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Indirect Tax Reform and Fiscal Federalism in India

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ABSTRACT

This paper underscores the substantial spatial disparities across India and evaluates the case for putting together (various versions) of the Goods and Service Tax (GST) and also indicates the risks involved in the process. This paper argues that, on balance, there is a case for an appropriately constituted GST but that the federal transfer formula must be sensitive to any fallout from such a move. The paper also argues that there is an urgent need to review the totality of transfers from the central to state governments and local bodies. This review would include transfers through Finance Commission, Planning Commission and Centrally Sponsored Schemes. There is a compelling necessity to review and recalibrate the entire gamut (and not piecemeal) of federal relations – tax, expenditure and transfers. This is critical to ensure the stability and predictability needed to ensure that India's state driven growth blossoms and attains full fruition.

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I. Introduction

It is a time honored cliché that India is a country of immense diversity. In operational terms a well established and functioning federalism is a dire necessity for effective governance of the country. A fundamental requirement for effective governance is the establishment of a relationship of trust between all principal stakeholders in India's federal set-up: the central government, states, regions and even villages and Panchayats. This involves *inter alia* that all stakeholders be clear about their responsibilities and rights and that financial flows between these stakeholders are predictable and easily understood. This, of course, does not imply a financial straitjacket but the clear enunciation of rules and circumstances under which departures from the established norms would be undertaken. Figure 1 lays out the structure of fiscal federalism in India.

As indicated in Figure 1 the central government of India delegates some responsibilities to union territories directly controlled and administered by it and to state governments who, in turn, delegate some responsibilities, in the case of urban areas, to urban local bodies. In the case of rural areas some responsibilities are delegated to rural local government following from which there is subsequent delegation to District Panchayat and block Panchayat. Following the *Panchayati Raj* amendments to the Constitution of India there is a further delegation of responsibilities to village panchayats. Both administrative and financial powers are so delegated. The Constitution of India clearly earmarks areas the areas which fall exclusively within the

purview of (i) the Central government (the Union List), (ii) state governments (the State List), (iii) central and state governments (the Concurrent List).

Figure 1 about here.

This complex delegation of responsibilities has been altered several times since the institution of the Constitution. In any event the Constitution permits the central government to bypass state and local governments in the implementation of programs such as centrally sponsored schemes.

Against the background of fundamental indirect tax reform (the proposed implementation of the Goods and Services Tax, GST) this paper attempts a broad overview of the current status of Indian federal fiscal relations, particularly with respect to central and state governmental relations and is organized as follows. Section II gives a broad overview of economic disparity across various states of India and discusses the rationale for and modalities of transfers from the central to state governments. Section III overviews the evolution of Finance Commissions (FC) with a particular emphasis on the issues of the integration of the indirect tax structure through the introduction of a Goods and Services Tax (GST). Section IV overviews the structure of central transfers to state governments through FC, Planning Commission (PC) and Centrally Sponsored Schemes (CSS) and issue arising therefrom. Section V discusses transfers to Panchayati Raj Institutions (PRI) and local bodies. Section VI concludes.

I. Economic Disparity across Indian States

Although there are considerable linguistic, political and cultural variations across states our focus in this paper is on economic disparities. Table 1 provides summary statistics (mean, standard deviation and coefficient of variation) of real per capita net state Domestic Product (PCNSDP)

for Indian states. Different base years are used for various blocks of years imply that only the CV is comparable for the entire period 1980-81 to 2010-11, but the mean and SD are comparable within every block of years. All three series as plotted in Figure 2 show a distinct upward trend. What is of concern is the distinct upward trend of the CV, the only variable that is comparable throughout the period.

Table 1 and Figure 2 here.

Details of the three series are not included here in order to save space but, suffice it to say that there is considerable persistence in the ranking of states according to real PCNSDP. Hence, Bihar has the lowest real PCNSDP for every year. Uttar Pradesh, Rajasthan and Orissa are also nearly always close to the bottom of this ranking along with some North-eastern states such as Assam and Tripura. Delhi, Goa, Chandigarh, Punjab and Haryana are almost at the top of the rankings. Hence, economic disparity across Indian states seems well entrenched.

Table 2 and Figure 3 show the extent of the gap in respect of real PCNSDP across states. Three measures of such gaps are reported: (i) the gap between real PCNSDP of richest and poorest state as percentage of mean real PCNSDP across all states (G1); (ii) the gap between real PCNSDP of richest and poorest state as percentage of real PCNSDP of poorest state (G2); and the gap between real PCNSDP of richest and poorest state as percentage of real PC NSDP of richest state (G3). These magnitudes are quite large with G2 rising to more than 900 per cent in 2005-06 before tapering off slightly. As expected, G3 is uniformly lower with G1 in between G2 and G3. It is also worth noting that G2 has accelerated after the onset of the reforms in the early 1990a. Thus, not only are the gaps between states' real PCNSDP entrenched these gaps, if anything, have grown over time, with only a mild downturn in very recent times.

Figure 3 here.

Table 3 shows that inequality and its persistence across states extends to more comprehensive indicators of human development (such as HDI) than income.[1]

Table 3 here.

Sharp differences in the performance of Indian states with respect to private investment and Foreign Direct Investment (FDI) inflows are both cause and effect of the persistence of economic inequality across Indian states. Using Annual Survey of Industries data Table 4 provides details of private investment in manufacturing in 20 major Indian states for two time periods 1993-99 and 2000-07. States with high economic performance (such as Maharashtra and Gujarat) do well whereas states such as Bihar and Assam are lagging. Mallick (2012) indicates that economic conditions in the states have had a significant effect on private investment.

Table 4 here.

Further, as Table 5 indicates and as would be expected Foreign Direct Investment (FDI) flows into Indian states are also highly correlated with economic performance.

Table 5 here.

The 2009 World Development Report (World Bank, 2009) entitled "Spatial Disparities and Development Policy", demonstrates that economic activity and growth is spatially concentrated in many developing countries due to agglomeration benefits deriving from networks,

[1] In a similar vein Jha and Sharma (2013a) have reported rising inequality using household data for the period 1993-94 to 2009-10.

technological change and human capital externalities. India does not appear to be an exception to this rule. This report argues that countries should embrace this development rather than insist on geographically balanced growth. However, the report further argues that policy makers should explore opportunities to ensure that the benefits from such spatially concentrated growth are distributed broadly across the population. A well designed fiscal transfer mechanism that is also spatially redistributive in nature would go a considerable distance in achieving this.

Against this background it is pertinent to inquire into the capacity of Indian states, particularly the less developed among them, to sustain high rates of economic growth. In particular, the fiscal capacity of these states to support high rates of economic growth is critical; hence their fiscal position becomes pertinent. Table 6 shows the deficit/debt positions of various state governments and the central government. Relatively less well-off states such as Bihar, UP, Rajasthan and West Bengal consistently have debt/GDP ratios in excess of 40 per cent. Whereas debt levels of all states hover around 20 to 25 per cent and that of the centre and states is in excess of 70 per cent.[2] Fiscal deficits of centre and states alone is in excess of 7 per cent and in each of the post-crisis years 2008-09 to 2011-12 both the central and the state governments were running primary deficits with the combined primary deficit in 2011-12 being in the vicinity of 3 per cent of GDP. Table 7 indicates the fiscal deficit and revenue deficit of individual states. Both remain quite significant for most states, particularly the less advantaged states.

Tables 6 and 7 here.

[2] Until very recent times much of this debt has been in the nature of internal debt with long term maturity. Nevertheless, there are good reasons to be concerned about India's debt situation (Asher, 2012).

Together Tables 6 and 7 reveal that debt/deficit positions of central and state governments are concerning. In particular, it is important to note that these deficits are entrenched and, at the state level, structural in nature with poorer states having persistently high debt ratios. Hence, any tax reform that involves both the state and the central governments, such as the proposed extension of the Value Added Tax (VAT) to a harmonized Goods and Services Tax (GST), should recognize the fact that the ensuing changes in state revenue positions may persist for a considerable time.

II. The Goods and Services Tax and the Role of The Finance Commission

In a deservedly celebrated report Amaresh Bagchi (Bagchi, 2002) had described India's indirect tax structure prior to 2005 as "archaic, irrational, and complex – according to knowledgeable experts, the most complex in the world". In essence the commodity tax structure involved states imposing sales taxes (at different rates) at the first point of sale within their jurisdiction.

Indirect tax reform has always been constrained by provisions of the Constitution of India which do not allow either the central government or state governments the authority to levy taxes on a comprehensive base of all goods and services and at all stages of production and supply. The Central government is not permitted to tax goods beyond the point of manufacturing whereas the states are not permitted to tax services. All indirect tax reform in India must operate within these constitutional constraints.

Notwithstanding these constraints and in perhaps the most significant indirect tax reform in independent India in 2005 a state level VAT on goods was instituted. Unlike Sales tax, VAT is an intra-state multi-point tax system and is levied on the value added at each stage. Under the VAT regime, the VAT paid by registered persons on goods (including capital goods) purchased

from within the state is available for input tax credit. The input tax credit can be used to offset periodic liability either under VAT or the Central Sales Tax (CST). This ensures that the cascading effect of taxes is avoided and that only the value addition is taxed. Currently, there is no VAT on imports into India and exports are zero-rated. This means that while exports are not charged with VAT, VAT charged on inputs purchased and used in the manufacture of export goods or goods purchased for export, is available to the purchaser as a refund. State VAT is charged at varying rates. For example:0% on natural produce and essentials; 1% on bullion;4% /5% on industrial inputs; and 20% on alcohol. Goods other than those covered under the above rates are charged at a general rate ranging from 12.5% to 15%.

In addition there is a service tax on specified taxable service. This classifies about 114 services as taxable. The current rate is 12 per cent. Further, there is an education cess of 3 per cent which makes the effective rate of tax 12.36 per cent. Service providers can claim credit for certain specified taxes, e.g., service tax, excise tax, a portion of the customs duty paid on capital goods. It is expected that the structure of this tax will go through a radical overhaul with the implementation of the proposed negative list of services. It is proposed that all services except those specified in the negative list will be exempt from service taxation.

The CST, is an origin-based tax which makes it inconsistent with the VAT which is a destination-based tax. As such it has been proposed to merge the CST with the VAT in the proposed harmonized Goods and Service Tax (GST). In recent times the CST was reduced from 4 per cent to 3 per cent and has been 2 per cent since June 2008. The entire revenue accruing under levy of CST is collected and kept by the State in which the sale originates. The CST Act excludes taxation of imports and exports.

The Central government introduced and took responsibility for a Service Tax with the stipulation that the base for this tax would be expanded considerably. An additional element of the tax reform involved rationalization of the Central Value Added Tax (CENVAT) with a reduction of the number of rates and replacing several specific taxes with *ad valorem* taxes and a new system of CENVAT credits.

CENVAT is an (excise) tax levied at an *ad valorem* rate (expressed as a percentage of the transaction value or the maximum retail price of the good) on the manufacture or production of movable and marketable goods in India. Manufacturers are permitted to claim input tax credit of specified taxes, i.e. service tax, excise duty, a portion of the Customs duty, etc., paid on capital goods, inputs and services procured and used in the manufacture of dutiable goods.

