FISCAL PERFORMANCE OF SPECIAL AND NON-SPECIAL CATEGORY STATES IN INDIAN FEDERATION

[1]Mrs. V. BALARUBY., [2]Dr. (Major) P. PRABHAKARAN.

[1]Ph.D., Research Scholar, Register No. : 11197,
Post Graduate and Research Department of Economics
Aditanar College of Arts and Science, Tiruchendur.
Manonmaniam Sundaranar University
Abishekapatti, Tirunelveli – 627 012, Tamil Nadu, India.

[2]Associate Professor (Retd.) and Research Supervisor
Post Graduate and Research Department of Economics
Aditanar College of Arts and Science, Tiruchendur.

ABSTRACT

The constitution of India endowed Indian states by means of many revenue sources. Meanwhile, it burdened them with a host of developmental obligations also. As a result, vertical inequity and horizontal inequity are very common in the finances of Governments in any federal set-up for which India is no exception. Due to these inequities in the distribution of revenue sources and responsibilities, most of the state Governments was subject to under performance of their fiscal functions. Therefore, undertaking of developmental obligations without much strain on the finances of the Governments is one of the core issues of state finance. State Governments are making strenuous efforts in adjusting their financial operations so as to have a balanced fiscal without having much deficits or strains. Whether the finances of state governments are subject to fiscal strain or ease can be assessed by means of certain devices known as fiscal health indicators or fiscal soundness indicators. As such, measurement of fiscal health or soundness forms an integral part of any analysis pertaining to state finances. This aspect of state finances in Indian federation form the subject matter of this study. Meanwhile, it burdened them with a host of developmental obligations also. As a result, vertical inequity and horizontal inequity are very common in the finances of Governments in any federal set-up for which India is no exception. Due to these inequities in the distribution of revenue sources and responsibilities, most of the state Governments was subject to under performance of their fiscal functions. Therefore, undertaking of developmental obligations without much strain on the finances of the Governments is one of the core issues of state finance. State Governments are making strenuous

efforts in adjusting their financial operations so as to have a balanced fisc without having much deficits or strains. Whether the finances of state governments are subject to fiscal strain or ease can be assessed by means of certain devices known as fiscal health indicators or fiscal soundness indicators. As such, measurement of fiscal health or soundness forms an integral part of any analysis pertaining to state finances. This aspect of state finances in Indian federation form the subject matter of this study.

Keywords: Revenue, Public Debt, Fiscal health, Tax

INTRODUCTION

Fiscal soundness is one of the common yardsticks adopted by different agencies to assess the fiscal health of state governments. A fiscally healthy government is one which is characterised by minimum resource gap, more revenue augmentation, expenditure containment and minimum debt in their fiscal operations. Existing procedures and methods adopted for the evaluation of fiscal health of state governments are mostly incomplete in one way other. It is incomplete, as the evaluation procedures either concentrate on revenue aspects or expenditure aspects or deficit aspects or debt aspects of Government finance. None of these procedures in the evaluation of state finances have adopted a comprehensive assessment procedure involving all the above mentioned measures. The present study is unique, as it combines the various aspects of state finances namely resource gap, revenue performance, expenditure pattern and debt pattern for the evaluation of fiscal health of state Governments.

The imbalances between the resources and requirements of lower level Governments in a federation can better be described through the resource gap indicators. Resource gaps in Government finance can be assessed by means of the ratio of Revenue Deficit to Gross State Domestic Product, ratio of Primary Deficit to Gross State Domestic Product, ratio of Gross Fiscal Deficit to Gross State Domestic Product, ratio of Primary Balance to Gross State Domestic Product, ratio of Revenue Deficit to Revenue Receipts and the ratio of Revenue Deficit to Gross Fiscal Deficit.

All these measures yield accurate results pertaining to resource gaps in Government finance. As these measures exhaustively illustrate the resource gaps exist in Government finance, we combine them together in the present study to determine the fiscal health of various states in India.

