developmental Expenditure (General services) (A to F)	
	A. Organs	
	B. Fiscal	
	1	Collection of Taxes and Duties
	2	Transfers to 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	
II.	Grants-in-Aid and	
V.	Compensation and assignments to Local Bodies and Panchayati Raj Institutions	
.	Reserve with Finance Department	

DEVELOPMENT EXPENDITURE IN 16 STATES FROM 1993-94 TO 2002-03 (CRORE, 1993-94 CONSTANT PRICES)
(SOURCE: HANDBOOK OF STATISTICS)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	Average annual growth rate (%)
Andra Pradesh	5471	5614	5634	7758	6862	7400	7106	8873	9079	9216	6,0%
Assam	1855	1820	1935	1766	1811	1828	1978	2186	2156	2749	4,5%
Bihar	4599	4515	4466	3968	3967	4288	6367	5970	4116	4686	0,2%
Gujarat	4967	4773	5226	5636	6594	7843	8322	11093	10490	9348	7,3%
Haryana	1751	2511	2271	2351	2386	2818	2585	2456	2986	3267	7,2%
Himachal Pradesh	887	978	1061	1105	1323	1417	1393	1559	1415	1506	6,1%
Karnataka	4179	4362	4678	5326	5179	5512	6376	7029	7755	7697	7,0%
Kerala	2586	2696	2622	2812	3231	3416	3810	3473	3225	3789	4,3%
Madhya Pradesh	5250	4754	5221	6250	5818	6452	7182	6108	5663	5739	1,0%
Maharashtra	9005	8921	9467	10688	11012	10536	11018	14436	12331	12888	4,1%
Orissa	2284	2291	2334	2324	2245	2574	3419	2846	2863	3239	4,0%
Punjab	2111	1995	2144	3110	3035	2663	2989	3194	2968	3624	6,2%
Rajasthan	3910	3953	4137	4172	4231	4949	5207	5532	5629	6055	5,0%
Tamil Nadu	6158	6261	6247	6808	6944	7270	8008	8011	7391	8675	3,9%
Uttar Pradesh	7571	7409	7586	8099	8359	8935	9237	9134	8914	10187	3,4%
West Bengal	4288	4335	4311	5008	4669	5335	7133	7469	7097	6934	5,5%

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)



3.2.1. Expenditure on social services

REVENUE EXPENDITURE ON SOCIAL SERVICES IN 16 STATES FROM 1993-94 TO 2002-03 (CRORE, 1993-94
CONSTANT PRICES)

(SOURCE: HANDBOOK OF STATISTICS AND OWN CALCULATIONS WITH DATA FROM EPW DATABASE.)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	Average annual growth rate (%)
Andra Pradesh	2953	3050	3787	3981	3879	4673	4660	4960	4917	5250	6,6%
Assam	1216	1164	1202	1219	1274	1275	1393	1594	1487	1947	5,4%
Bihar	2416	2745	2892	2669	2768	2732	4263	4281	2939	3200	3,2%
Gujarat	2333	2401	2666	2790	3322	3953	4425	5402	5228	4690	8,1%
Haryana	875	1054	1296	1061	1121	1386	1441	1520	1583	1709	7,7%
Himachal Pradesh	483	514	590	607	712	803	815	887	836	842	6,4%
Karnataka	2379	2493	2669	2856	3047	3214	3684	4097	4216	4077	6,2%
Kerala	1777	1862	1776	1870	1980	2028	2461	2285	2197	2365	3,2%
Madhya Pradesh	2675	2785	2952	3242	3461	3980	4354	3903	2901	3441	2,8%
Maharashtra	4631	4740	5392	5670	6386	6679	7494	9414	8710	9110	7,8%
Orissa	1325	1309	1390	1488	1520	1735	2466	1908	1946	2255	6,1%
Punjab	1147	1121	1336	1291	1519	1793	1779	1877	1856	2212	7,6%
Rajasthan	2191	2353	2571	2698	2911	3487	3696	4017	4118	4275	7,7%
Tamil Nadu	3586	3630	3713	4037	4126	4788	5118	5026	4760	4997	3,8%
Uttar Pradesh	4053	4237	4567	4875	5324	5792	5555	5693	5667	6490	5,4%
West Bengal	2698	2801	2798	3249	3181	3685	5209	5164	4956	4974	7,0%

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.

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).

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. Thus, the expenditure on education and health represents almost 70% of the total expenditure on social services. That is why we decided to look closer at the spending on these sectors.

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	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
Andra Pradesh	49%	49%	37%	38%	41%	40%	45%	47%	46%	48%
Assam	65%	66%	67%	67%	67%	69%	70%	69%	69%	68%
Bihar	58%	60%	62%	68%	70%	67%	68%	69%	69%	68%
Gujarat	59%	59%	60%	60%	54%	57%	54%	48%	42%	50%
Haryana	53%	46%	41%	54%	54%	59%	55%	53%	54%	53%
Himachal Pradesh	54%	50%	50%	52%	52%	54%	60%	56%	57%	58%
Karnataka	54%	53%	52%	52%	53%	55%	55%	57%	54%	57%
Kerala	64%	65%	62%	60%	57%	58%	62%	63%	61%	57%
Madhya Pradesh	46%	45%	48%	47%	44%	46%	49%	47%	46%	43%
Maharashtra	58%	57%	56%	56%	56%	56%	65%	66%	66%	59%
Orissa	52%	55%	51%	53%	55%	54%	48%	56%	53%	48%
Punjab	60%	62%	56%	64%	63%	65%	66%	62%	59%	60%
Rajasthan	56%	57%	56%	57%	57%	56%	56%	53%	54%	51%
Tamil Nadu	49%	50%	50%	49%	51%	54%	57%	56%	56%	54%
Uttar Pradesh	58%	61%	62%	61%	56%	65%	66%	66%	65%	57%
West Bengal	61%	58%	58%	59%	58%	54%	61%	54%	55%	56%
Average (16 States)	56%	56%	54%	56%	56%	57%	59%	58%	57%	55%

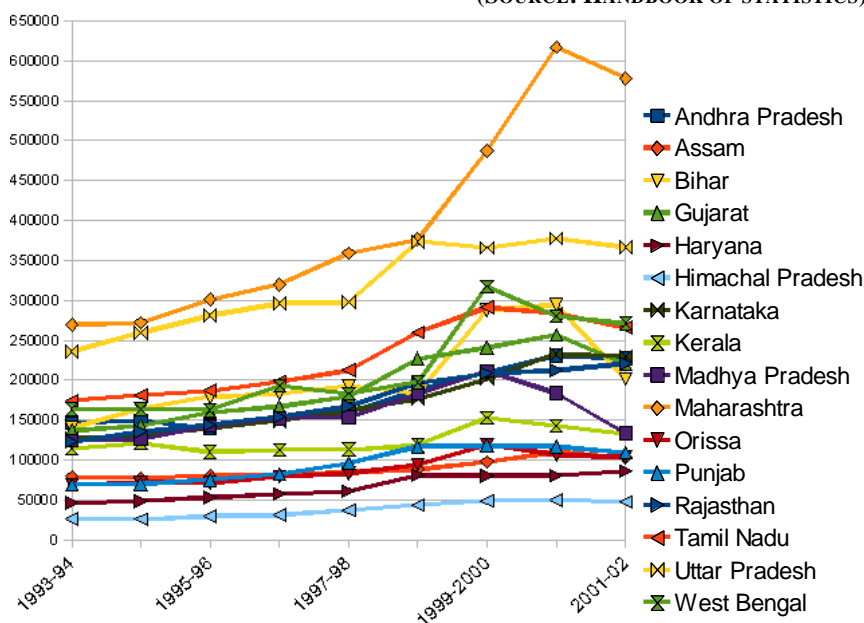
Health	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03
Andra Pradesh	17%	16%	10%	12%	12%	12%	12%	13%	13%	12%
Assam	14%	15%	12%	13%	13%	10%	11%	10%	10%	9%
Bihar	19%	18%	10%	12%	11%	12%	12%	12%	12%	12%
Gujarat	15%	16%	13%	13%	12%	13%	13%	10%	8%	10%
Haryana	11%	12%	8%	11%	12%	12%	11%	10%	10%	11%
Himachal Pradesh	20%	20%	15%	17%	15%	16%	16%	15%	15%	15%
Karnataka	16%	17%	12%	12%	12%	13%	13%	13%	12%	14%
Kerala	16%	16%	15%	14%	14%	14%	14%	14%	15%	13%
Madhya Pradesh	15%	15%	11%	12%	11%	13%	12%	12%	13%	12%
Maharashtra	15%	14%	12%	12%	11%	11%	11%	10%	11%	10%
Orissa	14%	14%	11%	11%	11%	12%	9%	11%	11%	11%
Punjab	19%	18%	14%	16%	17%	18%	19%	20%	19%	18%
Rajasthan	18%	18%	13%	14%	14%	13%	13%	12%	12%	12%
Tamil Nadu	15%	16%	13%	13%	13%	13%	13%	12%	13%	13%
Uttar Pradesh	23%	19%	14%	14%	15%	11%	12%	12%	12%	14%
West Bengal	19%	17%	16%	15%	15%	17%	13%	14%	14%	15%
Average (16 States)	17%	16%	12%	13%	13%	13%	13%	13%	13%	13%