The rationalization of the VAT rate structure across states meant that harmful tax competition among them has been reduced. Further, this move eased the cascading of taxes. Application of CENVAT has resulted in a reduction in the number of disputes about classification and in tax cascading as well as making the tax more neutral.

In operational terms, however, not all the benefits associated with these reforms could be realized. Thus, although the base of the service tax has been expanded services have themselves been classified into a large number of categories with consequent disagreement about the scope of each such category. This disagreement has been compounded by a large expansion in the number and scope of services in recent years and, in contrast to manufactured goods, the absence of a nomenclature for services. As indicated above, states are precluded from taxing services.

In the case of the CENVAT Poddar and Ahmad (2009) argue, manufacturing has a narrow base in India and there are issues with respect to what constitutes manufacturing and their valuation. Further, the burden of the tax depends on where in the supply chain it is levied relative to value added after that point..[3]

A major difficulty with the existing delegation of tax authority between central and state governments with the state governments forbidden from taxing services is that the traditional distinction between goods and services and the separation of the powers of states and the centre to tax these has now been rendered archaic. Telecommunication services, for example, involve mobile phones which could be considered goods. A number of similar examples exist and underscore the importance of integrating manufacturing and services into an integrated GST. Thus, an artificial distinction between goods and services appears archaic.

Further, the fact that states cannot tax services (and services remain the most rapidly growing sector of the economy) means that their tax revenues are less buoyant even when economic growth accelerates. This would be a matter of concern in light of the debt and deficit burdens of states that I have commented on earlier. Indeed, under current constitutional demarcation of taxation authority state level fiscal deficits would appear to be structural, implying that the fear of states about lost revenue in the aftermath of tax reform, particularly commodity tax reform, is a matter of genuine concern.

[3] Countries such as Australia which are not encumbered by such constitutional restrictions have replaced a tax on manufacturing level by a GST and extending this to the retail level. However, constitutional provisions preclude this policy in India.

A further drawback of the current tax structure is that the partial coverage of both state and central taxes leads to cascading of both central and state taxes. Thus, several sectors such as oil and gas production, mining, agriculture, wholesale and retail trade and several services are not subject to CENVAT or the Central service tax. However, although these sectors still pay both CENVAT and CST on their inputs, they are not permitted to claim any credit for these tax payments. This naturally creates a cost disadvantage for these sectors not just locally but also in international transactions.

A similar logic is extended to state VAT where sectors exempt from state taxes are not allowed any deductions for taxes paid on inputs. Such sectors include the entire service sector, real estate, agriculture, oil, gas production and mining.

Another major distortion results from the fact that no deductions are allowed for CST on interstate sales by any level of government.[4] The multiplicity of rates and the irrational structure of exemptions and levies in the case of both CENVAT and CST contribute to cascading and exacerbation of cost disadvantage for Indian producers (Thirteenth Finance Commission 2009).

Problems with the existing structure of VAT include the classification of goods and assignment of goods to different tax schedules. The complexities under the State VAT relate primarily to classification of goods to different tax rate schedules. Partly as a consequence of this both central and state tax administrations are severely inadequate which increases the cost of compliance and reduces revenue collection with serious impacts of the fiscal deficits at both central and state levels.

Any proposed reform of the indirect tax structure should address these issues. Apart from being efficient and simple to administer, indirect taxes should be neutral in their application, progressive in

[4] Estimates of the extent of cascading in the case of India do not exist. However, estimates for Canada's retail sales tax (similar to India's State VAT) indicate that cascading could be as high as 35 to 40 per cent of tax revenue. This is partly due to the fact that most of such taxes are applied to business to business transactions.

distribution, and prevent leakages from the system. The tax structure should raise enough revenue for both central and state governments and there should be clear, predictable rules for both central and state taxation as well as vertical transfer of funds from the central to the state governments. Sustained practice of tax reform and fiscal federalism along these lines would engender trust between different levels of government and make India's economy and society more resilient to shocks and better able to capitalize on incipient opportunities.

The need for large and buoyant indirect tax revenues would indicate that the base of this tax should be large and should comprise all or almost all items in the consumer basket including goods, services, real estate and the like. Some particular considerations arise from the fact that this tax base is to be shared between the central and state governments. First, goods and services that are close substitutes should not be taxed at very different rates in any part of the country. Second, efficiency and neutrality would require that irrespective of the supply chain management and distribution the tax on a good/service should be a uniform percentage of the of its final retail price. Cascading of taxes should be avoided by ensuring that all taxes paid on inputs are creditable. Further, all the tax revenue should accrue to the jurisdiction where final consumption occurs, i.e., taxation should follow the destination principle.

These principles indicate the implementation of a destination-based GST. Clearly multiple tax rates (particularly if these vary across jurisdictions) will go against the canons of simplicity and neutrality of the tax structure.

If the representative consumer's utility function is weakly separable between leisure and consumption goods then a flat tax on consumption goods approximates a lump-sum tax and is, therefore, efficient (for an elaboration see Jha, 2009). However, such taxes will be regressive. Many

countries such as New Zealand, Singapore and Japan have chosen to apply the GST at a low flat rate and address the accompanying redistributive issues through direct taxes and transfers.

In any reform of the indirect tax structure simplification of tax administration and ease of compliance are critical. The first critical factor for attaining these is the design of the tax itself. A GST levied at a single rate on a very broad base with very exceptions would minimize record keeping, permit easy enforcement and encourage voluntary compliance.

The extant literature has discussed three approaches to the design of such a tax, viz., (i) Concurrent Dual GST, (ii) National GST, (iii) State level GST (Rangarajan and Srivastava, 2008). All these three models would require amendments to the Constitution. The national GST would closely approximate the Australian case. In this model the entire GST would be collected by the Central government with the result that India would become a unified common market. That would be its major advantage. It major disadvantage would be that the current constitutional authority of states to impose sales taxes would disappear and states would become overly dependent upon the central government for revenues (disbursements from the GST collected by the central government), i.e., a large vertical imbalance would be created. .

The model for concurrent central and state GST has two variants. In the first version both the central and state governments would levy a GST on goods but the central government alone would impose a GST on services. The central GST would therefore apply to all goods and services whereas the state would GST would largely be confined to goods. A more recent version of this variant of GST (Kelkar Committee Report, 2012) would have both state and central governments impose GST on goods and services. Taxation would follow the destination principle but since the destination of many inter-state taxation is hard to determine the state GST on services would be collected by the central government and then distributed among the states in some manner. State and central

governments would cooperate in the levying and administration of the GST. This is the version being favored by policymakers.

A third version is the state level VAT is the other extreme from the national GST. The GST is levied exclusively by the state governments (whence vertical imbalances will be sharply reduced) but the central government's power to make equalizing transfers will be reduced (whence horizontal imbalances will be exaggerated) unless it can fall back upon a separate excise tax. The USA is the prime example of a country following this rule where the general sales tax is relegated to the states within the USA. Cascading is eliminated within this arrangement as the states would agree to provide input credit for taxes levied by the centre and the central government would provide input credits for taxes collected by the states. In this case the central government could face revenue shortfalls some of which could be neutralized through reduction in central transfers to states. Although this arrangement would lower horizontal imbalances it could widen horizontal imbalances since the better off states would be able to collect more revenue (per capita or per unit of GDP) and hence be better off. Furthermore, the central government would be needed for coordinating state taxes, a role it could play better if it is actively involved in the taxation process.

Clearly one of the principal reasons for the difference between the two variants is uncertainty about how to define the destination of inter-state services. It is presumed that state taxes on inter-state services will be collected by the centre and apportioned among states in some manner.

Yet another proposal would have the states collecting all the state GSTs and even the central GST (under the CENVAT) and returning the latter to the central government. Tax returns would be filled out in duplicate with one copy given to the state government concerned and the second to the central government. Thus, a consistent cross-check would be applied. This model has some distinct advantages. By enabling both levels of governments to tax a comprehensive base of goods and

service it strikes a balance between the fiscal autonomy of the central and state governments. It allows a ready base for incorporation of other goods and services taxes into the GST and eliminates cascading. and empowers both levels of governments to tax a comprehensive base of goods and services.

Nevertheless, there are several caveats to be considered. First, all these arrangements (including the provision of inter-state services) pertain to the formal sector of the economy whereas the Indian economy has a large, even dominant, informal sector. In many cases of inter-state supply, e.g., group health insurance or business to business transactions, destination points are hard to identify. It is also unclear how the treatment of land and property sales and services would be treated.

A single national VAT would be ideal for the establishment of a common market in India and would eliminate cascading but may not be acceptable to states as they would become too dependent on the central government for their revenue and lose flexibility over their tax sources. States may also have the apprehension that the formula for disbursements of central revenues to states may become prone to political influences and wheeling-dealing. Indian federalism could lose its vitality.

The logic of the GST requires that it be imposed on a comprehensive tax base of all goods and services and at a single rate. However, governments often violate these principles. In Australia, for example, food is exempt from GST. While such exemptions are often granted on the basis of redistributive arguments they create complications for tax administration and can have spillover effects benefiting the rich – although the poor spend a larger proportion of their incomes on food, the rich spend larger amounts and would, hence, benefit more in absolute terms. Redistributive concerns are better addressed through direct taxation and public spending programs. In this context there is considerable scope for improving and revitalizing the Targeted Public Distribution System (see Jha et. al. 2013b).

However, the current debate in India has argued for a dual GST – one for the centre and the second for the states. Under this arrangement tax harmonization between the states and the central government and across state governments becomes important. Whereas the first issue has been much discussed there is need to take cognizance of and address the second issue as well.

Harmonization, itself, is an amalgam of three factors: tax rate, tax base and the tax administration and compliance system. The first two elements would clearly be of considerable interest to the states and have been discussed earlier. In both the central and the state governments administration and compliance are the most important element of tax harmonization. This involves registration of taxpayers, automation of services, ensuring that the size of the informal economy is minimized and adequate IR systems (especially cross-border IT systems).

India's CST provides a good example of tax harmonization. It is a state-level tax on inter-states sales of goods based on the origin principle. Although it is a central tax its proceeds are collected and kept by the states.

The institution of a GST in India in any form requires a paradigm change and, hence, a substantial re-alignment of the taxation powers of the states and the centre (Rao, 2008). Indeed such paradigm change is long overdue even in cases such as the personal income tax. Separation of tax powers between centre and state governments based on whether the income is non-agricultural or agricultural has been a major source of tax evasion in India, especially because agricultural income is not covered under the income tax and the agricultural sector itself is being rapidly transformed into business.

The (latest) Thirteenth Finance Commission (with validity between 2010-2015) argued the case for a "grand bargain" among the central and state governments in the implementation of the GST. This model GST would be entirely consumption based and not distinguish between goods and services. It

would be applied at a positive rate on all goods and services with exports being zero rated. The central GST would subsume all of the following (i) central excise duty and additional excise duty, (ii) service tax, (iii) additional customs duty, and iv) all surcharges and cesses. The state GST would include the VAT, central sales tax, entry tax (octroi), luxury tax, taxes on lotteries and gambling, entertainment tax purchase tax, state excise duties, stamp duty, taxes on vehicles, tax on goods and passengers, taxes on duties and electricity, all state level cesses and surcharges. (Report of the Thirteenth Finance Commission, 2009). The Commission also argued against all exemptions and the zero rating of all inter-state transactions (no tax on inter-state transactions). The tax would be collected by the consuming state consistent with the destination principle (Thirteenth Finance Commission Report, page 68).