Deficits persist in the finances of the Governments alone will not adequate to describe the fiscal soundness of state governments. Revenue adequacy is another aspect which is as important as resource gap indicators to assess the fiscal health of states. Therefore, resource gap indicators

and revenue performance indicators have been synchronized in this study to assess the fiscal health of state governments. Measures, such as ratio of Own Tax Revenue to Gross State Domestic Product, ratio of Own Non-Tax Revenue to Gross State Domestic Product and the ratio of Current Transfers from Centre to Gross State Domestic Product have been employed in the present study to assess the revenue performance of states. As revenue adequacy or inadequacy of states can better be explained by means of the above measures, all of the above measures have been made use of in the present study to determine the revenue performance of states.

Resource gap measures and revenue performance measures reveal much about the fiscal strength of Governments. However, non-inclusion of expenditure pattern from the purview of any analysis on state finance is incomplete as it does not reveal much about the fiscal strength of a Government. Government expenditure is also one of the potential factors responsible for bringing disequilibrium between revenue and requirements. Therefore, an analysis of fiscal health of Government is complete as it encompasses the revenue performance, expenditure performance and resource gap measures. Resource gap indicators, revenue performance indicators and expenditure pattern indicators will be of much useful in analysing the fiscal health of Governments. Expenditure pattern of Governments can be assessed by means of certain ratios. These ratios are ratio of Development Expenditure to Gross State Domestic Product, ratio of Non-Development Expenditure to Gross State Domestic Product, ratio of Social Sector Expenditure to Gross State Domestic Product and the ratio of Capital Outlay to Gross State Domestic Product. Expenditure pattern can clearly and accurately be inferred with the help of these indicators.

Modern Governments are burdened with heavy borrowing due to the undertaking of voluminous developmental obligations which resulted into debt services also. Therefore, the magnitude of debt and the debt services become part of any analysis intend to measure the fiscal strength of Governments. Debt pattern of a Government can be assessed by means of two ratios. They are the ratio of Debt to Gross State Domestic Product and the ratio of Interest Payment to Revenue Receipts.

Prevalence of Inter-State and Intra-State variations is another variant which hampers the universal application of these yardsticks to assess the fiscal strength of Governments. For the universal application of these measures, states need to be classified on the basis of certain broad socio, political and economic parameters. For the classification of states into special and non-special categories we followed the procedure adopted by the Reserve Bank of India and the various Finance Commissions for the purpose of devolution of revenue. On getting the states being categorized into special and non-special, the various fiscal yardsticks have been applied on different states for the year 2014-2015 to verify their fiscal strength.

As far as resource gap indicators are concerned, lower ratios denote better fiscal performance. Hence, states with least ratios ranked first and the states with next higher ratios were ranked successively. To determine the overall position of states under resource gap indicators, states were arranged according to the ranks secured by them under different individual tests. The ranks of individual states under different resource gap tests have been summed up and the state with least sums of score are ranked as a state with good fiscal performance.

As far as revenue performance indicators are concerned, states with higher ratios indicate good fiscal performance. Thus, states with higher ratios ranked first and the states with successive lower ratios are ranked successively. To arrive at the overall revenue performance of states, the ranks secured by individual states under different revenue performance tests were summed up. States with least sum of ranks is adjudged first and so on.

Pattern and levels of expenditure of Governments is another yardstick through which the fiscal strength of Government can be assessed. Expenditure pattern tests are heterogeneous. As such, expenditure category tests can't be applied uniformly. States with least ratios of non-development expenditure to Gross State Domestic Product can be considered into best performing state. Whereas, tests such as ratio of Development Expenditure to Gross State Domestic Product, ratio of Social Sector Expenditure to Gross State Domestic Product and the ratio of Capital Outlay to Gross State Domestic Product indicate that the highest ratios denote good fiscal performance. Individual states have been assessed on the basis of the sum of ranks secured by them under various tests. States with minimum sum of ranks is ranked first and the states with successive higher scores ranked successively and so on.

Governments resort to borrowing due to the undertaking of voluminous developmental activities. Such borrowing results in financial strain, as the monetary gains of developmental activities through borrowing have long gestation period on the one hand and the interim interest payment which is a drain on current revenue on the other hand. Therefore, Government held debt and the corresponding debt services are important aspects, taken into consideration while analysing the relative fiscal strength and weaknesses of Governments. There are two parameters connected with Government debt to assess the fiscal status of Governments. One is the ratio of Debt to Gross State Domestic Product and the other is ratio of Interest Payment to Revenue Receipts. Higher these ratios reveal poor fiscal health of the states and vice-versa. State Governments were ranked on the basis of their performance with respect to the above mentioned debt parameters. Ranks secured by individual states were summed up again to find out the relative fiscal performance of different states.