First, it is 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 slight for education but much bigger for health spending.

Second, in almost 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)** – these two states (Bihar and Uttar Pradesh) belong to the group of states that suffered the most from a reduction in fiscal space over the period.

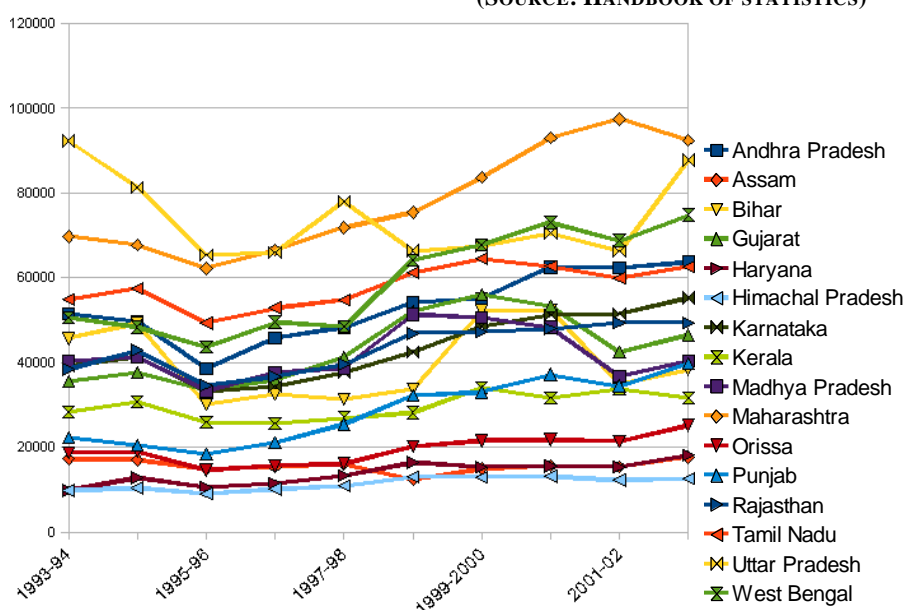
REVENUE EXPENDITURE ON EDUCATION FROM 1993-94 TO 2002-03 (CONSTANT 1993-94 PRICES, LAKHS).

(SOURCE: HANDBOOK OF STATISTICS)



REVENUE EXPENDITURE ON HEALTH FROM 1993-94 TO 2002-03 (CONSTANT 1993-94 PRICES, LAKHS).

(SOURCE: HANDBOOK OF STATISTICS)



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.

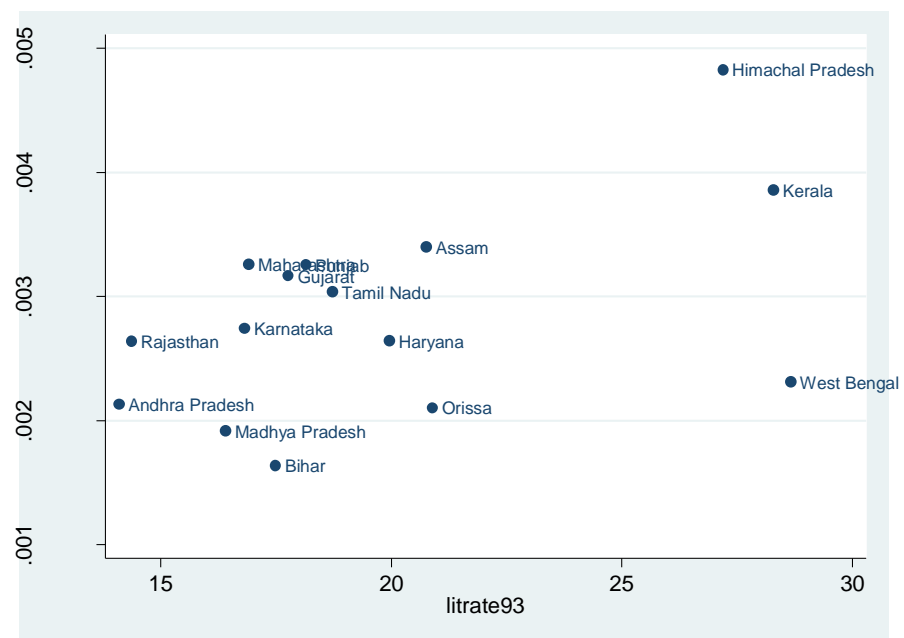
Spending on education appears positively correlated to the literacy rate.

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.

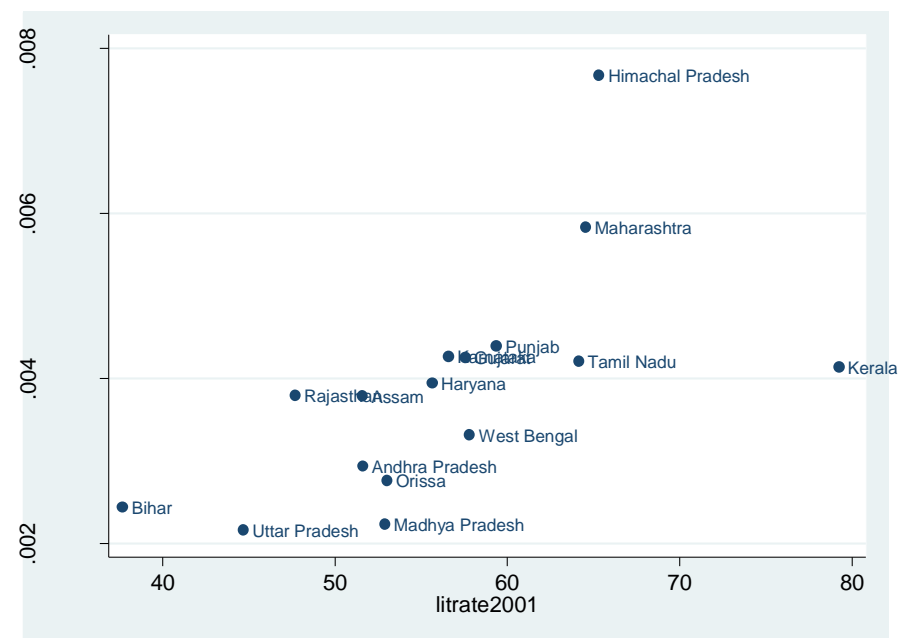
CORRELATION BETWEEN PER CAPITA REVENUE EXPENDITURE ON EDUCATION AND LITERACY RATE (1993, 2001) (CONSTANT 1993-94 PRICES).