Using the Report of the Thirteenth Finance Commission as a part of departure an empowered Committee of the Union Ministry of Finance and State Finance Ministers has considered various proposals for the GST. However, implementation of the GST has been put off several times but there is common agreement between the central government and all state governments that it will ultimately be the law. Two principal issues seem to be deterring the enthusiasm of the state governments for this tax. First, is the states' apprehension that they will lose control and flexibility over their tax and, therefore, revenue structures. Second, and more importantly, in an economy such as India's with a large unorganized sector the implementation of a tax such as the GST may lead to considerable amounts of potential activity going underground.[5] This may lead to a sharp drop in states' revenue. The Empowered Committee has recommended compensating states for any revenue losses for a limited time period after the implementation of the GST. However, as we have seen, the fiscal deficits of many (particularly less well off states) are structural. Hence, shortfalls in revenue may persist. If that is the case then state governments may have to increase their public expenditure

[5] See Emran and Stiglitz (2005) for a lucid discussion of this point.

to attract votes, thus increasing their fiscal deficits. This will, in turn, place additional demands on transfers from the central to the state government and exacerbate pressures on the central government's fiscal deficit.

Hence, whereas the efficiency case for switching over to a GST regime is strong there are several operational caveats to be considered. The fiscal federalism structure of the country needs to be sensitive to such concerns and, in particular, needs to look beyond and modify the formulae determining transfers from the central to state governments.

III. Structure of Transfers from the Central Government to State Governments

Central assistance to state governments occurs through three major channels: (i) Finance Commission Transfers, (ii) Planning Commission Transfers, and (iii) Centrally Sponsored Schemes. The FC is a Constitutional Body, set up every five years to advise the Government of India on the sharing of central taxes, is the principal means of federal transfers. The FC is answerable to the Parliament.

PC transfers are meant to augment productive capacity and work towards reducing inter-state disparities in economic outcome. The PC is not accountable to Parliament. The PC was set up through an executive order and its discretionary mandate was expanded in 1970s and this involved some dilution of the Finance Commission's constitutional mandate. Among the 28 states of India PC transfers distinguish between special and general category states. The special category states are i) Arunachal Pradesh, ii) Assam, iii) Himachal Pradesh, iv) Jammu and Kashmir, v) Manipur, vi) Meghalaya, vii) Mizoram, viii) Nagaland, ix) Sikkim, x) Tripura, and xi) Uttaranchal. These states have the common characteristics that they are remote (typically these are border states) and would have low potential GDP growth without the help of the

Central government. Finally, there are a number of Centrally Sponsored Schemes which are carried out under the auspices of the central government.

Finance Commission Transfers

One of the principal reasons for FC transfers in a federal country is that in the absence of such transfers horizontal equity across states will be compromised. The basic argument in favor of this was put forward by Buchanan (195) and Boadway and Flatters (1982). Thus, income taxes levied by the central government cannot ensure horizontal equity across states since they ignore that redistributive effects of States' fiscal operations. Further, in a country with regional inequality federal transfers will be necessary to ensure broad equality of access to public goods in various parts of the country. Thus, there is a clear rationale for FC transfers.

With respect to the FC transfers the first issue to be considered is the share of central government tax collections and grants in state governments' revenue. Table 8 shows that between 1984-89 and 2009-10 this share first rose (peaking during the period of the 10th Finance Commission, i.e., 1995-2000) and then tapered off to a value, in 2009-10, just above that during 1984-89 but lower than the mean value for the entire period. However, this share has remained broadly unchanged with a coefficient of variation between 1984-89 and 2009-10 of just 0.05. The share of grants in states' total revenue from the centre more than doubled between 1984-89 and 2005-06 (the first year of the 12th FC) before tapering off. However, this value in 2009-10 was substantially higher than during 1984-89 and the mean value for the entire period. As a result, the coefficient of variation of grants over this time period is much higher compared to that of states' revenue from taxes shared (0.26 compared to 0.05). The share of total FC transfers in total central transfers to states hovers around the 2/3 mark. This share rose from 1984-89 (value 60.13) per cent to 2005-

06 (value 71.94 per cent) and then fell. Its value in 2009-10 was higher than that in 1984-89 but below the mean value for the entire period. The coefficient of variation over this period was low at 0.06.

Table 8 here.

The Thirteenth Finance Commission has noted that states have been asking for augmentation of their share in central taxes.[6] Table 9 reveals that over the period 1984-89 to 2009-10 the share of states in central taxes rose to a peak in 2008-09 and then fell, although the latter figure was marginally higher than its value during 1984-89 but lower than the mean for the period 1984-89 to 2009-10. The coefficient of variation over the period was only 0.03. Hence, there is considerable stability in the share of central taxes going to states.[7] Outright grants peaked in 2005-06, its value in 2009-10 was higher than that in 1984-89 and the average for the period and the coefficient of variation over the period 1984-89 to 2009-10 was much higher than that of states' share in central taxes (0.26 compared to 0.05). Total FC transfers represent about a ¼ of central government revenue with a low coefficient of variation (0.05) over the entire period. The share peaked in 2005-06 and then fell to a value, in 2009-10, higher than that in 1984-89 and the mean for the entire period.

Table 9 here.

Tables 8 and 9 lead to some interesting conclusions. The share of central taxes going to states as well states' share in central taxes has remained relatively stable over a 25 year period. Grants,

[6] Although proceeds from most central taxes are included in the pool that is distributed to states revenue from central government cesses (such as the education cess) is not included. The Thirteenth Finance Commission Report , for instance, provides detailed justification for this omission. This practice goes back to the days before the tenth FC when revenue from some taxes were not shared with central governments.
[7] Indeed reports of various Finance Commissions have emphasized the importance of stability in FC transfers.

although marginal in comparison to share in central taxes, are playing a larger role in fiscal transfers. Indeed various Finance Commission reports have advocated the need for stability in central government transfers to states.

This stability, particularly in FC transfers, is all the more surprising since the criteria for FC transfers to states has changed considerably over time. Table 10 depicts the criteria for federal transfers in the last three FCs.

Table 10 here.

The first argument in the transfer function, the population of the state in the 1971 Census of India, clearly needs to be updated in view of major changes in state population growth since 1971. The weight of population has ranged from 10 per cent in the 11th FC to 25 per cent in the 12th and 13th FCs.

The second argument in the transfer function is Income Distance as a proxy for the fiscal capacity of individual states. The 12th FC measured this by applying a single average tax/GSDP ratio to individual state per capita GSDPs to measure the fiscal capacity distance between states. This argument was substituted for in the 13th FC by a fiscal capacity distance computed as follows. First, three year average per capita GSDPs were worked out for individual states for the years 2004-05 to 2006-07. Second, average tax to comparable GSDP ratio was computed as a weighted mean separately for general category and special category states. These averages are then applied to all states in each of the two categories. This enables one to calculate the potential per capita tax revenue in each state available at the average tax to GSDP ratio. Fiscal distance is

obtained for each state as the difference between the potential per capita tax revenue of that state and that of Haryana, the state with the highest per capita tax revenue after Goa.

Another argument in the transfer function (index of fiscal discipline) is arrived at by relating improvement in ratio of a state's own revenue receipts relative to its total revenue expenditure compared to average ratio across all states. The "area" criterion got a weight of 10 per cent. Small states with less than 2 per cent share in total area of the country were deemed to have an area of 2 per cent.

Infrastructure index, tax effort and income distance were not used as elements of the fiscal transfer function in the 13th FC. It can be argued that the omission of the income distance measure is not a major omission since a proxy is incorporated in the Gadgil-Mukherjee formula for disbursements by the PC. The omission of the infrastructure index and tax effort is an issue of concern since these factors certainly affect the tax collected by states.[8]

Planning Commission Transfers

India's planning heritage goes back to the First Five Year plan (1951-56) and for a long while, at least until the economic reforms of 1991, planned economic development was a key element of India's economic strategy. The "socialistic" pattern of economic development was ingrained in the Second Five Year Plan. The 11th Five Year Plan completed its term in March 2012 and currently the country is going through the 12th Five Year Plan. (2012-2017).

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[8] There is the further issue of whether the infrastructure index and tax effort, as computed and used by earlier FCs, are meaningful indicators of tax effort (Jha et.al. 1999) and the availability of infrastructure.

Table 11 gives the evolution of the formula (known as the Gadgil-Mukherjee formula) for disbursements of PC assistance to states. These transfers are heavily geared towards redistribution to less well off states. Figure 4 gives details of variation of real PCNSDP and its mean value for the 11 special category states and 17 general category states.

Figure 4 here.

The Special Category States are supposed to receive a pre-determined share (30 per cent). The dominant factor in the division of the rest of the funds among the states is population. Per capita income is the next most significant argument with a quarter of this weightage arising from the "distance" argument already discussed. The performance of states with respect to national priorities such as population control, elimination of illiteracy, on time completion of externally aided projects, and tax effort each get a weight of 2.5 per cent in the latest version of the formula whereas special problems of states get a weight of 7.5 per cent.

Table 11 here.

Tables 8 and 9 provide information on transfers through Plan and non-plan grants in comparison to those from the FC for the period 1984-89 to 2009-10. Plan grants constitute typically more than 50 per cent of transfers through FC grants. Non-plan grants are slightly above 10 per cent of plan grants.

Table 12 indicates some basic characteristics of PC grants (in nominal and real terms) to State governments. It distinguishes between the 11 special category states and the 17 general category states. RSD11 (the standard deviation of real transfers to special category states) has more than doubled during the period 2002-03 to 2012-13 and Rtotal11 (the total of real transfers to 11

special category states) has gone up by about 2.5 times over the same period. RSD17 (the standard deviation of real transfers to general category states) has, however, shown no real trend. It fell between 2002-03 and 2007-08 and rose thereafter. What is worth noting is that Rtotal17 (the total of real transfers to 17 general category states) has actually fallen over this period. There is a rise in Rtotal28 (the total of real transfers to all 28 states) but this is accounted for by the increase to special category states. The share of general category states in total transfers has fallen steadily from 80.90 per cent in 2002-03 to 62.71 per cent in 2012-13.[9]

Table 12 here.

The Gadgil-Mukherjee formula has been widely criticized for the following reasons. (i) The designation of 30 per cent of the funds to the Special Category states has no explicit rationale. This division was initially meant to cover revenue expenditure on plans and has long since become irrelevant. (ii) Further, shares of transfers based on tax effort are unscaled for size of state. Thus if a large state and a small state have the same tax effort they will receive the same absolute transfer so that the per capita transfer to the small state will be very large in comparison to that for the large state. (iii) There is considerable arbitrariness in the allocation of funds to individual special category states from the 30 per cent share allocated to them. (iv) The formula does not monitor costs and benefits of programs already executed in states so that performance in plan expenditure has no impact on the transfer formula used by the PC (Rajaraman, 2007).