Finally, the overall ranks secured by special and non-special category states under deficit indicators, revenue performance indicators, expenditure pattern indicators and debt pattern indicators have been derived separately and states with least sum of scores of ranks be adjudged into the best fiscal performing one, whereas states with maximum score be classified into the poor fiscal performing one.

a. FISCAL PERFORMANCE OF NON-SPECIAL CATEGORY STATES (2014-2015)

I. RESOURCE –GAP INDICATORS

Deficits are key fiscal indicators illustrating the gap between resources and requirements. There are six resource gap indicators namely the ratio of Revenue Deficit to Gross State Domestic Product, ratio of Primary Deficit to Gross State Domestic Product, ratio of Gross Fiscal Deficit to Gross State Domestic Product, ratio of Primary Balance to Gross State Domestic Product, ratio of Revenue Deficit to Revenue Receipts and the ratio of Revenue Deficit to Gross Fiscal deficit. These ratios have been codified into RGI-1, RGI-2, RGI-3, RGI-4, RGI-5 and RGI-6 (RGI = Resource Gap Indicators) for analytical simplicity.

Table 1: fiscal performance of non-special category states - Resource Gap Indicators

STATES	RANKS OF STATES						TOTAL	FINAL RANK
	RGI-1	RGI-2	RGI-3	RGI-4	RGI-5	RGI-6		
Andhra Pradesh	10	11	8	9	10	10	58	9
Bihar	2	1	3	1	3	2	12	1
Chhattisgarh	5	4	7	5	5	5	31	4.5
Goa	9	15	16	12	9	8	69	11
Gujarat	12	14	11	13	14	13	77	13
Haryana	6	3	1	8	6	7	31	4.5
Jharkhand	13	18	18	18	12	9	88	16
Karnataka	4	5	5	6	4	3	27	3
Kerala	16	12	9	16	17	17	87	15
Madhya Pradesh	3	17	17	2	2	4	45	8
Maharashtra	14	16	12	17	15	15	89	17
Orissa	8	2	4	3.5	8	12	37.5	6
Punjab	17	7	10	14.5	16	18	82.5	14
Rajasthan	11	13	15	7	11	11	68	10

Tamil Nadu	7	8	6	10	7	6	44	7
Uttar Pradesh	15	9	14	11	13	14	76	12
West Bengal	18	10	13	14.5	18	16	89.5	18
NCT Delhi	1	6	2	3.5	1	1	14.5	2

Source: Our estimates.

Notes:
RGI-1= Ratio of Revenue Deficit to Gross State Domestic Product.
RGI-2= Ratio of Primary Deficit to Gross State Domestic Product.
RGI-3= Ratio of Gross Fiscal Deficit to Gross State Domestic Product.
RGI-4= Ratio of Primary Balance to Gross State Domestic Product.
RGI-5= Ratio of Revenue Deficit to Revenue Receipts.
RGI-6=Ratio of Revenue Deficit to Gross Fiscal Deficit.

National Capital Territory of Delhi stands with first position with respect to the ratio of Revenue Deficit to Gross State Domestic Product, ratio of Revenue Deficit to Revenue Receipts and the ratio of Revenue Deficit to Gross Fiscal Deficit. In the case of the ratio of Primary Deficit to Gross State Domestic Product, Bihar ranked first, Orissa ranked second and Haryana ranked third. As far as the ratio of Gross Fiscal deficit to Gross State Domestic Product is concerned, Haryana, National Capital Territory of Delhi and Bihar ranked first, second and third respectively. In the case of the ratio of Primary Balance to Gross State Domestic Product, Bihar stood first followed by Madhya Pradesh.

West Bengal had the last rank with respect to the ratio of Revenue Deficit to Gross State Domestic Product. As a state with recent origin, Jharkhand stood at the last rank with respect to the ratio of Primary Deficit to Gross State Domestic Product, ratio of Gross Fiscal Deficit to Gross State Domestic Product and the ratio of Primary Balance to Gross State Domestic Product. In terms of the ratio of Revenue Deficit to Revenue Receipts, West Bengal had the last rank. Similarly, in terms of the ratio of Revenue Deficit to Gross Fiscal Deficit, Punjab had the last rank.