(SOURCE: HANDBOOK OF STATISTICS, CENSUS, OWN CALCULATIONS. GRAPH MADE WITH STATA)

1993

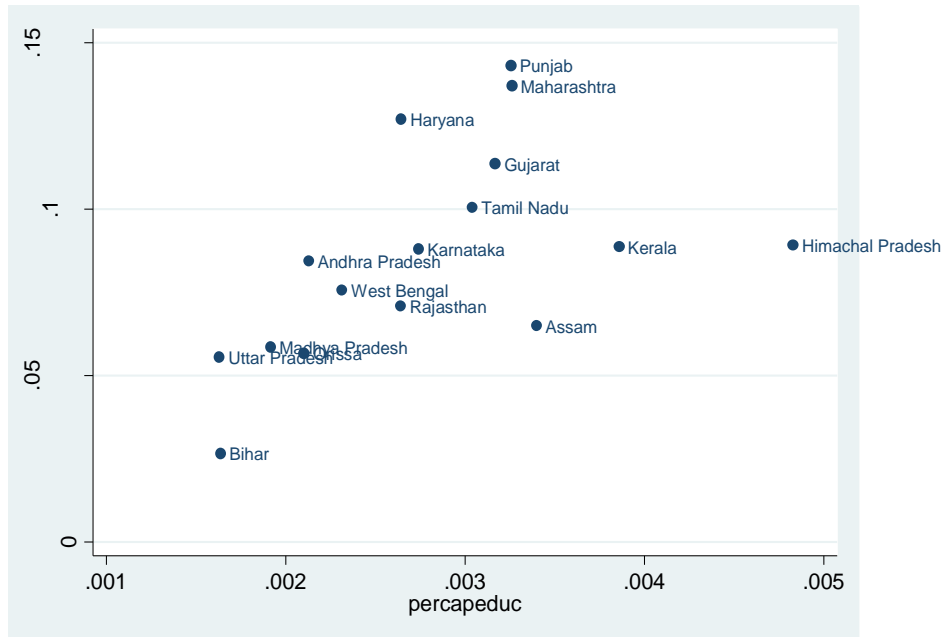


2001

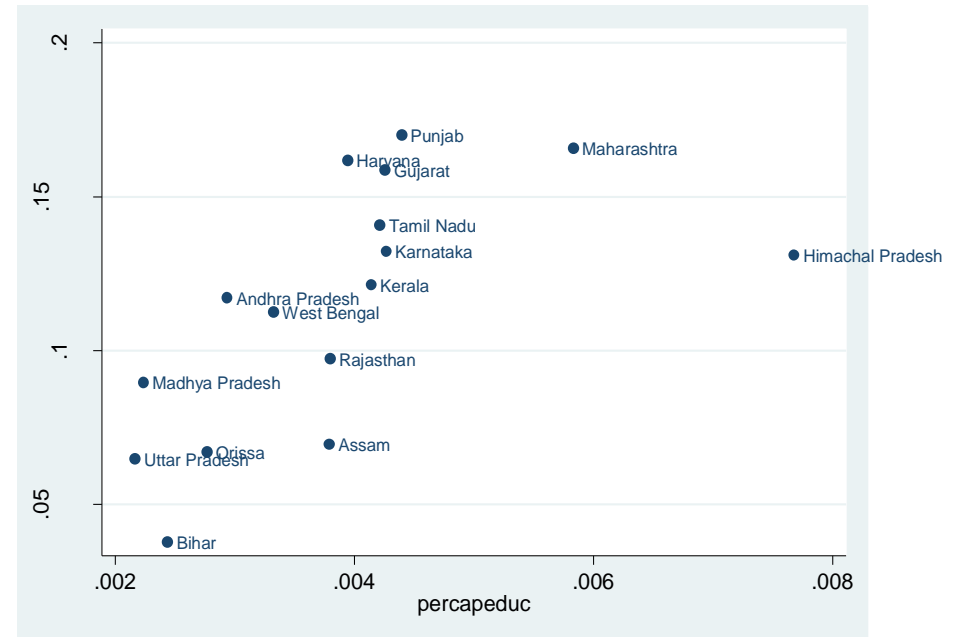


CORRELATION BETWEEN PER CAPITA REVENUE EXPENDITURE ON EDUCATION AND PER CAPITA GSDP (1993, 2001) (CONSTANT 1993-94 PRICES).
(SOURCE: HANDBOOK OF STATISTICS, CENSUS, EPW DATABASE, OWN CALCULATIONS. GRAPH MADE WITH STATA)

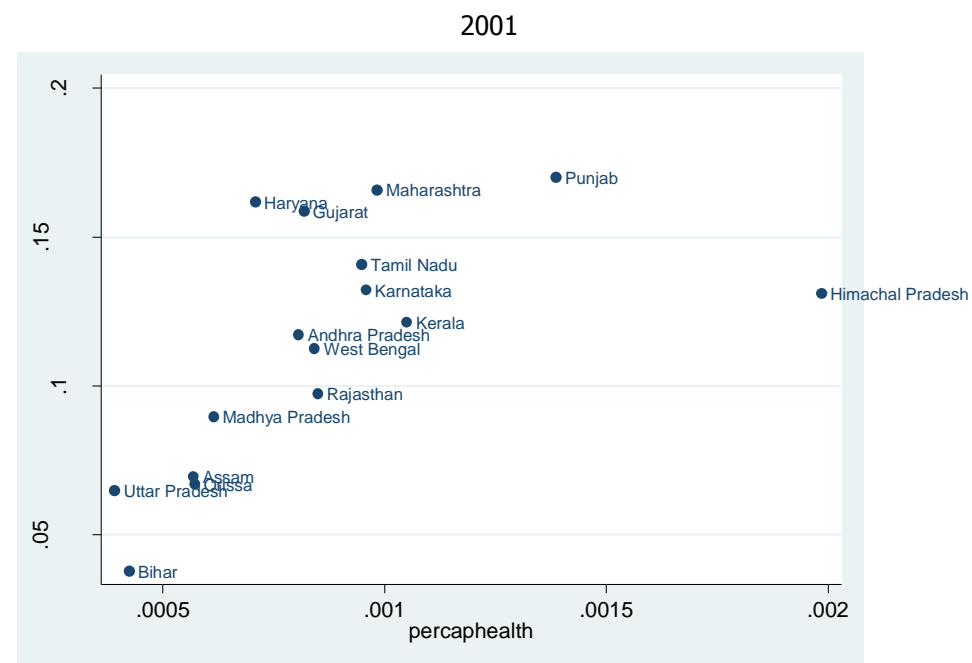
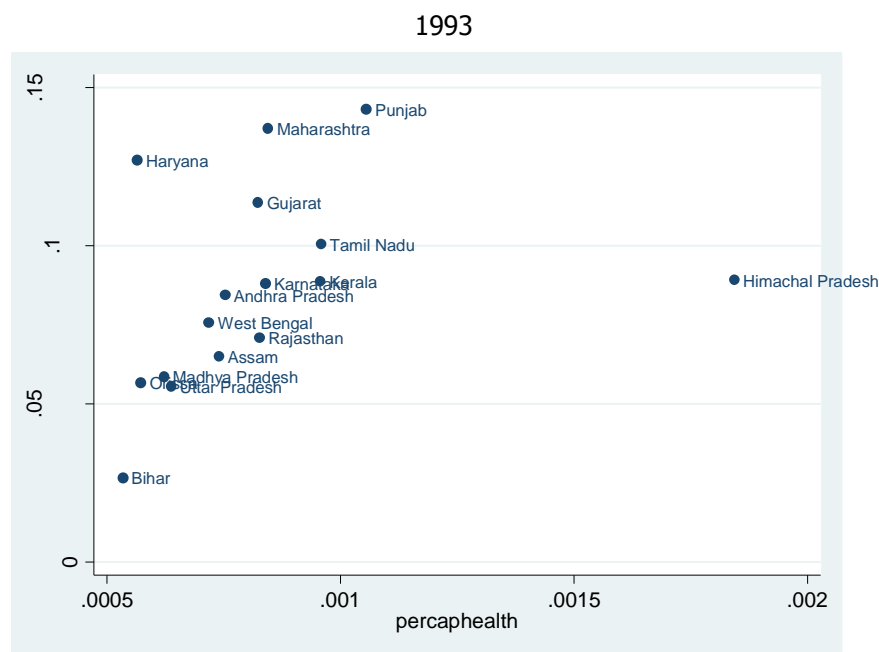
1993



2001



CORRELATION BETWEEN PER CAPITA REVENUE EXPENDITURE ON HEALTH AND PER CAPITA GSDP (1993, 2001) (CONSTANT 1993-94 PRICES).
(SOURCE: HANDBOOK OF STATISTICS, CENSUS, EPW DATABASE, OWN CALCULATIONS. GRAPH MADE WITH STATA)



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.