Further, there are several issues related to the interaction of transfers through FC and PC. Transfers through FC and PC follow different rules and are uncoordinated. Whereas FC is

[9] It is hardly surprising, therefore, that there is a clamor among some relatively less well-off states, such as Bihar, to have the criteria for special category state tweaked in order to gain entry.

answerable to the Parliament, PC is not. This is an inefficiency in the system of transfers. Not only is the coordination of current transfers through FC and PC important but there are intertemporal issues to be considered as well since any plan transfer generates three major liabilities for periods beyond the Plan: interest payments on funds borrowed for financing the Plan, maintenance of assets created during the Plan, and salaries of people employed in Plan schemes who remain in government employment after the plan has ended. To service these liabilities after the Plan is over states often look to the FC. This then generates dependence over time between PC and FC which the current structure of transfers does not recognize. The FC is interested only in the non-Plan revenue expenditures whereas the PC only looks at new schemes. The current financial implications of previous Plan expenditures are ignored by both agencies. This lack of coordination, therefore, sets up a system of perverse incentives for both FC and PC.

Another complication with PC transfers is that they mix grants and loans. In principle, these disbursements should be guided by different procedures. When resources are deficient but the social benefits from a project are large, e.g., primary health, education etc., resources should ideally be transferred through grants. With a loan the ability of the state to service the repayments of the loan should also be a key concern. But, the structure of PC grants has not laid down explicit criteria for making such distinctions.

The artificial dichotomy between Plan and non-Plan expenditures also induces a number of inefficiencies. There is an undue emphasis on taking up new schemes, while uncompleted projects of the past Plans and maintenance of assets acquired in the past get little attention. In effect, Plan schemes, as originally envisaged cannot be taken up fully, because the contemplated "balance from current revenues" (BCRs) are often not realized. Plan finances are diverted to

non-Plan items, and time overruns increase costs. As a result, many schemes remain half done. The maintenance and efficient operation of existing projects is given inadequate attention.

Any coordination of the FC and PC transfer criteria must recognize that FC and PC transfers are performing entirely different tasks. FC's primary traditional role is to provide equalization transfers to states so that states with relatively similar tax capacity and tax effort get similar public goods outcomes. PC transfers, on the other hand, attempt to equalize over time some indicator of development, e.g., per capita GSDP, across states. Hence, the equalization criterion used for PRC transfers must be different from that used in FC transfers. A high powered body that transcends both the FC and PC should be constituted to look into these issues as well as to provide a forum for states to discuss not just the vertical issue of state-central fiscal policy but also the horizontal issue of coordination of fiscal policies across states. In this context Singh and Srinivasan (2013) advocate the formation of a Fiscal Review Council analogous to the Trade Policy Review Mechanism of the World Trade Organization (WTO).[10] Indeed they go one step ahead and advocate the concentration of federal transfers with the FC with PC transfers being used for facilitating private investment in states. This proposal has much to commend itself.

Centrally Sponsored Schemes

Centrally Sponsored Schemes (CSS) represent yet another form in which central assistance is given to states. Starting with the Second Five Year Plan funds were provided under CSS to

[10] Indeed Singh and Srinivasan (2013) emphasize that such coordination and setting the parameters of centre state transfers on an even keel is essential for macroeconomic stability. In the past Argentina paid a high cost for ignoring this.

States. These CSS were then implemented by states as part of their plan. But, the pattern of financing of these CSS has varied considerably over time. Thus, in the Fourth Five Year Plan there were 90 CSS of which 59 were eligible for 100 per cent funding, 12 for 75 per cent funding 3 for 60 per cent funding and 15 for 50 per cent funding. As Report of the Committee on Restructuring of Centrally Sponsored Schemes (2011) reveals this variation of sources of funding for CSS has persisted over time. As Table 13 indicates the proportions of CSS to other central assistance is high and has grown over time.

Table 13 here.

Clearly the CSS route of the centre influencing state expenditures appeals for its rationale to the "Concurrent" list of the Constitution of India and ambiguities therein. Table 14 indicates the overwhelming importance of CSS in successive five year plans of India whereas Table 15 indicates that, despite the number of CSS coming down, expenditure on CSS has grown very significantly both in nominal and in real terms.[11]

Tables 14 and 15 here.

State governments naturally view CSS as an infringement on their rights and argue for their curtailment. The 2011 Report of the Committee on Restructuring of Centrally Sponsored schemes argued that smaller CSS should be handed over to the states and recommended the re-classification of other CSS into three broad categories: (i) Flagship schemes[12], (ii) Sub sector scheme where the core element would be supported by the Centre and segments for operation by

[11] Much of the recent growth in CSS expenditure has been on account of relatively new programs such as the National Rural Employment Guarantee Schemes, Pradhan Mantri Gram Sadak Yojana, Sarva Shiksha Abhiyan and the like.

[12] The criteria for identifying a "flagship scheme" are unclear. In 2011 the PC recognized 15 flagship schemes.

states could be identified. The report was of the opinion that such sub-sectoral schemes could be particularly in areas such as Education, Animal Husbandry and Health. (iii) Umbrella schemes which are basically small scale schemes. It was recommended that the Central ministries would provide guidelines for the operation of the umbrella schemes (in order to provide uniformity of standards across the country) with the actual operation being conducted by state governments.

The report is, however, silent on how the CSS would fit in with FC transfers and other PC transfers. It also does not deal with spillover effects of CSS. The take away message from this analysis is that not only the structure of indirect taxation but also that of intergovernmental transfers needs overall coordination. At the present point in time lack of clarity on this point leads to the possibility of arbitrariness (particularly political expediency) creeping into the transfer criteria.

IV. Transfers to Panchayati Raj Institutions and Urban bodies

Panchayati Raj Institutions (PRI) form the third tier of India's federal structure and are seen as key to delivering local public goods to Indian villages. In its submission to the 13th FC the Ministry of Panchayati Raj highlighted the importance of PRI in implementing many CSS as well as programs of individual state governments. While the PRI have considerable funds to implement CSS they lack funds for conducting their own administration. In this connection the Ministry asked for 4 per cent of the divisible funds allocated to local bodies be given to PRI for the construction of village infrastructure. Another 1 per cent was to be given as a specific purpose grant-in-aid to panchayats for preparation of data bases and incentivizing state governments to empower panchayats. Table 16 provides details of disbursements to PRI in 2010-11 and 2011-12.

Table 16 here.

For 2010-11 and 2011-12 Table 16 depicts basic grants to states under two headings: General areas and Special areas. General purpose grants are of much larger magnitude than special purpose grants but overall transfers to PRI are relatively modest in comparison to FC and PC grants to states. However, there has been a substantial increase in (real and nominal transfers) over the period 2010-11 to 2011-12. As expected large states get larger shares with that of Uttar Pradesh being dominant.

Gants to municipalities are in a "highly unsatisfactory state" (Mathur, 2013, pg. 23). The Eleventh Finance Commission earmarked Rs, 2,000 crores for municipalities, the Twelfth FC allocated Rs,. 5,000 crores and the Thirteenth Commission Rs. 8,000 crores. The 11th and 12th FCs allocated a fixed amount whereas the 13th FC advocated that a fixed percentage of the divisible pool be given to all states as a grant. Municipal expenditure as a percentage of GSDP was only 1.08 in 2002-03, rising to a meager 1.24 in 2007-08.

However, there have been very few objective evaluations of the impact of two-tier, let alone three-tier decentralization on balanced regional growth. Kalirajan and Otsuka (2012) show that whereas two-tier decentralization (between centre and states) has been helpful in fostering growth through health and education expenditures. However, the performance of PRI and other local bodies has been dismal.

V. Conclusions

This paper has provided a broad overview of fiscal issues facing various levels of government in India. In a society as complex and varied as India's fiscal federalism is an essential element of

the economic landscape. Already it is becoming clear that states are the new engines of India's economic growth. Thus, the *Economist Intelligence Unit* in a report dated 25th June 2013 argued that during 2011-12 over 80 per cent of states had GSDP growth rates of above 6 per cent when he national growth rate was 6. 2 per cent and that this trend is likely to continue. Some traditionally laggard states have been growing well above the national average indicating that nurturing state level economic growth can have considerable payoffs for national economic growth and, hence, poverty reduction.

These factors underscore the benefits of putting centre-state fiscal relations on an even keel to encourage buoyant economic growth. Concurrently, the risks of having adverse incentives in fiscal relations can risk economic crises as the example of Argentina suggests.

Reform of fiscal federalism in India is an on-going process and is currently facing the twin additional challenges of moving to a harmonized central and state GST and addressing a persistent fiscal deficit level problem at both central and state levels. Indeed there is apprehension, at least on the part of states, that moving to a GST will exacerbate their fiscal deficits and compromise their revenue flexibility.

Against this background this paper has underscored the substantial spatial disparities across India. It has evaluated the case for putting together (various versions) of the GST and also indicated the risks involved in the process. This paper argues that, on balance, there is a case for an appropriately constituted GST but that the federal transfer formula must be sensitive to any fallout from such a move.

The paper also argues that there is an urgent need to review the totality of transfers from the central to state governments and local bodies. This review would include transfers through FC, PC and CSS. There is a compelling necessity to review and recalibrate the entire gamut (and not piecemeal) of federal relations – tax, expenditure and transfers. This is critical to ensure the stability and predictability needed to ensure that India's state driven growth blossoms and attains full fruition.