As far as overall resource gap indicators are concerned, Bihar ranked first followed by National Capital Territory of Delhi. West Bengal had the last rank. From this, it is inferred that fiscal performance is good in Bihar and it is remarkably poor in West Bengal.

II. REVENUE PERFORMANCE INDICATORS

Revenue performance indicators are essential to understand the revenue performance of the Governments. There are three measures to verify the revenue performance of the Governments

namely, the ratio of Own Tax Revenue to Gross State Domestic Product, the ratio of Own Non-Tax Revenue to Gross State Domestic Product and the ratio of Current Transfers to Gross State Domestic Product. These measures have been codified into RPI-1, RPI-2, RPI-3 (RPI = Revenue Performance Indicators) for analytical ease.

Table 2: fiscal performance of non-special category states - REVENUE PERFORMANCE INDICATORS

STATES	RANKS OF STATES			TOTAL	FINAL RANK
	RPI-1	RPI-2	RPI-3		
Andhra Pradesh	9	10	8	27	9
Bihar	17	17	1	35	14
Chhattisgarh	8	4	6	18	2.5
Goa	6	1	13	20	4
Gujarat	14	11	14	39	16
Haryana	4	5	17	26	7
Jharkhand	1	7	3	11	1
Karnataka	2	6	10	18	2.5
Kerala	5	16	11	32	12
Madhya Pradesh	13	3	5	21	5
Maharashtra	7	14	16	37	15
Orissa	15	8	2	25	6
Punjab	10	2	15	27	9
Rajasthan	12	9	7	28	11
Tamil Nadu	3	12	12	27	9
Uttar Pradesh	16	13	4	33	13
West Bengal	18	18	9	45	18
NCT Delhi	11	15	18	44	17

Source: Our estimates.

Notes:

RPI-1= Ratio of Own Tax Revenue to Gross State Domestic Product.

RPI-2= Ratio of Own Non-Tax Revenue to Gross State Domestic Product.

RPI-3= Ratio of Current Transfers to Gross State Domestic Product.

In the case of ratio of Own Tax Revenue to Gross State Domestic Product, Jharkhand, Karnataka and Tamil Nadu have secured the first three ranks respectively. In the case of ratio of Own Non – Tax Revenue to Gross State Domestic Product, Goa stood first followed by Punjab. Ratio of Current Transfers to Gross State Domestic Product is concerned, Bihar ranked first.

West Bengal ranked poorly both in the case of ratio of Own Tax Revenue to Gross State Domestic Product and ratio of Own Non–Tax Revenue to Gross State Domestic Product. National Capital Territory of Delhi had the last rank with the ratio of Current Transfers from Centre to Gross state Domestic Product.

Jharkhand placed with first rank and West Bengal with last rank in revenue performance parameters. As such it is concluded that the revenue performance of Jharkhand is good and the revenue performance of West Bengal is poor.

III. EXPENDITURE PATTERN INDICATORS

Fiscal health of states can also be assessed by means of expenditure pattern indicators such as the ratio of Development expenditure to Gross State Domestic Product, ratio of Non–development expenditure to Gross State Domestic Product, ratio of Social Sector Expenditure to Gross State Domestic Product and the ratio of Capital Outlay to Gross State Domestic Product. For analytical simplicity, these ratios are codified into EPI-1, EPI-2, EPI-3 and EPI-4. (EPI = Expenditure Performance Indicators).

Table 3: fiscal performance of non-special category states - EXPENDITURE PATTERN INDICATORS

STATES	RANKS OF STATES				TOTAL	FINAL RANK
	EPI-1	EPI-2	EPI-3	EPI-4		
Andhra Pradesh	10	6	11	7	34	6.5
Bihar	3	18	2	12	35	8
Chhattisgarh	4	5	3	4	16	2.5
Goa	1	7	5	3	16	2.5
Gujarat	14	2	13	10	39	10
Haryana	15	3	18	15	51	16
Jharkhand	2	10	1	2	15	1
Karnataka	7	9	12	6	34	6.5
Kerala	9	14	7	18	48	14
Madhya Pradesh	8	11	10	1	30	5
Maharashtra	16	4	14	11	45	13
Orissa	6	16	6	13	41	11
Punjab	12	17	17	17	63	18
Rajasthan	5	13	4	5	27	4
Tamil Nadu	13	8	8	8	37	9

Uttar Pradesh	11	15	9	9	44	12
West Bengal	17	12	15.5	16	60.5	17
NCT Delhi	18	1	15.5	14	48.5	15

Source: Our estimates.