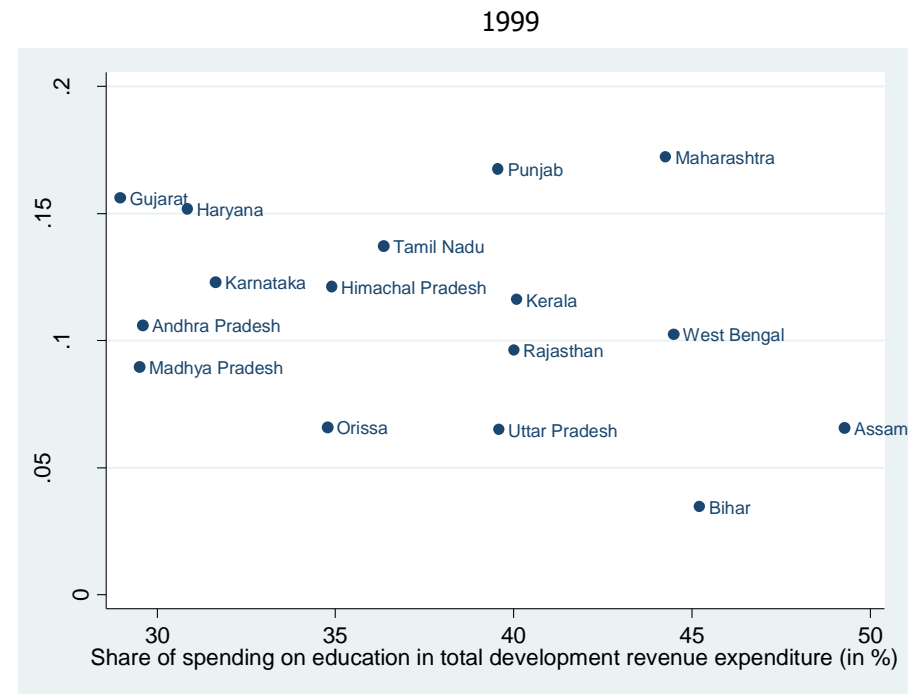
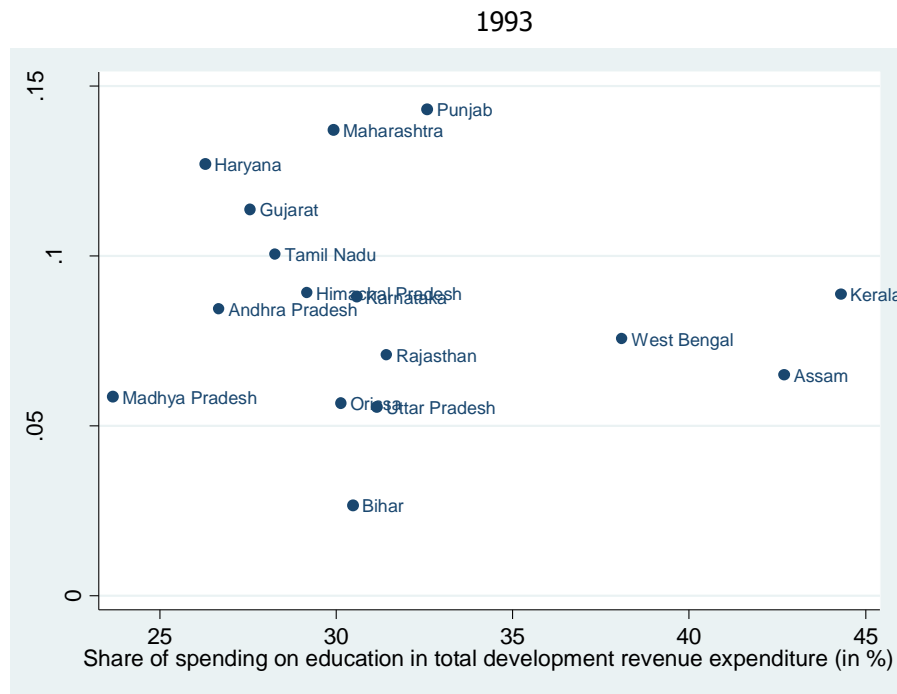
Nevertheless, the trend seems to have changed: in 2002-2003, poorer states on average spent relatively less on health than richer states.

<i>Average share of "Education, sports, art and culture" expenditure in development spending</i>	<i>Poorer states</i>	<i>Richer states</i>
1993-2003	36.1	32.1
1993-1994	31.8	31.1
1996-1997	35.3	29.5
1998-1999	37.5	33.8
2002-2003	37.7	32.7

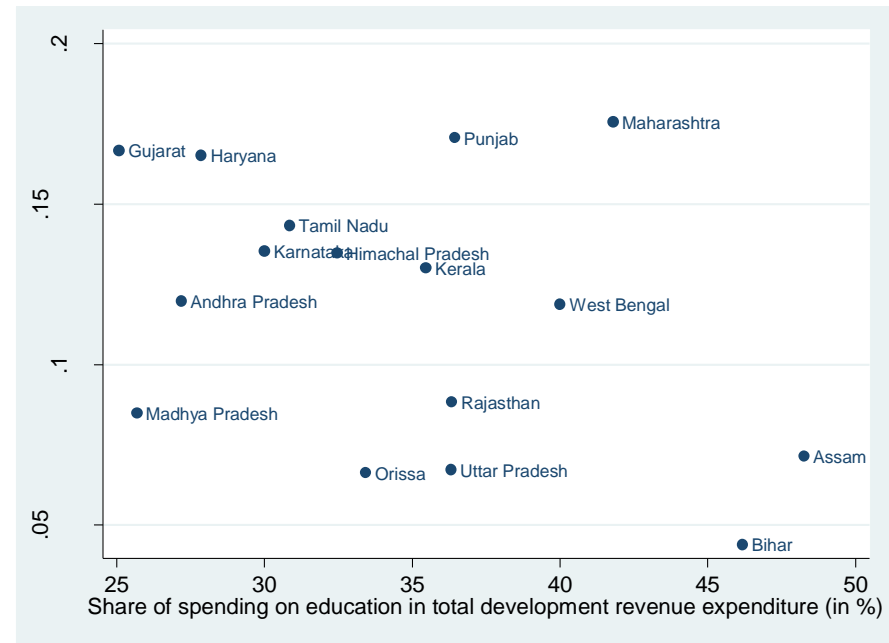
<i>Average share of "Medical and public health" expenditure in development spending</i>	<i>Poorer states</i>	<i>Richer states</i>
1993-2003	8.5	7.7
1993-94	9.8	8.9
1996-97	7.8	7.1
1998-99	8.3	8.2
2002-03	7.7	7.8