Figure 1: Structure of Fiscal Federalism in India

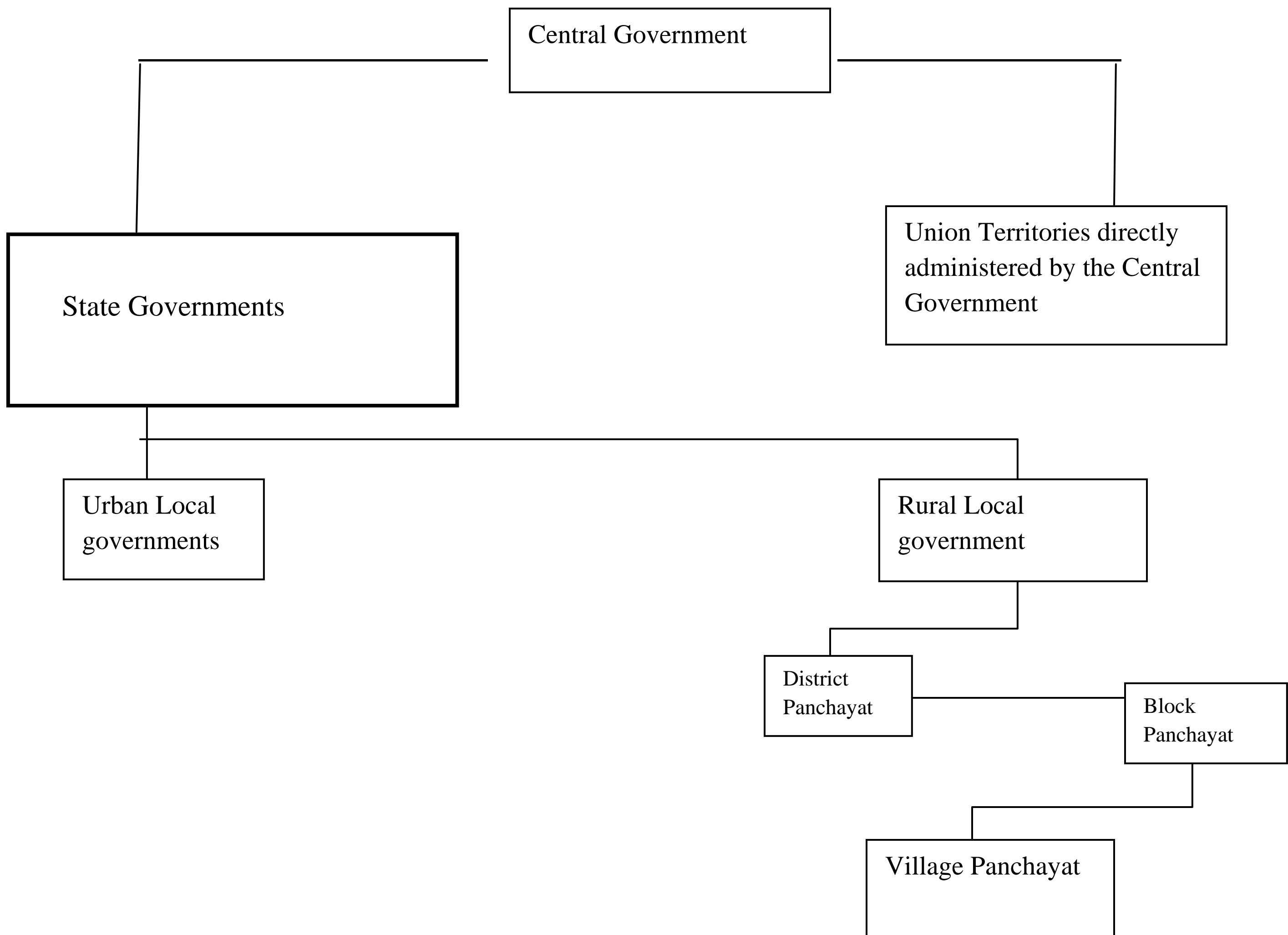
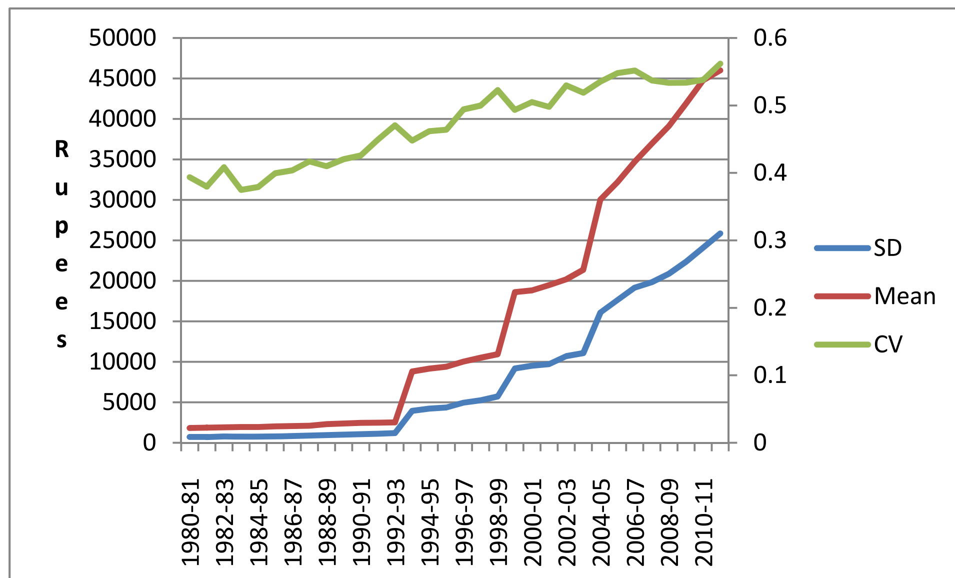


Figure 2 : Mean Real PCNSDP its standard deviation and coefficient of variation



Source: Table 1. SD and mean are measured along the left axis and CV along the right axis.

Figure 3: Percentage Gap between mean per capita real PCNSDP between richest and poorest states – alternative measures

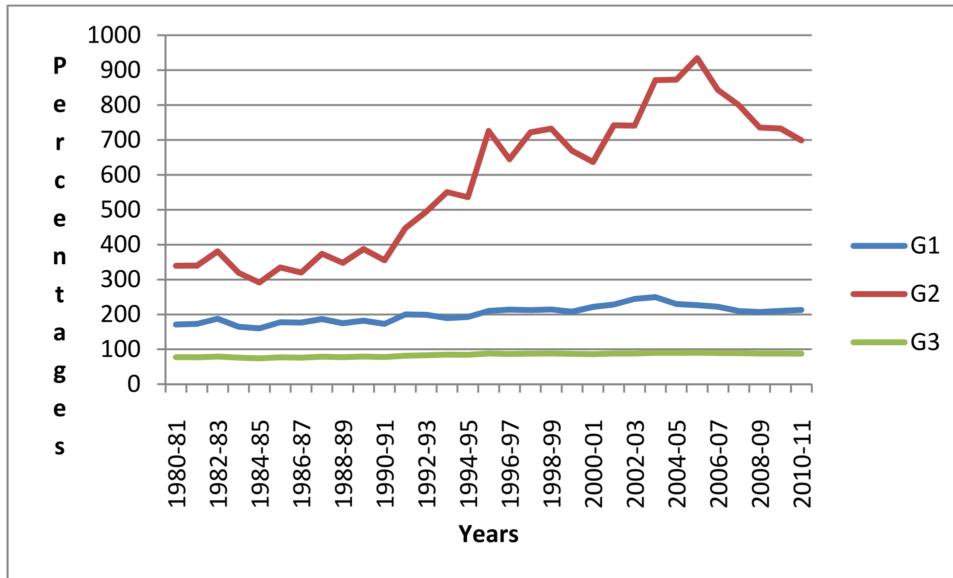
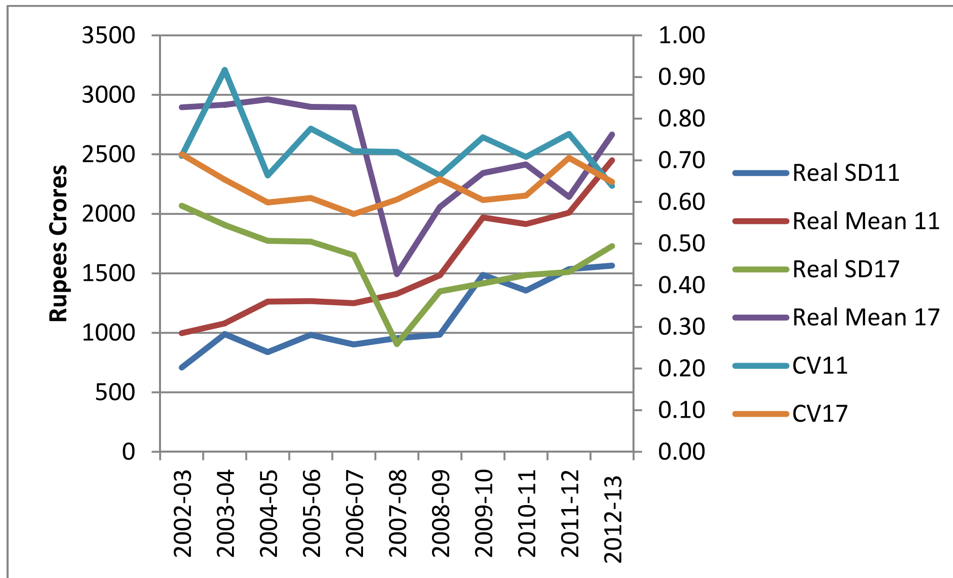
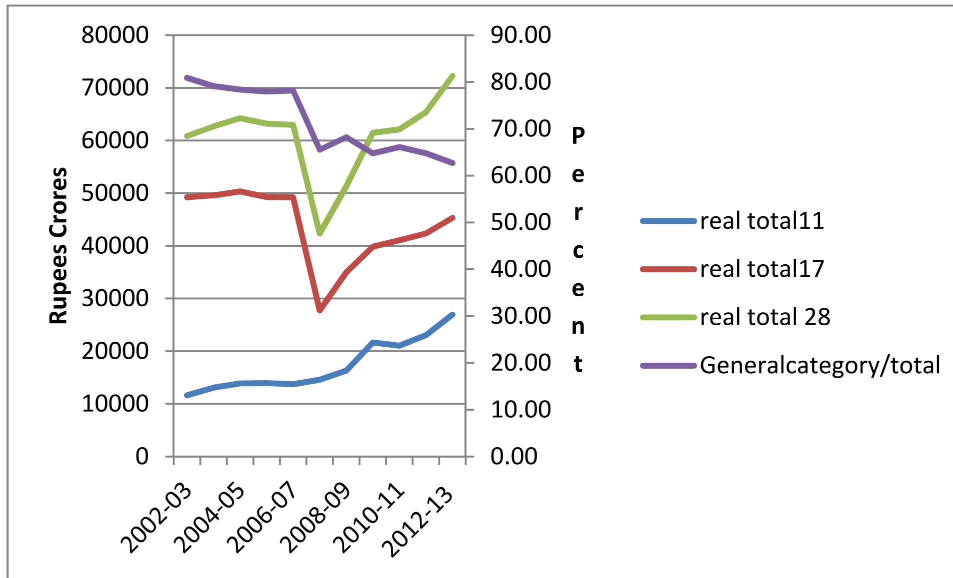


Figure 4: Real Mean, Real SD of Central Assistance Loans and Grants for Special and Other Programs



NB. Mean and SD refer to left axis. Right axis denotes proportions for CV.

Figure 5: Total Real Transfers



NB. Totals refer to left axis, general category/total refer to right axis.

Table 1: Characteristics of real PCNSDP at factor cost

Year	SD (Rupees)	Mean (Rupees)	CV	Year	SD (Rupees)	Mean (Rupees)	CV	
1980-81	716.20	1819	0.39	1993-94	3942.47	8801	0.45	
1981-82	707.10	1862	0.37	1994-95	4225.89	9152	0.46	
1982-83	774.75	1897	0.40	1995-96	4359.81	9394	0.46	
1983-84	728.53	1944	0.37	1996-97	4953.493	10026	0.49	
1984-85	740.36	1953	0.38	1997-98	5243.51	10493	0.50	
1985-86	808.78	2024	0.40	1998-99	5716.75	10933	0.52	
1986-87	830.58	2057	0.40					
1987-88	877.18	2104	0.42	Year	SD (Rupees)	Mean (Rupees)	CV	
1988-89	944.68	2305	0.41	1999-00	9182.45	18611	0.49	
1989-90	997.06	2372	0.42	2000-01	9512.57	18832	0.51	
1990-91	1046.40	2458	0.43	2001-02	9703.60	19484	0.50	
1991-92	1110.83	2473	0.45	2002-03	10690.63	20187	0.53	
1992-93	1188.93	2527	0.47	2003-04	11082.8	21364	0.52	
	SD (Rupees)	Mean (Rupees)	CV					
2004-05	16090.18	30054	0.53					
2005-06	17642.1	32199	0.55					
2006-07	19155.54	34720	0.55					
2007-08	19836.88	36942	0.54					
2008-09	20869.97	39115	0.53					
2009-10	22363.32	41904	0.53					
2010-11	24093.67	44777	0.54					
2011-12	25852.19	46007	0.56					

Source: Computed from Reserve Bank of India Handbook of Statistics on the Indian Economy. Data for 1980-81 to 1993-94 use 1980-81 as base, data from 1993-94 to 1999-00 use 1993-94 as base, data from 1999-00 to 2003-04 use 1999-00 as base and data from 2004-05 to 2011-12 use 2004-05 as base.