Notes:

EPI-1= Ratio of Development Expenditure to Gross State Domestic Product.

EPI-2= Ratio of Non– Development Expenditure to Gross State Domestic Product.

EPI-3= Ratio of Social Sector Expenditure to Gross State Domestic Product.

EPI-4= Ratio of Capital Outlay to Gross State Domestic Product.

Goa, Jharkhand and Bihar have secured the first three ranks in the ratio of Development Expenditure to Gross State Domestic Product. As the ratio of Non–development expenditure to Gross State Domestic Product is concerned, National Capital Territory of Delhi ranked first. Jharkhand ranked first in the ratio of Social Sector Expenditure to Gross State Domestic Product. Madhya Pradesh ranked first in the ratio of Capital Outlay to Gross State Domestic Product.

National Capital Territory of Delhi had the last rank in the case of ratio of Development Expenditure to Gross State Domestic Product. Bihar ranked last in the ratio of Non-development expenditure to Gross State Domestic Product. Haryana had the last rank in the ratio of Social Sector Expenditure to Gross State Domestic Product. Kerala ranked last in the ratio of Capital Outlay to Gross State Domestic Product.

As far as, over all expenditure pattern is concerned, Jharkhand had the first position and Punjab remained with the last rank. From this, it is concluded that the expenditure pattern of Jharkhand is good and Punjab is poor.

IV. DEBT PATTERN INDICATORS

The ratio of Debt to Gross State Domestic Product and the ratio of Interest Payment to Revenue Receipts are the debt pattern indicators. They have been codified into DPI-1 and DPI-2 for analytical purposes (DPI = Debt Pattern Indicators).

TABLE 4: FISCAL PERFORMANCE OF NON-SPECIAL CATEGORY STATES - DEBT PATTERN INDICATORS

STATES	RANKS OF STATES		TOTAL	FINAL RANK
	DPI-1	DPI-2		
Andhra Pradesh	7	11	18	10
Bihar	12	10	22	11
Chhattisgarh	2	7	9	4
Goa	11	4	15	8
Gujarat	9	16	25	12
Haryana	3	8	11	5.5
Jharkhand	6	1	7	3
Karnataka	4	2	6	1.5
Kerala	14	12	26	13
Madhya Pradesh	10	6	16	9
Maharashtra	5	9	14	7
Orissa	18	13	31	15.5
Punjab	16	14	30	14
Rajasthan	17	15	32	17.5
Tamil Nadu	8	3	11	5.5
Uttar Pradesh	15	17	32	17.5
West Bengal	13	18	31	15.5
NCT Delhi	1	5	6	1.5

Source: Our estimates.

Notes: DPI-1= Ratio of Debt to Gross State Domestic Product

DPI-2= Ratio of Interest Payment to Revenue Receipts.

National Capital Territory of Delhi had the first rank followed by Chhattisgarh and Haryana in the case of the ratio of Debt to Gross State Domestic Product. Jharkhand, Karnataka and Tamil Nadu had the first three ranks in the case of ratio of Interest Payment to Revenue Receipts. On the other hand, Orissa had the last rank as far as the ratio of Debt to Gross State Domestic Product. Similarly, the ratio of Interest Payment to Revenue Receipt is concerned West Bengal remained with last rank.