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

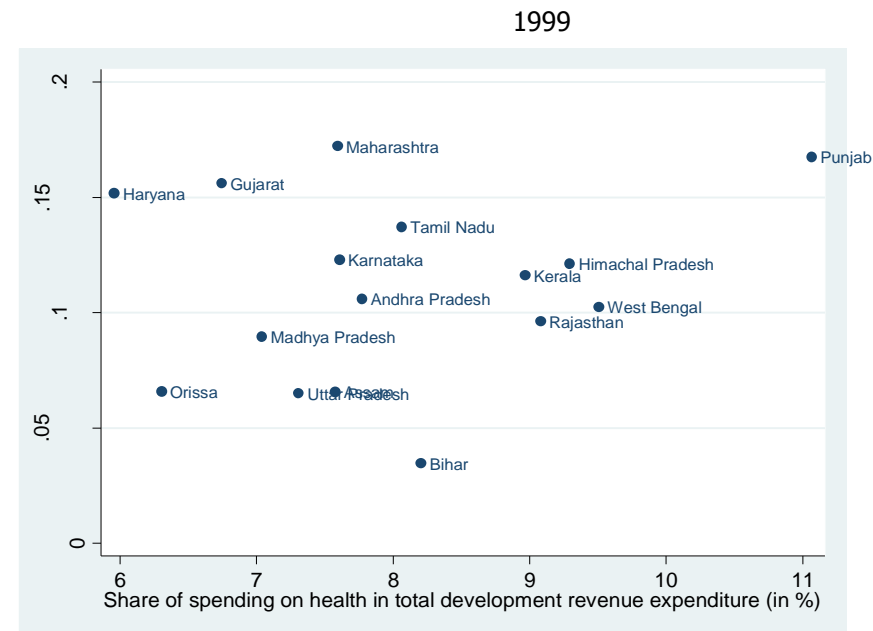
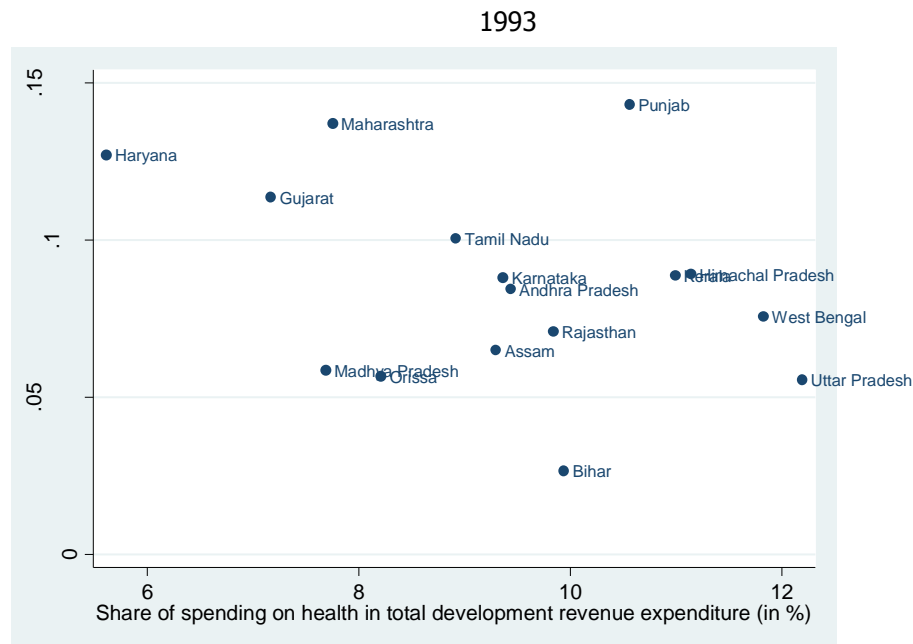
CORRELATION BETWEEN SHARE OF SPENDING ON EDUCATION IN TOTAL REVENUE EXPENDITURE AND PER CAPITA GSDP (1993, 2001) (CONSTANT 1993-94 PRICES).
(SOURCE: HANDBOOK OF STATISTICS, CENSUS, EPW DATABASE, OWN CALCULATIONS. GRAPH MADE WITH STATA)



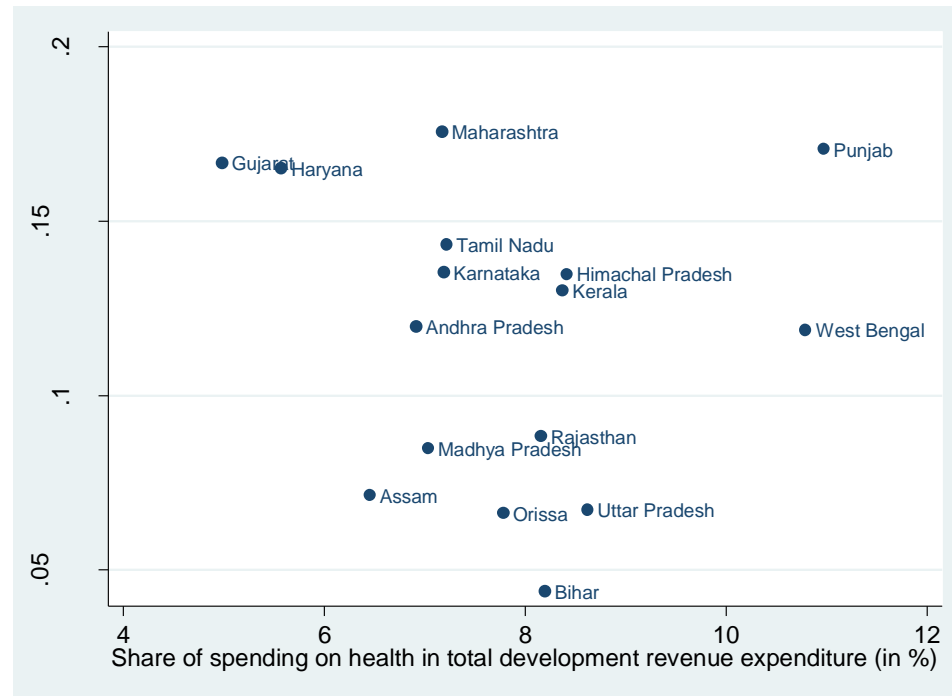
2002



CORRELATION BETWEEN SHARE OF SPENDING ON 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)



2002



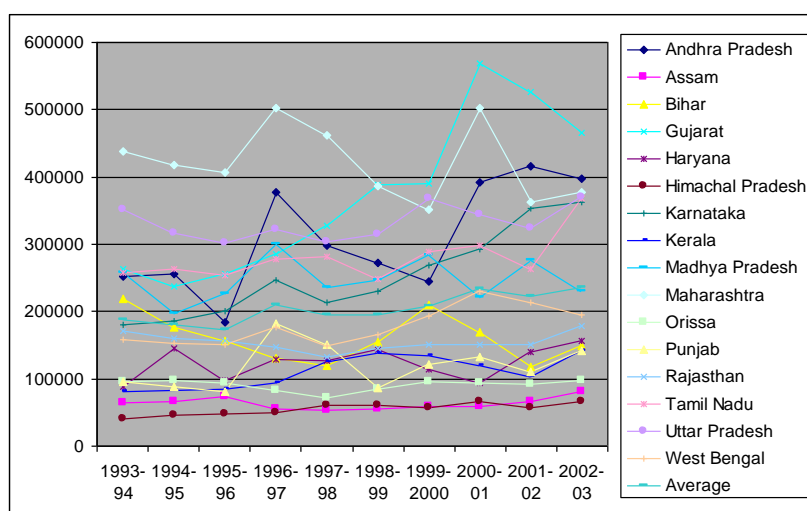
3.2.2. Economic expenditure

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

REVENUE EXPENDITURE ON ECONOMIC SERVICES (CONSTANT 1993-94 PRICES, CRORE)

(SOURCE: HANDBOOK OF STATISTICS, OWN CALCULATIONS FROM EPW DATABASE)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	Variation (%) between 1993-4 and 2002-3	Average annual growth rate (%)
Andra Pradesh	2518	2565	1847	3776	2984	2728	2445	3913	4162	3966	58%	5,2%
Assam	639	656	733	547	537	553	586	592	669	802	26%	2,6%
Bihar	2183	1770	1573	1299	1199	1555	2103	1689	1177	1486	-32%	-4,2%
Gujarat	2634	2372	2559	2847	3272	3890	3896	5691	5263	4659	77%	6,5%
Haryana	876	1457	976	1289	1265	1433	1144	936	1403	1558	78%	6,6%
Himachal Pradesh	404	464	471	499	611	614	578	672	579	664	64%	5,7%
Karnataka	1801	1868	2008	2470	2132	2298	2692	2932	3540	3621	101%	8,1%
Kerala	809	834	847	943	1251	1388	1348	1188	1028	1424	76%	6,5%
Madhya Pradesh	2575	1969	2268	3008	2357	2472	2828	2205	2762	2298	-11%	-1,3%
Maharashtra	4374	4181	4074	5017	4626	3857	3524	5022	3620	3778	-14%	-1,6%
Orissa	959	982	945	836	725	839	954	938	916	985	3%	0,3%
Punjab	964	875	808	1818	1517	870	1209	1317	1113	1412	46%	4,3%
Rajasthan	1719	1600	1565	1474	1319	1462	1511	1516	1511	1780	4%	0,4%
Tamil Nadu	2572	2631	2534	2771	2819	2482	2890	2985	2630	3678	43%	4,1%
Uttar Pradesh	3518	3172	3019	3224	3035	3143	3682	3441	3247	3698	5%	0,6%
West Bengal	1590	1534	1513	1759	1488	1649	1925	2304	2141	1960	23%	2,4%



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.