Table 2: Percentage Gap between mean real PCNSDP between richest and poorest states – alternative measures

Year	Gap between real PCNSDP of richest and poorest state as percentage of mean real PCNSDP across all states (G1)	Gap between real PCNSDP of richest and poorest state as percentage of real PCNSDP of poorest state (G2)	Gap between real PCNSDP of richest and poorest state as percentage of real PC NSDP of richest state (G3)
1980-81	171.10	339.48	77.24
1981-82	172.72	339.60	77.26
1982-83	187.69	380.75	79.20
1983-84	164.74	319.34	76.15
1984-85	160.07	291.15	74.43
1985-86	177.39	334.35	76.98
1986-87	176.49	319.82	76.18
1987-88	186.55	373.81	78.89
1988-89	174.72	347.75	77.67
1989-90	182.20	387.27	79.48
1990-91	172.92	355.05	78.02
1991-92	199.82	447.15	81.72
1992-93	198.88	494.10	83.17
1993-94	189.25	550.67	84.63
1994-95	192.83	535.84	84.27
1995-96	210.06	725.66	87.89
1996-97	213.91	644.61	86.57
1997-98	212.37	721.61	87.83
1998-99	214.21	732.33	87.98
1999-00	208.02	669.13	86.99
2000-01	221.63	636.83	86.43
2001-02	228.29	742.11	88.12
2002-03	244.37	740.96	88.11
2003-04	249.43	871.16	89.70
2004-05	229.76	872.55	89.72
2005-06	226.81	934.73	90.33
2006-07	222.08	842.70	89.39
2007-08	209.52	799.17	88.87
2008-09	206.70	735.41	88.03
2009-10	210.09	732.92	87.99
2010-11	212.71	698.68	87.48

Source: Computed from data from Handbook of Statistics on the Indian Economy, RBI

Table 3: Ranking of States according to HDI Value

State	HDI 1999-200	HDI 2007-08	Rank 1999-2000	Rank 2007-08
Kerala	0.677	0.790	2	1
Delhi	0.783	0.750	1	2
Goa	0.581	0.652	4	3
Punjab	0.595	0.617	3	4
NE (excluding Assam)	0.543	0.605	5	5
Maharashtra	0.501	0.572	6	7
Tamil Nadu	0.480	0.570	8	8
Haryana	0.501	0.552	7	9
Jammu and Kashmir	0.465	0.529	11	10
Gujarat	0.466	0.527	10	11
Karnataka	0.432	0.519	12	12
West Bengal	0.422	0.492	13	13
Uttarakhand	0.339	0.490	16	14
Andhra Pradesh	0.368	0.473	15	15
Assam	0.336	0.444	17	16
Rajasthan	0.387	0.434	14	17
Uttar Pradesh	0.316	0.380	18	18
Jharkhand	0.268	0.376	23	19
Madhya Pradesh	0.285	0.375	20	20
Bihar	0.292	0.367	19	21
Orissa	0.275	0.362	22	22
Chattisgarh	0.278	0.358	21	23
All India	0.387	0.467		

Source: Institute of Applied Manpower Research and Planning Commission (2011)

Table 4: Share of Private Investment in manufacturing (in per cent) in 20 major states

State	1993-99	2000-07	Change in Rank	1993-2007
Maharashtra	22.55 (1)	16.95 (1)	0	18.87 (1)
Gujarat	17.81(2)	16.88(2)	0	17.20(2)
Tamil Nadu	9.26 (4)	12.27 (3)	-1	11.24
Uttar Pradesh	9.33(3)	7.26(4)	+1	7.97(4)
Karnataka	8.86(5)	7.11(5)	0	7.71(5)
Andhra Pradesh	5.40(6)	5.94(6)	0	5.75(6)
Haryana	3.32(9)	4.07(7)	-2	3.81(7)
Madhya Pradesh	5.11(7)	2.46(13)	+6	3.37(8)
Rajasthan	4.01(8)	2.80(11)	+3	3.21(9)
Punjab	2.07(10)	2.66(12)	+2	2.46(10)
West Bengal	1.74(12)	2.83(10)	-2	2.45(11)
Odisha	1.07(14)	3.14(8)	-6	2.43(12)
Chattisgarh	0.070(17)	2.94(9)	-8	2.17(13)
Jharkhand	2.03(11)	2.05(14)	+3	2.04(14)
Uttarakhand	0.17(19)	1.68(15)	-4	1.16(15)
Himachal Pradesh	1.21(13)	0.90(16)	+3	1.01(16)
Kerala	1.04(15)	0.84(17)	+2	0.90(17)
Delhi	0.91(16)	0.56(18)	+2	0.68(18)
Assam	0.33(18)	0.35(19)	+1	0.34(19)
Bihar	0.13(20)	0.12(20)	0	0.12(20)
20 major states	97.04	93.80		94.91

Notes: Figures in parentheses indicate ranks according to share of states in total private investment.

Source: Mallick, J. (2012)

Table 5: FDI Equity (Equity capital and component) Inflows to Indian states

	2008-09	2009-10	2010-11	2011-12	2008-09	2009-10	2010-11	2011-12
	U(US$ Million)				(Per Cent of Total)			
Maharashtra	12,431	8,249	6,097	9,553	45.5	31.9	31.4	26.2
Delhi	1,868	9,695	2,677	7,983	6.8	37.5	13.8	21.9
Karnataka	2,026	1,029	1,332	1,533	7.4	4.0	6.9	4.2
Gujarat	2,826	807	724	1,001	10.3	3.1	3.7	2.7
Tamil Nadu	1,724	774	1,352	1,422	6.3	3.0	7.0	
Andhra Pradesh	1,238	1,203	1,262	848	4.5	4.7	6.5	2.3
West Bengal	489	115	95	394	1.8	0.4	0.5	1.1
Chandigarh	0	224	416	130	0.0	0.9	2.1	0.4
Goa	29	169	302	38	0.1	0.7	1.6	0.1
Madhya Pradesh	44	54	451	123	0.2	0.2	2.3	0.3
Kerala	82	128	37	471	1.3	0.5	0.2	1.3
Rajasthan	343	31	51	33	0.3	0.1	0.3	0.1
Uttar Pradesh	0	48	112	140	0.0	0.2	0.6	0.4
Odisha	9	149	15	28	0.0	0.6	0.1	0.1
Assam	42	11	8	1	0.2	0.0	0.0	0.0
Bihar	0	0	5	24	0.0	0.0	0.0	0.1
Region not indicated	4,181	3,148	4,491	12,782	15.3	12.2	23.1	35.0
Total	27,332	25,834	19,427	36,504	100.0	100.0	100.0	100.0
Top 6 states	22,113	21,757	13,444	22,340	80.9	84.2	69.2	61.2
Top 2 states	14,299	17,944	8,774	17,536	52.3	69.5	45.2	48.0

Notes: i) Maharashtra include Dadra and Nagar Haveli and Daman and Diu. Ii) Delhi includes New Delhi and parts of UP and Haryana, iii) Tamil Nadu include Puducherry, iv) West Bengal includes Sikkim and Andaman and Nicobar Islands, v) Chandigarh includes Punjab. Haryana and Himachal Pradesh, vi) Madhya Pradesh includes Chattisgarh, vii) Kerala includes Lakshwadeep, viii) Uttar Pradesh includes Uttarakhand, ix) Assam include Arunachal Pradesh, Manipur, Meghalaya, Mizoram, Nagaland and Tripura.
Source: Mukherjee (2011).

Table 6: Debt Positions of Centre and State Governments

	Panel A: Debt position of states actual and Forecasts						Panel B: Total Public Debt: Centre, States and Centre+States (per cent of GDP)								
	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15		2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 (RE)	2011-12 (BE)
AP	30.9	30.3	29.6	28.9	28.2	27.6	Centre (total)	61.5	61.2	59.1	56.9	56.1	54.5	51.2	48.5
AR	64.0	61.3	58.2	55.2	52.5	50.1	Internal	59.6	58.6	56.7	54.6	53.9	52.4	49.2	46.6
AS	28.1	28.2	28.3	28.4	28.4	28.5	External	1.9	2.6	2.4	2.2	2.2	2.1	2.0	1.9
BI	49.4	48.2	46.4	44.6	43.0	41.6	States	26.3	26.8	25.5	23.7	23.6	23.3	21.6	20.6
Chh	21.3	22.0	22.5	23.0	23.5	23.9	Centre+ States	87.9	88.0	84.6	80.6	79.7	77.8	72.8	69.1
Go	33.7	33.0	31.9	30.8	29.9	29.1	Panel C: Fiscal Deficit of Centre and States (per cent of GDP)								
Gu	30.1	29.4	28.8	28.1	27.6	27.1		2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 (RE)	2011-12 (BE)
Ha	22.0	22.4	22.6	22.7	22.8	22.9	Centre	3.88	3.96	3.32	2.54	5.99	6.48	5.23	4.60
HP	52.1	49.7	47.0	44.4	42.1	40.1	States	3.11	2.33	1.82	1.49	2.26	2.94	2.62	2.16
JK	56.4	56.1	55.1	53.6	51.6	49.3	Combined (Centre+States)	7.05	6.38	5.10	3.97	8.17	9.38	7.81	6.75
Jh	29.0	29.0	28.5	27.8	27.3	26.9	Panel D: Primary Surplus (+)/Deficit (-) of Centre and States								
Ka	25.9	26.2	26.0	25.7	25.4	25.2		2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11 (RE)	2011-12 (BE)
Ke	33.2	32.8	32.3	31.7	30.7	29.8	Centre	0.04	-0.37	0.18	0.88	-2.57	-3.18	-2.09	-1.61
MP	38.8	38.4	37.6	36.8	36.0	35.3	States	-0.38	0.01	0.40	0.41	-0.53	-1.15	-0.93	-0.56
MH	26.4	26.3	26.1	25.8	25.5	25.3	Combined (Centre+States)	-1.12	-0.79	0.33	1.02	-3.24	-4.46	-3.12	-2.28
MA	68.9	65.8	62.9	60.1	57.0	54.3									
ME	33.5	33.1	32.7	32.3	32.0	31.7									
MI	87.5	87.3	85.7	82.9	79.2	74.8									
NA	57.7	56.8	55.8	54.9	53.5	52.3									
OD	31.5	31.0	30.6	30.2	29.8	29.5									
PU	43.0	42.5	41.8	41.0	39.8	38.7									
RA	41.5	40.4	39.3	38.3	37.3	36.5									
SI	71.8	68.4	65.2	62.1	58.8	55.9									
TN	23.6	24.1	24.5	24.8	25.0	25.2									
TR	44.9	45.2	44.9	44.6	44.2	43.8									
UP	49.9	48.7	46.9	45.1	43.4	41.9									
UT	43.3	42.2	41.1	40.0	38.5	37.2									
WB	42.0	40.6	39.1	37.7	35.9	34.3									
TGC	33.1	32.6	31.9	31.2	30.5	29.8									
TSC	43.5	42.7	41.7	40.7	39.5	38.3									
GT	33.7	33.2	32.5	31.7	31.0	30.3									

Source: Panel A Ministry of Finance: Report of the Thirteenth Finance Commission, Panels B, C and D: Ministry of Finance *Indian Public Finance Statistics*, AP= Andhra Pradesh, AR= Arunachal Pradesh, AS=Assam, BI=Bihar, Chh=Chhatisgarh, GO=Goa, GU=Gujarat, HA=Haryana, HP=Himachal Pradesh, JK=Jammu and Kashmir, Jh=Jharkhand, Ka=Karnataka, Ke=Kerala, MP=Madhya Pradesh, MH=Maharashtra, MA=Manipur, ME=Meghalaya, MI=Mozoram, NA=Nagaland, OD=Odisha, PU=Punjab, RA=Rajasthan, SI=Sikkim, TN=Tamil Nadu, TR=Tripura, UP=Uttar Pradesh, UT=Uttarakhand, WB=West Bengal, TGC=Total General Category States, TSC=Total Special Category States, GT=Grand Total across all states.,

RE = Revised Estimates, BE= Budget Estimates.