Thus, as far as debt pattern indicators are concerned, Karnataka and National Capital Territory of Delhi scored first rank and get classified into the best performing states and Rajasthan and Uttar Pradesh had been classified into poorly performing states, as they secured the last rank.

b. fiscal performance of special category states

TABLE 5: fiscal performance of special category states RESOURCE GAP INDICATORS

STATES	RANKS OF STATES						TOTAL	FINAL RANK
	RGI-1	RGI-2	RGI-3	RGI-4	RGI-5	RGI-6		
Arunachal Pradesh	6	10	9	6	6	6	43	8
Assam	7	4	2	7	7	7	34	6
Himachal Pradesh	10	3	5	9	10	10	47	9
Jammu and Kashmir	2	1	3	3	1	1	11	1
Manipur	4	7	7	4	5	5	32	5
Meghalaya	8	5	4	8	8	8	41	7
Mizoram	3	6	10	1	4	4	28	4
Nagaland	5	2	1	5	3	3	19	2
Sikkim	1	8	8	2	2	2	23	3
Uttaranchal	9	9	6	10	9	9	52	10

Source: Our estimates.

Notes:

RGI-1= Ratio of Revenue Deficit to Gross State Domestic Product.

RGI-2= Ratio of Primary Deficit to Gross State Domestic Product.

RGI-3= Ratio of Gross Fiscal Deficit to Gross State Domestic Product.

RGI-4= Ratio of Primary Balance to Gross State Domestic Product.

RGI-5= Ratio of Revenue Deficit to Revenue Receipts.

RGI-6=Ratio of Revenue Deficit to Gross Fiscal Deficit.

Jammu and Kashmir ranked first in the case of three resource gap indicators, namely the ratio of Primary Deficit to Gross State Domestic Product, the ratio of Revenue Deficit to Revenue Receipts and the ratio of Revenue Deficit to Gross Fiscal Deficit. Jammu and Kashmir placed second rank in the case of the ratio of Revenue Deficit to Gross State Domestic Product and placed third in the ratio of Gross Fiscal Deficit to Gross State Domestic Product and the ratio of Primary Balance to Gross State Domestic Product. All these account for the good fiscal performance of Jammu and Kashmir.

As the ratio of Revenue Deficit to Gross State Domestic Product, the ratio of Revenue Deficit to Revenue Receipts and the ratio of Revenue Deficit to Gross Fiscal Deficit, Himachal Pradesh ranked last. But in the case of the ratio of Gross Fiscal Deficit to Gross State Domestic Product,

Mizoram ranked last. Uttaranchal had the last rank in the ratio of Primary Balance to Gross State Domestic Product.

In nutshell, Jammu and Kashmir had good fiscal health whereas Uttranchal had poor fiscal performance with respect to resource gap indicators.

TABLE 6: fiscal performance of special category states
REVENUE PERFORMANCE INDICATORS

STATES	RANKS OF STATES			TOTAL	FINAL RANK
	RPI-1	RPI-2	RPI-3		
Arunachal Pradesh	9	2	3	14	4
Assam	4.5	8	8	20.5	8
Himachal Pradesh	4.5	5	9	18.5	6
Jammu and Kashmir	3	4	5	12	3
Manipur	8	9	4	21	9
Meghalaya	6	7	7	20	7
Mizoram	7	3	1	11	2
Nagaland	10	10	6	26	10
Sikkim	1	1	2	4	1
Uttaranchal	2	6	10	18	5

Source: Our estimates.

Notes:

RPI-1= Ratio of Own Tax Revenue to Gross State Domestic Product.

RPI-2= Ratio of Own Non-Tax Revenue to Gross State Domestic Product.

RPI-3= Ratio of Current Transfers to Gross State Domestic Product.

Sikkim got first rank in the case of the ratio of Own Tax Revenue to Gross State Domestic Product. In the case of ratio of Own Non-Tax Revenue to Gross State Domestic Product, Sikkim ranked first. Mizoram got first rank in the case of ratio of Current Transfers to Gross State Domestic Product.

Nagaland ranked last both in terms of the ratio of Own Tax Revenue to Gross State Domestic Product and the ratio of Own Non-Tax Revenue to Gross State Domestic Product. Uttaranchal placed with last rank in the ratio of Current Transfers to Gross State Domestic Product.

Among the revenue performance indicators are concerned, it is observed that the revenue performance of Sikkim is good, and Nagaland had been categorized into a state with poor fiscal performance.