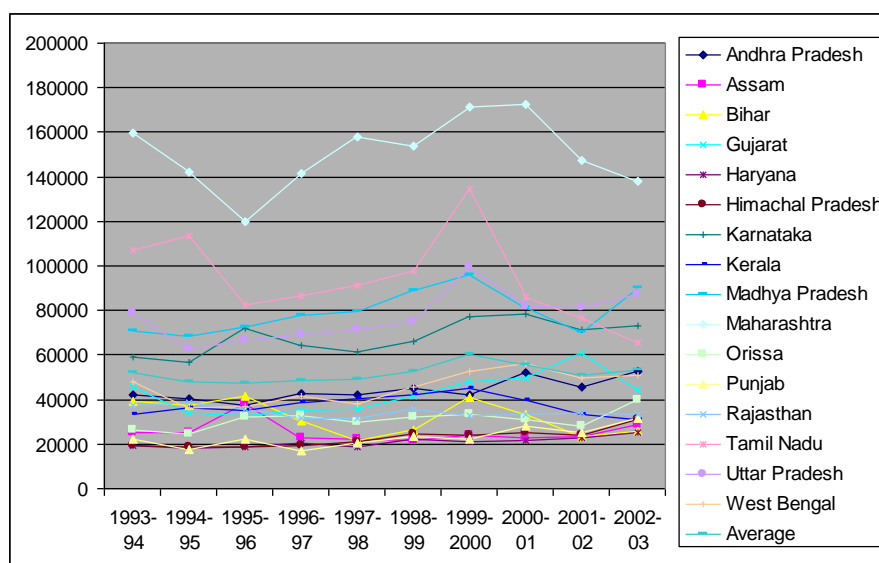
Which budget item benefited the most from this increase in spending on economic services?

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, CRORE)
(SOURCE: HANDBOOK OF STATISTICS, OWN CALCULATIONS FROM EPW DATABASE)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	Variation (%) between 1993-4 and 2002-3	Average annual growth rate (%)
Andra Pradesh	422	403	376	428	423	450	421	520	456	525	24%	2,5%
Assam	254	254	378	231	225	214	239	230	234	286	13%	1,3%
Bihar	390	377	418	305	216	266	407	335	233	258	-34%	-4,5%
Gujarat	455	337	328	348	358	413	478	496	606	446	-2%	-0,2%
Haryana	192	180	188	206	189	220	209	217	228	252	31%	3,1%
Himachal Pradesh	190	190	189	194	213	248	239	252	239	310	63%	5,6%
Karnataka	589	564	718	642	615	663	773	782	714	729	24%	2,4%
Kerala	334	365	349	383	404	423	450	397	335	313	-6%	-0,7%
Madhya Pradesh	707	683	724	780	797	890	957	812	701	902	28%	2,8%
Maharashtra	1594	1421	1197	1418	1581	1538	1715	1723	1474	1380	-13%	-1,6%
Orissa	262	244	323	327	296	322	333	311	282	396	51%	4,7%
Punjab	221	173	222	173	206	236	222	281	251	313	42%	4,0%
Rajasthan	372	388	357	316	313	355	326	335	337	335	-10%	-1,1%
Tamil Nadu	1072	1134	825	865	914	979	1346	861	768	654	-39%	-5,3%
Uttar Pradesh	791	623	665	690	715	748	993	816	810	873	10%	1,1%
West Bengal	477	365	366	414	378	456	528	562	497	511	7%	0,8%

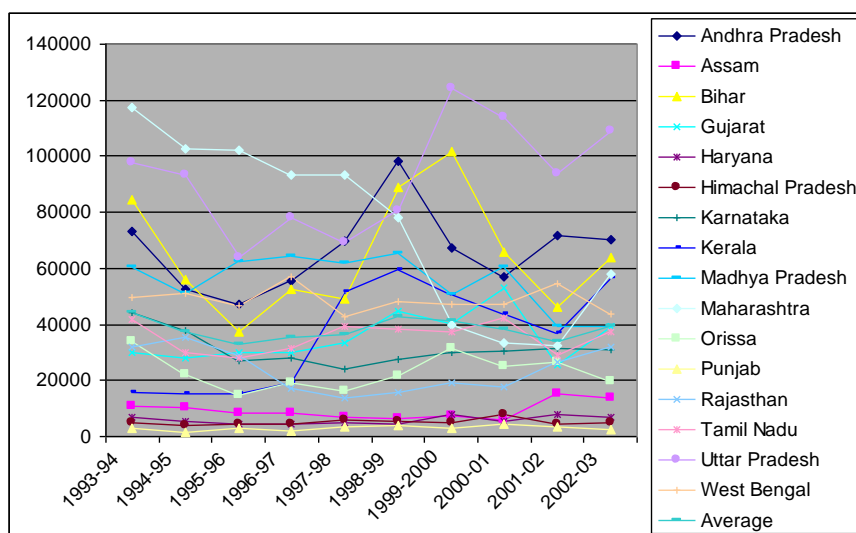


Rural development

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.

REVENUE EXPENDITURE ON RURAL DEVELOPMENT (CONSTANT 1993-94 PRICES, CRORE)
(SOURCE: HANDBOOK OF STATISTICS, OWN CALCULATIONS FROM EPW DATABASE)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	Variation (%) between 1993-4 and 2002-3	Average annual growth rate (%)
Andra Pradesh	731	525	472	557	698	983	675	571	719	704	-4%	-0,4%
Assam	110	102	81	82	67	66	75	58	151	139	27%	2,7%
Bihar	843	562	373	524	492	892	1015	656	464	640	-24%	-3,0%
Gujarat	301	281	300	302	334	445	401	533	257	395	31%	3,0%
Haryana	68	56	44	44	47	42	77	54	79	71	5%	0,5%
Himachal Pradesh	49	40	43	43	57	52	49	79	44	47	-4%	-0,4%
Karnataka	441	379	272	280	242	273	299	305	314	308	-30%	-3,9%
Kerala	160	152	150	192	515	592	507	438	370	564	254%	15,1%
Madhya Pradesh	606	510	626	642	619	652	508	604	392	394	-35%	-4,7%
Maharashtra	1173	1027	1023	931	936	783	398	333	322	580	-51%	-7,5%
Orissa	337	223	148	191	160	218	315	252	267	198	-41%	-5,8%
Punjab	30	16	31	19	34	37	31	42	37	26	-14%	-1,7%
Rajasthan	318	353	292	172	138	156	190	179	264	321	1%	0,1%
Tamil Nadu	419	298	280	314	391	382	373	423	292	374	-11%	-1,2%
Uttar Pradesh	977	933	641	780	695	803	1245	1138	939	1089	11%	1,2%
West Bengal	496	509	468	570	429	479	470	471	547	436	-12%	-1,4%