Table 7: Fiscal Position of Indian States and Projections (Per cent of GSDP)

	2005-06		2006-07		2007-08		2011-12		2012-13		2013-14		2014-15	
	FD	RD	FD	RD	FD	RD	FD	RD	FD	RD	FD	RD	FD	RD
AP	3.4	0.0	2.0	-1.0	2.7	0.0	3.0	0.0	3.0	0.0	3.0	0.0	3.0	0.0
AR	8.6	-6.1	-3.0	-19.4	0.2	-18.5	3.0	0.0	3.0	0.0	3.0	0.0	3.0	0.0
AS	-0.6	-2.5	-1.1	-3.4	-1.0	-3.4	3.0	0.0	3.0	0.0	3.0	0.0	3.0	0.0
BI	4.4	-0.1	3.4	-2.8	1.7	-4.7	3.0	0.0	3.0	0.0	3.0	0.0	3.0	0.0
Chh	0.8	-2.5	-0.1	-4.4	0.2	-4.3	3.0	0.0	3.0	0.0	3.0	0.0	3.0	0.0
Go	4.5	0.2	3.2	-0.9	3.0	-0.9	3.0	0.0	3.0	0.0	3.0	0.0	3.0	0.0
Gu	2.9	0.2	2.2	-0.7	1.6	-0.7	3.0	0.0	3.0	0.0	3.0	0.0	3.0	0.0
Ha	0.3	-1.2	-1.0	-1.3	0.9	-1.6	3.0	0.0	3.0	0.0	3.0	0.0	3.0	0.0
HP	2.6	-0.3	3.0	-0.6	1.6	-2.4	3.0	0.0	3.0	0.0	3.0	0.0	3.0	0.0
JK	9.5	-1.4	6.3	-1.9	7.6	-3.1	4.7	0.0	4.2	0.0	3.6	0.0	3.0	0.0
Jh	8.3	0.0	1.4	-1.4	2.5	-1.5	3.0	0.0	3.0	0.0	3.0	0.0	3.6	0.0
Ka	2.0	-1.2	2.2	-1.9	2.2	-1.5	3.0	0.0	3.0	0.0	3.0	0.0	3.0	0.0
Ke	3.3	2.5	2.6	1.8	3.6	2.3	3.5	1.4	3.5	0.0	3.0	0.0	3.0	0.0
MP	3.8	0.0	2.1	-2.5	1.9	-3.4	3.0	0.0	3.0	0.0	3.0	0.0	3.0	0.0
MH	3.9	0.9	2.2	-0.2	-0.5	-2.5	3.0	0.0	3.0	0.0	3.0	0.0	3.0	0.0
MA	5.4	-8.1	8.7	-8.2	-1.7	-19.9	3.5	0.0	3.5	0.0	3.0	0.0	3.0	0.0
ME	2.8	-1.1	1.0	-3.1	2.4	-2.1	3.0	0.0	3.0	0.0	3.0	0.0	3.0	0.0
MI	13.8	-2.3	6.0	-8.0	11.2	-3.7	6.4	0.0	5.2	0.0	4.1	0.0	3.0	0.0
NA	5.6	-3.8	2.7	-9.4	6.2	-6.6	3.5	0.0	3.5	0.0	3.0	0.0	3.0	0.0
OD	0.3	-0.6	-0.9	-2.4	-1.2	-3.8	3.0	0.0	3.0	0.0	3.0	0.0	3.0	0.0
PU	2.4	1.1	0.5	-1.7	3.5	2.9	3.5	1.8	3.5	1.2	3.0	0.6	3.0	0.0
RA	3.8	0.5	2.5	-0.4	1.9	-0.9	3.0	0.0	3.0	0.0	3.0	0.0	3.0	0.0
SI	7.9	-10.4	4.8	-11.3	2.8	-15.3	3.5	0.0	3.5	0.0	3.0	0.0	3.0	0.0
TN	1.0	-0.8	1.4	-1.0	1.2	-1.4	3.0	0.0	3.0	0.0	3.0	0.0	3.0	0.0
TR	1.2	-6.6	-1.3	-8.3	0.1	-8.2	3.0	0.0	3.0	0.0	3.0	0.0	3.0	0.0
UP	3.5	0.4	3.0	-1.5	3.9	-1.0	3.0	0.0	3.0	0.0	3.0	0.0	3.0	0.0
UT	7.5	0.3	3.0	-3.0	5.1	-1.9	3.5	0.0	3.5	0.0	3.0	0.0	3.0	0.0
WB	4.1	3.1	4.3	3.1	3.7	2.7	3.5	1.6	3.5	1.1	3.0	0.5	3.0	0.0
TGC	3.1	0.4	2.1	-0.7	1.8	-1.0	3.1	0.3	3.1	0.2	3.0	0.1	3.0	0.0
TSC	3.8	-2.1	1.9	-3.7	2.3	-4.1	3.4	0.0	3.3	0.0	3.1	0.0	3.0	0.0
GT	3.1	0.2	2.1	-0.9	1.9	-1.2	3.1	0.2	3.1	0.2	3.0	0.1	3.0	0.0

Source: Ministry of Finance: Report of the Thirteenth Finance Commission

FD= Fiscal Deficit, RD=Revenue deficit, AP= Andhra Pradesh, AR= Arunachal Pradesh, AS=Assam, BI=Bihar, Chh=Chhatisgarh, GO=Goa, GU=Gujarat, HA=Haryana, HP=Himachal Pradesh, JK=Jammu and Kashmir, Jh=Jharkhand, Ka=Karnataka, Ke=Kerala, MP=Madhya Pradesh, MH=Maharashtra, MA=Manipur, ME=Meghalaya, MI=Mozoram, NA=Nagaland, OD=Odisha, PU=Punjab, RA=Rajasthan, SI=Sikkim, TN=Tamil Nadu, TR=Tripura, UP=Uttar Pradesh, UT=Uttarakhand, WB=West Bengal, TGC=Total General Category States, TSC=Total Special Category States, GT=Grand Total across all states. Indicates a surplus.

Table 8: Percentage Composition of Revenue Transfers from the Centre to States

Years	Finance Commission Transfers			Other Transfers			Total Transfers	Total Transfers as Percentage of GDP
	Share in Central Taxes	Grants	Total FC Transfers (2+3)	Plan Grants	Non-plan grants	Total other transfers (5+6)	(4+7)	
1	2	3	4	5	6	7	8	9
FC-VIII (1984-89)	53.48	6.65	60.13	35.80	4.07	39.87	100.00	4.83
FC-IX (1989-95)	52.98	8.48	61.46	35.91	2.63	38.54	100.00	4.89
FC-X (1995-2000)	62.06	6.55	68.61	29.52	1.87	31.39	100.00	4.09
FC-XI (2000-2005)	58.38	11.0	69.38	28.65	1.97	30.62	100.00	4.16
FC-XII (2005-10)	56.48	11.55	68.03	28.55	3.43	31.97	100.00	5.21
2005-06	57.00	14.95	71.94	25.36	2.70	28.06	100.00	4.69
2006-07	57.93	13.47	71.40	25.54	3.05	28.60	100.00	5.11
2007-08	58.82	10.21	69.02	27.69	3.29	30.98	100.00	5.46
2008-09 (RE)	56.04	9.69	65.74	30.92	3.34	34.26	100.00	5.37
2009-10 (BE)	53.62	11.22	64.84	30.88	4.28	35.16	100.00	5.23
Mean	56.68	10.38	67.06	29.88	3.06	32.95		4.90
Standard deviation	2.82	2.70	3.96	3.67	0.80	3.96		0.48
Coefficient of variation	0.05	0.26	0.06	0.12	0.26	0.12		0.10

Notes: Source Report of the Thirteenth Finance Commission, Last three rows author's calculations. FC=Finance Commission, Prior to FC-XII Plan assistance also carried a loan component, which varied as a share of total assistance from 70 per cent for general category states to 10 per cent for special category states. Prior to 1999-2000 there was also on-lending by the Centre to states of net collections in small savings schemes.

Table 9: Revenue Transfers from Centre to States as Percentage of Gross Revenue Receipts of the Centre

Years	Finance Commission Transfers			Other Transfers			Total Transfers
	Share in Central Taxes	Grants	Total FC Transfers (2+3)	Plan Grants	Non-plan grants	Total other transfers (5+6)	(4+7)
1	2	3	4	5	6	7	8
FC-VIII (1984-89)	20.25	2.52	22.77	13.56	1.54	15.10	37.86
FC-IX (1989-95)	21.37	3.42	24.79	14.49	1.06	15.55	40.33
FC-X (1995-2000)	22.22	2.34	24.56	10.57	0.67	11.24	35.79
FC-XI (2000-2005)	20.59	3.88	24.47	10.10	0.70	10.80	35.27
FC-XII (2005-10)	21.75	4.45	26.20	10.99	1.32	12.31	38.51
2005-06	21.71	5.69	27.41	9.66	1.03	10.69	38.09
2006-07	21.97	5.11	27.08	9.69	1.16	10.85	37.93
2007-08	21.88	3.80	25.68	10.30	1.22	11.53	37.21
2008-09 (RE)	22.17	3.83	26.01	12.23	1.32	13.56	39.57
2009-10 (BE)	21.10	4.42	25.52	12.15	1.69	13.84	39.35
Mean	21.50	3.95	25.45	11.37	1.17	12.55	37.99
Standard deviation	0.67	1.04	1.37	1.67	0.33	1.84	1.60
Coefficient of variation	0.03	0.26	0.05	0.15	0.28	0.15	0.04

NOTES: SOURCE REPORT OF THE THIRTEENTH FINANCE COMMISSION, LAST THREE ROWS AUTHOR'S CALCULATIONS.