TABLE 7: fiscal performance of special category states
EXPENDITURE PATTERN INDICATORS

STATES	RANKS OF STATES				TOTAL	FINAL RANK
	EPI-1	EPI-2	EPI-3	EPI-4		
Arunachal Pradesh	2	8	3	3	16	2.5
Assam	9	1	9	8	27	8
Himachal Pradesh	7	5	7	10	29	9
Jammu and Kashmir	5	7	5	5	22	5
Manipur	4	6	4	4	18	4
Meghalaya	6	3	6	9	24	6.5
Mizoram	1	9	1	2	13	1
Nagaland	10	4	10	7	31	10
Sikkim	3	10	2	1	16	2.5
Uttaranchal	8	2	8	6	24	6.5

Source: Our estimates.

Notes:

EPI-1= Ratio of Development Expenditure to Gross State Domestic Product.

EPI-2= Ratio of Non– Development Expenditure to Gross State Domestic Product.

EPI-3= Ratio of Social Sector Expenditure to Gross State Domestic Product.

EPI-4= Ratio of Capital Outlay to Gross State Domestic Product.

Mizoram ranked first both in the ratio of Development Expenditure to Gross State Domestic Product and the ratio of Social Sector Expenditure to Gross State Domestic Product. But, it had poor fiscal performance with the ratio of Non-Development Expenditure to Gross State Domestic Product.

Among the special category states, Mizoram, Sikkim and Arunachal Pradesh got first three ranks with respect to the ratio of Social Sector Expenditure to Gross State Domestic Product.

Nagaland ranked last both in the ratio of Development Expenditure to Gross State Domestic Product and the ratio of Social Sector Expenditure to Gross State Domestic Product. Himachal Pradesh had the last rank in the ratio of Capital Outlay to Gross State Domestic Product.

As far as expenditure pattern indicators are concerned, it is concluded that the fiscal performance of Mizoram is good and the fiscal performance of Nagaland is poor.

TABLE 8: fiscal performance of special category states DEBT PATTERN INDICATORS

STATES	RANKS OF STATES		TOTAL	FINAL RANK
	DPI-1	DPI-2		
Arunachal Pradesh	6	2	8	5
Assam	7	7	14	6.5
Himachal Pradesh	8	10	18	10
Jammu and Kashmir	2	4	6	2.5
Manipur	9	8	17	9
Meghalaya	3	3	6	2.5
Mizoram	10	5	15	8
Nagaland	1	6	7	4
Sikkim	4	1	5	1
Uttaranchal	5	9	14	6.5

Source: Our estimates.

Notes:

DPI-1= Ratio of Debt to Gross State Domestic Product

DPI-2= Ratio of Interest Payment to Revenue Receipts.

Nagaland maintained first rank followed by Jammu and Kashmir and Meghalaya regarding the ratio of Debt to Gross State Domestic Product. Sikkim, Arunachal Pradesh and Meghalaya scored the first three ranks as to the ratio of Interest Payment to Revenue Receipts.

Mizoram had the last rank of Debt to Gross State Domestic Product. Himachal Pradesh got last position in the ratio of Interest Payment to Revenue Receipts.

From this it is concluded that Sikkim got the first rank with debt pattern indicators. Similarly, Himachal Pradesh had the last rank in the debt pattern indicators.

Final ranking of non-special category states (2014-'15)

To arrive at a clear idea about the fiscal situation of State Governments, all fiscal indicators namely resource-gap indicators, revenue performance indicators, expenditure pattern indicators and debt pattern indicators need to be synchronized simultaneously. As such ranks secured by different states with respect to various parameters have been summed up and states were again ranked.

TABLE 9: FINAL RANKING OF NON-SPECIAL CATEGORY STATES – (2014-2015)

States	RANKS OF STATES				Overall total	Final Rank
	Resource gap indicator	Revenue performance indicator	Expenditure pattern indicator	Debt pattern indicator		
Andhra Pradesh	9	9	6.5	10	34.5	9
Bihar	1	14	8	11	34	8
Chhattisgarh	4.5	2.5	2.5	4	13.5	1.5
Goa	11	4	2.5	8	25.5	4
Gujarat	13	16	10	12	51	13
Haryana	4.5	7	16	5.5	33	7
Jharkhand	16	1	1	3	21	3
Karnataka	3	2.5	6.5	1.5	13.5	1.5
Kerala	15	12	14	13	54	15
Madhya Pradesh	8	5	5	9	27	5
Maharashtra	17	15	13	7	52	14
Orissa	6	6	11	15.5	38.5	11
Punjab	14	9	18	14	55	17
Rajasthan	10	11	4	17.5	42.5	12
Tamil Nadu	7	9	9	5.5	30.5	6
Uttar Pradesh	12	13	12	17.5	54.5	16
West Bengal	18	18	17	15.5	68.5	18
NCT Delhi	2	17	15	1.5	35.5	10

Source: Our estimates.