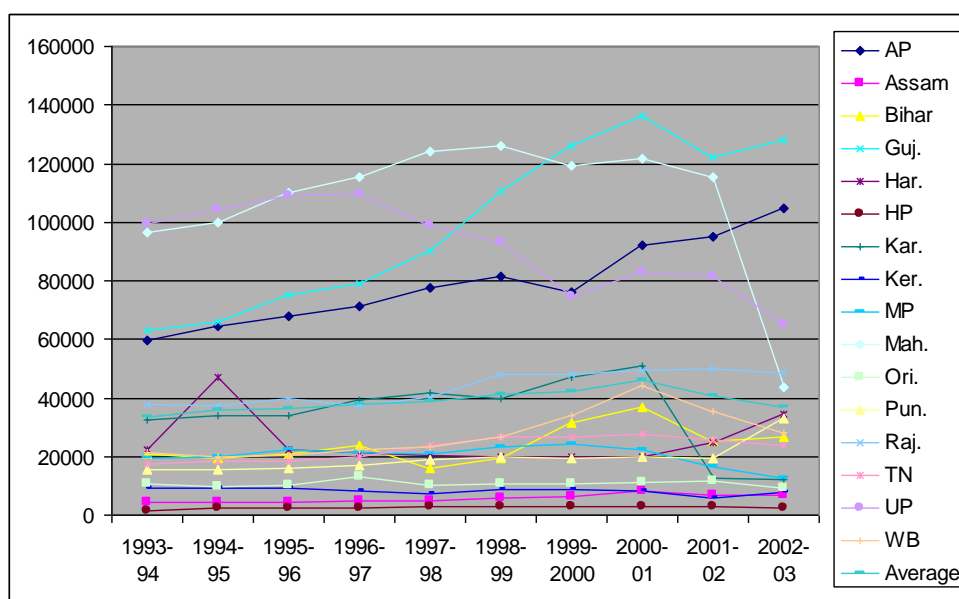


Irrigation and flood control

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).

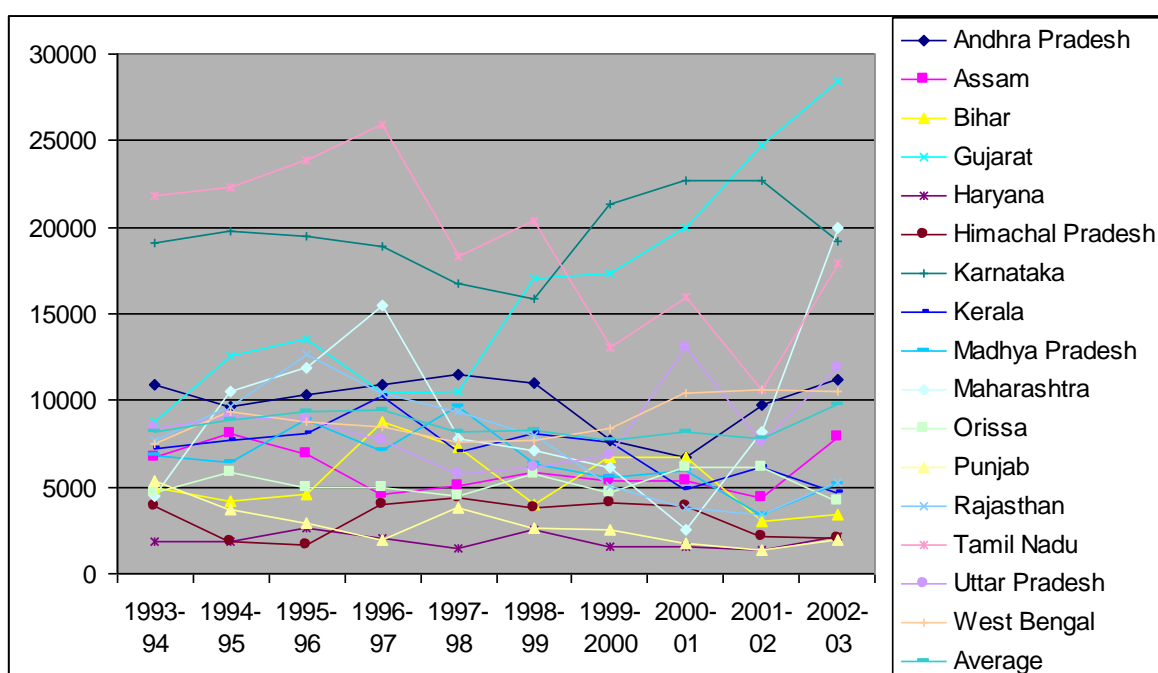
REVENUE EXPENDITURE ON IRRIGATION AND FLOOD CONTROL (CONSTANT 1993-94 PRICES, CRORE)
(SOURCE: HANDBOOK OF STATISTICS, OWN CALCULATIONS FROM EPW DATABASE)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	Variation (%) between 1993-4 and 2002-3	Average annual growth rate (%)
Andra Pradesh	597	646	681	711	776	814	760	921	949	1047	75%	6,4%
Assam	45	45	42	47	50	59	63	83	70	69	54%	4,9%
Bihar	209	196	206	236	162	196	314	366	251	268	28%	2,8%
Gujarat	630	659	753	789	899	1106	1260	1364	1222	1280	103%	8,2%
Haryana	225	471	222	212	206	199	197	197	247	345	53%	4,8%
Himachal Pradesh	16	23	23	23	27	30	29	31	27	24	51%	4,7%
Karnataka	324	338	340	391	417	398	470	511	125	121	-63%	-10,4%
Kerala	91	93	94	80	71	89	89	81	60	76	-16%	-2,0%
Madhya Pradesh	195	197	223	213	208	231	243	225	165	126	-35%	-4,7%
Maharashtra	965	998	1099	1154	1242	1259	1194	1219	1154	438	-55%	-8,4%
Orissa	107	99	99	133	101	108	106	109	116	91	-16%	-1,9%
Punjab	156	153	158	172	189	197	193	198	194	330	111%	8,7%
Rajasthan	378	375	396	371	401	481	479	492	500	485	28%	2,8%
Tamil Nadu	174	183	183	199	240	267	264	277	258	239	37%	3,6%
Uttar Pradesh	995	1044	1091	1097	991	931	746	827	812	649	-35%	-4,6%
West Bengal	211	199	203	222	234	268	341	441	355	282	33%	3,2%



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.



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.

REVENUE EXPENDITURE ON ENERGIE (CONSTANT 1993-94 PRICES, CRORE)
(SOURCE: HANDBOOK OF STATISTICS, OWN CALCULATIONS FROM EPW DATABASE)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	Variation (%) between 1993-4 and 2002-3	Average annual growth rate (%)
Andhra Pradesh	34	34	29	1720	680	39	106	1420	1381	1078	3079%	46,9%
Assam	0,44	0,40	0,40	0,09	0,38	0,03	0,08	0,07	10,00	0,13	-70%	-12,7%
Bihar	515	418	388	2	122	13	2	2	2	71	-86%	-19,8%
Gujarat	815	651	588	820	1071	1197	985	2484	2404	1734	113%	8,7%
Haryana	60	411	172	481	484	563	264	85	460	497	725%	26,4%
Himachal Pradesh	11	38	34	36	63	48	57	77	47	54	375%	18,9%
Karnataka	61	154	263	753	452	475	530	628	1532	1658	2610%	44,3%
Kerala	3	5	6	10	17	13	1	1	6	132	4981%	54,7%
Madhya Pradesh	689	207	282	982	303	311	821	275	1289	675	-2%	-0,2%
Maharashtra	26	18	19	692	19	19	23	1578	446	451	1608%	37,1%
Orissa	79	224	207	8	6	9	3	4	10	36	-54%	-8,3%
Punjab	1	1	1	1055	644	1	265	379	269	327	47262%	98,3%
Rajasthan	389	169	201	350	215	212	325	314	205	428	10%	1,1%
Tamil Nadu	5	4	4	2	1	1	2	2	21	1221	26618%	86,1%
Uttar Pradesh	85	0	28	0	0	0	0	0	212	532	528%	22,6%
West Bengal	46	47	68	126	66	34	34	92	61	32	-32%	-4,2%

Transports and communication

On average, transports and communication represent 12% of the economic revenue expenditure. In 2002-03, it went from 5% 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.