TABLE 10: Criteria and weights for tax devolution by Recent Finance Commissions

Criteria	Weight (per cent)		
	11th Finance Commission (2000-2005)	12th Finance Commission (2005-2010)	13th Finance Commission (2010-2015)
Population	10	25	25
Income Distance	62.5	50	-
Fiscal Capacity Distance	-	-	47.5
Area	7.5	10	10
Tax Effort	5.0	7.5	-
Infrastructure Index	7.5	-	-
Fiscal Discipline	7.5	7.5	17.5
Total	100	100	100

Source: 11th, 12th and 13th Finance Commission Reports

Table 11: Gadgil-Mukherjee Formula: Alternative Versions

Weightage: percentage

Criteria		Modified Gadgil Formula (1980)	NDC Revised Formula 1990	NDC revised formula 1991
A.	Special Category States (10)	30% share of 10 States excluding North Eastern Council	30% share of 10 States including North Eastern Council	30% share of 10 States excluding North Eastern Council
B.	General Category States (15)			
(i)	Population (1971)	60.0	55.0	60.0
(ii)	Per Capita income	20.0	25.0	25.0
	Of which			
a.	According to the `deviation' method covering only the states with per capita income below the national average	20.0	20.0	20.0
b.	According to the `distance' method covering all the fifteen states	-	5.0	5.0
(iii)	Performance	10.0	5.0	7.5
	Of which			
a.	Tax Effort	10.0	-	2.5
b.	Fiscal Management	-	5.0	2.5
c.	National Objectives	-	-	2.5
d.	Special Problems	10.0	15.0	7.5
Total		100.0	100.0	100.0

Source: Planning Commission, Government of India

Notes: 1. Fiscal management is assessed as the difference between states' own total plan resources estimated at the time of finalising Annual Plans and their actual performance, considering latest five years.

2. Under the criterion of the performance in respect of certain programmes of national priorities the approved formula covers four objectives, viz.: (i) population control; (ii) elimination of illiteracy; (iii) on-time completion of externally aided projects; and (iv) success in land reforms.

Table 12: Characteristics of Planning Commission Transfers to States

Special category States are i) Arunachal Pradesh, ii) Assam, iii) Himachal Pradesh, iv) Jammu and Kashmir, v) Manipur, vi) Meghalaya, vii) Mizoram, viii) Nagaland, ix) Sikkim, x) Tripura, and xi) Uttaranchal.

Year	SD11	CV11	Total11	SD17	CV17	Total 17	Total 28	RSD11	Rtotal11	RSD17	Rtotal17	Rtotal28	Share (%)
2002-03	630.99	0.71	10349.82	1841.61	0.71	43829.92	54179.74	708.54	11621.83	2067.95	49216.69	60838.52	80.90
2003-04	929.19	0.92	12294.28	1790.28	0.65	46568.41	58862.69	989.41	13091.06	1906.31	49586.49	62677.55	79.11
2004-05	837.33	0.66	13880.23	1773.41	0.60	50343.89	64224.13	837.33	13880.23	1773.41	50343.89	64224.13	78.39
2005-06	1027.03	0.78	14559.73	1845.89	0.61	51499.59	66059.32	982.80	13932.75	1766.40	49281.90	63214.66	77.96
2006-07	1004.68	0.72	15310.34	1841.09	0.57	54820.41	70130.75	901.86	13743.57	1652.68	49210.42	62953.99	78.17
2007-08	1113.95	0.72	17016.96	1055.28	0.61	32375.23	49392.19	955.36	14594.30	905.05	27766.06	42360.37	65.55
2008-09	1240.04	0.66	20551.40	1698.78	0.66	44081.30	64632.70	984.15	16310.63	1348.23	34985.16	51295.79	68.20
2009-10	1945.60	0.76	28336.72	1852.24	0.60	52086.29	80423.01	1487.46	21664.15	1416.08	39821.32	61485.48	64.77
2010-11	1942.89	0.71	30176.59	2128.37	0.62	58826.90	89003.49	1355.81	21058.33	1485.25	41051.57	62109.90	66.10
2011-12	2394.95	0.76	35971.98	2359.10	0.71	66078.75	102050.73	1534.56	23049.11	1511.60	42340.08	65389.19	64.75
2012-13	2685.13	0.64	46255.36	2966.32	0.65	77787.13	124042.49	1564.76	26955.33	1728.62	45330.50	72285.83	62.71

Notes: i) Source: Calculations based on Planning Commission data, ii) SD11= standard deviation across 11 special category states, CV=coefficient of variation across 11 special category states, Total11=total grants to 11 special category states, SD17=standard deviation across 17 regular states, CV 17= coefficient of variation across 17 regular states, Total17=total across 17 regular states, Total28=total across all states, RSD11=standard deviation of real transfers across 11 special category states, RTotal11= total real grants to 11 special category states, RSD17= standard deviation of real transfers across 17 regular states, Rtotal 17=total real transfers across 17 regular states, Rtoal28=total real transfers to all 28 states, share=share of general category states in total transfers.

Deflator used WPI (all commodities), 2004-05 =100. Rupee magnitudes in crores of rupees.

Table 13: CSS: Proportion to Allocation (Gross Budgetary Support) (Percentages)

Sl. No.	Description	2007-08	2008-09	2009-10	2010-11	2011-12	Grand Total (2007-2012)
A	Total Central Sector Schemes	34.54	32.10	31.59	33.11	35.13	33.39
B	Total CSS and Total Central Assistance	65.46	67.90	68.41	66.89	64.87	66.61
(i)	Normal Central Assistance	8.22	8.04	6.45	6.41	5.84	6.74
(ii)	CSS	41.01	41.84	42.18	42.09	40.85	41.59
(iii)	Total Central Assistance	24.46	26.06	26.24	24.79	24.01	25.02
(iv)	CSS Flagship	31.40	31.59	34.15	32.56	31.76	32.36
(v)	ACA/CS Flagship	8.06	10.44	12.60	12.32	10.96	11.16
(vi)	Total CSS (including CSS and ACA/CS Flagship)	49.07	52.27	54.78	54.41	51.82	52.75
(vii)	Total CSS and Central Assistance other than Normal Central Assistance	57.25	59.85	61.96	60.48	59.03	59.87
(viii)	Central Assistance to states other than Normal Central Assistance	16.24	18.02	19.79	18.38	18.17	18.28

Source: Report of the Committee on restructuring of Centrally Sponsored Schemes (2011)

Notes: ACA = Additional Central Assistance to States, CS=Central Scheme

Table 14: Number of Central Assistance to CSS

Plan	Number of CSS	Percentage of CSS to GBS	Percent of Central Assistance to GBS
Ninth Plan (1997-2002)	360	31.30	43.75
Tenth Plan (2002-07)	155	38.64	34.15
Eleventh Plan (2007-12)	147	41.59	25.02

Source: Report of the Committee on restructuring of Centrally Sponsored Schemes (2011)

Table 15: Centrally Sponsored Schemes

Year	Number of CSS	Budgeted Expenditure (Nominal) Rs. Crore	Budgeted Expenditure (Real) Rs. Crore	Central Assistance to State Plans (Nominal) Rs. Crore	Central Assistance to State Plans (Real) Rs. Crore
2002-03	188	31389	35248.74	44344	49796.74
2003-04	213	32141	34445.40	49814	53385.49
2004-05	207	38312	38312.00	51766	51766.00
2005-06	204	55924	53515.79	34901	33398.09
2006-07	155	71996	64628.37	45518	40859.96
2007-08	99	81620	70000.00	61614	52842.20
2008-09	133	101824	80812.70	77075	61170.63
2009-10	138	137137	104844.80	84490	64594.80
2010-11	139	157051	109595.95	96412	67279.83
2011-12	147	180389	115584.58	106026	67936.35

Source: Report of the Committee on restructuring of Centrally Sponsored Schemes (2011) and author's calculations.

Table 16: Grants to Panchayats under 13th Finance Commission (Rupees Crore)

S. No.	State	Allocation Based on the Divisible Pool 2010-11			Allocation Based on the Divisible Pool 2011-12 (Nominal)			Allocation Based on the Divisible Pool 2011-12 (Real, comparable with 2010-11)		
		Basic Grant			Basic Grant			Basic Grant		
		General Areas	Special Areas	Total	General Areas	Special Areas	Total	General Areas	Special Areas	Total
1	Andhra Pradesh	480.74	5.9	486.64	609.39	5.9	615.29	559.42	5.42	564.84
2	Arunachal Pradesh	25.2	0	25.2	31.95	0	31.95	29.33	0.00	29.33
3	Assam	145.11	7.3	152.41	183.94	7.3	191.24	168.86	6.70	175.56
4	Bihar	455.7	0	455.7	577.65	0	577.65	530.28	0.00	530.28
5	Chattisgarh	153.67	21.1	174.77	194.79	21.1	215.89	178.82	19.37	198.19
6	Goa	8.32	0	8.32	10.55	0	10.55	9.68	0.00	9.68
7	Gujarat	214.61	14.4	229.01	272.05	14.4	286.45	249.74	13.22	262.96
8	Haryana	99.94	0	99.94	126.68	0	126.68	116.29	0.00	116.29
9	Himachal Pradesh	51.2	0.3	51.5	64.9	0.3	65.2	59.58	0.28	59.85
10	Jammu and Kashmir	84.48	0	84.48	107.09	0	107.09	98.31	0.00	98.31
11	Jharkhand	139.48	35	174.48	176.81	35	211.81	162.31	32.13	194.44
12	Karnataka	414.33	0	414.33	525.21	0	525.21	482.14	0.00	482.14
13	Kerala	179.35	0	179.35	227.34	0	227.34	208.70	0.00	208.70
14	Madhya Pradesh	378.43	26.5	404.93	479.7	26.5	506.2	440.37	24.33	464.69
15	Maharashtra	505.78	7.9	513.68	641.14	7.9	649.04	588.57	7.25	595.82
16	Manipur	20.13	1.8	21.93	25.52	1.8	27.32	23.43	1.65	25.08
17	Meghalaya	28.77	4.6	33.37	36.47	4.6	41.07	33.48	4.22	37.70
18	Mizoram	18.54	1.8	20.34	23.51	1.8	25.31	21.58	1.65	23.23
19	Nagaland	28.05	4	32.05	35.56	4	39.56	32.64	3.67	36.32
20	Odisha	238.31	21.6	259.91	302.08	21.6	323.68	277.31	19.83	297.14
21	Punjab	103.5	0	103.5	131.2	0	131.2	120.44	0.00	120.44
22	Rajasthan	362.26	3.6	365.86	459.2	3.6	462.8	421.55	3.30	424.85
23	Sikkim	16.96	0	16.96	21.5	0	21.5	19.74	0.00	19.74
24	Tamil Nadu	283.64	0	283.64	359.55	0	359.55	330.07	0.00	330.07
25	Tripura	26.95	2.4	29.35	34.16	2.4	36.56	31.36	2.20	33.56
26	Uttar Pradesh	900.3	0	900.3	1141.23	0	1141.23	1047.65	0.00	1047.65
27	Uttarakhand	54.37	0	54.37	68.92	0	68.92	63.27	0.00	63.27
28	West Bengal	381.2	1.6	382.8	483.21	1.6	484.81	443.59	1.47	445.06
	Total	5799.3	159.8	5959.1	7351.3	159.8	7511.1	6748.50	146.70	6895.20

Source: Ministry of Panchayati Raj, Government of India (2012) Annual report 2011-12 and author's calculations. Deflator used WPI.

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