Chhattisgarh and Karnataka placed first on an overall assessment of fiscal performance. This was followed by Jharkhand and Goa. Similarly, West Bengal ranked last in the final ranking of non-special category states. Bihar had number one position in resource gap, couldn't maintain its position, as it had poor performance in revenue performance and debt pattern indicators. Jharkhand maintained with first rank in revenue performance and expenditure pattern had a poor show with respect to resource gap. As such it can be able to maintain only third position.

Table 10: FINAL RANKING OF SPECIAL CATEGORY STATES – (2014-2015)

States	RANKS OF STATES				Overall total	Final Rank
	Resource gap indicator	Revenue performance indicator	Expenditure pattern indicator	Debt pattern indicator		
Arunachal Pradesh	8	4	2.5	5	19.5	4
Assam	6	8	8	6.5	28.5	9
Himachal Pradesh	9	6	9	10	34	10
Jammu and Kashmir	1	3	5	2.5	11.5	2
Manipur	5	9	4	9	27	7
Meghalaya	7	7	6.5	2.5	23	5
Mizoram	4	2	1	8	15	3
Nagaland	2	10	10	4	26	6
Sikkim	3	1	2.5	1	7.5	1
Uttaranchal	10	5	6.5	6.5	28	8

Source: Our estimates.

Among special category states, Sikkim secured first place followed by Jammu and Kashmir and Mizoram. Himachal Pradesh ranked last on an overall assessment of fiscal performance of governments. Himachal had last position in debt pattern and last but one in resource gap and expenditure pattern. It remained with sixth position in revenue performance. In aggregate it ended with last position. Jammu and Kashmir well placed with resource gap couldn't able to maintain the position due to poor performance in expenditure pattern followed by revenue performance. Similarly, Nagaland occupied the last position in revenue performance and expenditure pattern retained the middle position due to reasonably good performance in resource gap and debt pattern.

CONCLUSIONS

Thus, fiscal health of provincial governments in Indian federation has been evaluated on the basis of resource gap indicators, revenue performance indicators, expenditure pattern indicators and debt pattern indicators. On the basis of these tests, following conclusions emerged.

As far as aggregate resource gap indicators of non-special category states are concerned, Bihar secured first position and West Bengal with least position. This shows that there is a huge disparity exists between resources and requirements of West Bengal.

Among the special category states, resource gap was least in Jammu and Kashmir. It was high in Uttranchal.

The revenue performance of Jharkhand was sound among non-special category states and the revenue performance of West Bengal was poor. Among special category states, the revenue performance was good in Sikkim whereas the revenue performance of Nagaland was poor.

Jharkhand performed well at the aggregate level in the case of the expenditure pattern among the non-special category states and the overall expenditure pattern of Punjab was poor compared to other states. The expenditure pattern of special category state like Mizoram was good and Nagaland poorly performed in expenditure pattern.

During 2014-2015, National Capital Territory of Delhi and Karnataka had minimum debt among non-special category states. Rajasthan and Uttar Pradesh had high levels of debt during the same period. As far as the debt pattern of special category states are concerned, Sikkim had lower indebtedness whereas Himachal Pradesh had higher indebtedness.

As such, it is concluded that the fiscal health of Chattisgarh and Karnataka were good and it was very poor in West Bengal.

The over all ranking of special category states reveal that the fiscal functioning of Sikkim was good during 2014-2015. Poor fiscal performance existed in Himachal Pradesh.

At aggregate level, Karnataka and Chhattisgarh maintained very good fiscal performance among non special category states. West Bengal had a very poor fiscal strength. Similarly, Sikkim had a good fiscal performance among special category states and Himachal Pradesh had a very poor show at the aggregate level.

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