REVENUE EXPENDITURE ON IRRIGATION AND FLOOD CONTROL (CONSTANT 1993-94 PRICES, CRORE)
(SOURCE: HANDBOOK OF STATISTICS, OWN CALCULATIONS FROM EPW DATABASE)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	Variation (%) between 1993-4 and 2002-3	Average annual growth rate (%)
Andra Pradesh	163	148	142	206	233	244	309	279	349	343	110%	8,6%
Assam	116	120	107	102	98	107	113	118	113	141	21%	2,2%
Bihar	136	137	116	128	88	111	233	194	144	154	13%	1,4%
Gujarat	288	259	338	355	392	438	420	425	400	376	30%	3,0%
Haryana	296	300	304	314	314	363	365	351	359	354	20%	2,0%
Himachal Pradesh	57	103	102	109	133	133	122	155	164	166	190%	12,5%
Karnataka	136	175	163	154	173	181	233	270	337	339	149%	10,7%
Kerala	104	92	116	115	119	130	155	153	137	194	86%	7,2%
Madhya Pradesh	280	288	301	301	309	301	218	197	156	115	-59%	-9,4%
Maharashtra	490	545	554	593	688	98	20	30	45	562	15%	1,5%
Orissa	90	94	88	90	76	68	88	90	77	131	47%	4,3%
Punjab	253	248	256	253	273	284	300	281	241	237	-6%	-0,7%
Rajasthan	142	159	139	122	112	128	104	118	123	97	-32%	-4,2%
Tamil Nadu	238	238	259	279	285	229	218	171	164	200	-16%	-1,9%
Uttar Pradesh	299	247	223	228	221	208	296	342	343	363	21%	2,2%
West Bengal	175	195	208	206	175	186	279	343	319	315	80%	6,8%

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.

REVENUE EXPENDITURE ON SCIENCES, TECHNOLOGY AND ENVIRONMENT (CONSTANT 1993-94 PRICES, LAKHS)
(SOURCE: HANDBOOK OF STATISTICS, OWN CALCULATIONS FROM EPW DATABASE)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01	2001-02	2002-03	Variation (%) between 1993-4 and 2002-3	Average annual growth rate (%)
Andra Pradesh	956	213	442	258	535	607	211	213	314	48	-95%	-28,3%
Assam	236	214	249	98	39	52	57	63	86	108	-54%	-8,3%
Bihar												
Gujarat	77	64	58	90	201	225	1079	295	224	164	113%	8,8%
Haryana	222	264	353	209	150	216	195	222	200	247	11%	1,2%
Himachal Pradesh	49	54	51	94	94	99	54	115	77	101	106%	8,4%
Karnataka	219	272	462	451	222	357	491	214	201	883	303%	16,8%
Kerala	346	496	556	905	678	878	904	739	578	853	147%	10,5%
Madhya Pradesh	104	202	725	284	155	111	170	178	134	340	227%	14,1%
Maharashtra	399	651	251	229	337	379	517	582	48	438	10%	1,0%
Orissa	794	473	442	628	861	1523	805	1304	933	1183	49%	4,5%
Punjab	79	87	88	18	43	65	47	97	84	492	523%	22,5%
Rajasthan	443	420	355	289	415	368	224	228	206	197	-56%	-8,6%
Tamil Nadu	287	372	470	599	429	479	374	1046	369	216	-25%	-3,1%
Uttar Pradesh	710	503	685	576	556	456	500	605	424	403	-43%	-6,1%
West Bengal	3	3	3	3	2	3	6	103	85	70	2233%	41,9%

3.3. 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)

Average annual growth rate (%)	Development expenditure	Revenue exp. on social services	Revenue exp. on education and health	Revenue exp. on economic services	Revenue exp. on agriculture	Revenue exp. on rural development	Revenue exp. on irrigation and flood control	Revenue exp. on industry	Revenue exp. on energy	Revenue exp. on transport and communication	Revenue exp. on sciences, technology and environment
Andra Pradesh	6,0%	6,6%	6,2%	5,2%	2,5%	-0,4%	6,4%	0,3%	46,9%	8,6%	-28,3%
Assam	4,5%	5,4%	5,9%	2,6%	1,3%	2,7%	4,9%	1,9%	-12,7%	2,2%	-8,3%
Bihar	0,2%	3,2%	4,9%	-4,2%	-4,5%	-3,0%	2,8%	-4,1%	-19,8%	1,4%	NC
Gujarat	7,3%	8,1%	6,2%	6,5%	-0,2%	3,0%	8,2%	14,0%	8,7%	3,0%	8,8%
Haryana	7,2%	7,7%	7,9%	6,6%	3,1%	0,5%	4,8%	1,4%	26,4%	2,0%	1,2%
Himachal Pradesh	6,1%	6,4%	7,3%	5,7%	5,6%	-0,4%	4,7%	-6,7%	18,9%	12,5%	8,4%
Karnataka	7,0%	6,2%	6,8%	8,1%	2,4%	-3,9%	-10,4%	0,1%	44,3%	10,7%	16,8%
Kerala	4,3%	3,2%	1,8%	6,5%	-0,7%	15,1%	-2,0%	-4,8%	54,7%	7,2%	10,5%
Madhya Pradesh	1,0%	2,8%	1,9%	-1,3%	2,8%	-4,7%	-4,7%	-3,0%	-0,2%	-9,4%	14,1%
Maharashtra	4,1%	7,8%	8,0%	-1,6%	-1,6%	-7,5%	-8,4%	18,1%	37,1%	1,5%	1,0%
Orissa	4,0%	6,1%	5,2%	0,3%	4,7%	-5,8%	-1,9%	-1,3%	-8,3%	4,3%	4,5%
Punjab	6,2%	7,6%	7,5%	4,3%	4,0%	-1,7%	8,7%	-10,7%	98,3%	-0,7%	22,5%
Rajasthan	5,0%	7,7%	6,7%	0,4%	-1,1%	0,1%	2,8%	-4,1%	1,1%	-4,2%	-8,6%
Tamil Nadu	3,9%	3,8%	4,9%	4,1%	-5,3%	-1,2%	3,6%	-2,1%	86,1%	-1,9%	-3,1%
Uttar Pradesh	3,4%	5,4%	5,1%	0,6%	1,1%	1,2%	-4,6%	4,0%	22,6%	2,2%	-6,1%
West Bengal	5,5%	7,0%	6,1%	2,4%	0,8%	-1,4%	3,2%	3,7%	-4,2%	6,8%	41,9%
Average	4,7%	5,9%	5,8%	2,9%	0,9%	-0,5%	1,1%	0,4%	25,0%	2,9%	5,0%

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 education in total social sector expenditure was multiplied by...	Share of health in total social sector expenditure was multiplied by...
Andra Pradesh	0,97	0,69
Assam	1,05	0,64
Bihar	1,17	0,63
Gujarat	0,85	0,65
Haryana	1,01	0,95
Himachal Pradesh	1,08	0,74
Karnataka	1,05	0,83
Kerala	0,88	0,84
Madhya Pradesh	0,92	0,78
Maharashtra	1,02	0,67
Orissa	0,92	0,79
Punjab	1,00	0,92
Rajasthan	0,92	0,66
Tamil Nadu	1,10	0,82
Uttar Pradesh	0,98	0,59
West Bengal	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>	<i>Focus on irrigation</i>	<i>Focus on agriculture</i>
<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>	<i>Focus on energy</i>	<i>Focus on industry</i>
<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>	<i>Focus on sciences and technology</i>
<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).

4. 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 did not necessarily depend on the states' level of wealth.

Although states did not see their fiscal capacities increase during the 1990s nor during the 2000s, they made various spending choices. While some states (like Assam, Bihar or Rajasthan) increased their spending on irrigation, others saw their energy sector growing rapidly (Punjab, Tamil Nadu...) or focused on sciences and technology (Madhya Pradesh, West Bengal).

If states did not have a huge fiscal power to shape their own policies, clear and various strategies were observable through their spending. Focusing on states' fiscal capacities and spending, these results tend to illustrate the Indian states' diverging growth experiences after the reforms.

5. APPENDIX

5.1. Methodology and data used

5.1.1. 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.

5.1.2. 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.

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

Population 1991 = y

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

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

etc...

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

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

5.2. Bibliography

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