



REVENUE TRENDS OF STATES DURING PRE-REFORM AND POST-REFORM PERIOD

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Abstract

Fiscal sector reforms were the integral and the most critical part of the macro-economic stabilization and reforms programme taken by the government after 1991 crisis. The primary objective of the paper was to analyze the revenue trends of states since 1975. The period chosen for the study is of thirty years i.e., from 1975-76 to 2005-06. This period is further divided into pre-reform period and post-reform period. Statistical tools like percentages, growth rates, semi-logarithmic trend ($Y=ab^x$) have been used to analyse the data in order to know the fiscal performance of the central and state governments of India. It was observed that the rate of growth of capital receipts is much higher than the growth of revenue receipts in the post-reform period. This indicates that a lower growth of revenue receipts was mainly responsible for the increasing debt liabilities as a part of capital receipts of the state governments.

Keywords: Revenue, Transfer payments, Fiscal Reform, State Government

I. Introduction

States' finances in India have been showing a gradual deterioration since independence. Financial position of states had weakened progressively due to pressures from the growing momentum of expenditure commitments and lack of buoyancy of states' fiscal resources. But, during the decade of 1980s, state government's finances were under heavy stress as most of the states were facing a worsening budgetary situation which affected their developmental expenditure.

During the 1990s, Indian states were facing acute fiscal crisis. There was sharp deterioration in the state-level fiscal performance "such as rising deficits, rapidly rising debt stock, growing off-budget liabilities, a liquidity crunch in the state governments, not in the economy, liquidity crunch making it more difficult to pay salary and bills" (Singh, 2008). Thus, they needed fiscal correction and consolidation. Infact, the fiscal situation that developed in the late 1990s in the states was closely like the one that confronted the central government in the early 1990s due to balance of payments crisis. In view of this, no doubt, a few states initiated many self-imposed reform initiatives since



1991, but the Fiscal Reform Programme (FRP) for states was initiated very late in April 1999. It is only during 2000s that major tax reforms have been undertaken by the state governments and by 2007-08, all states have implemented VAT replacing sales tax in order to increase tax revenue. The issue of states finances in the country has started getting the desired attention very late. Therefore, an in-depth study of revenue trends of states in India for the period 1975 to 2005 has been done in order to understand the problems and issues associated with raising and disbursement of funds by the state governments.

II. Trends in Total Receipts of the States

Total receipts, revenue receipts and capital receipts of states have witnessed an increasing trend during the study period. The total receipts of the states, during the study period, recorded the growth of 15 per cent per annum out of which receipts on revenue account have grown at the rate of 14 per cent per annum whereas receipts on capital account have grown at the rate of 17 per cent per annum. There has been a rapid increase in the total receipts of the states, from Rs. 8577.05 crore in 1975-76 to Rs. 68077.67 crore in 1989-90 – registered the growth of 16 per cent per annum. This improvement in total receipts of the states was largely on account of increase in revenue receipts, particularly states' taxes. It may however be noted here that three-fourth of increased total receipts in 1979-80 were on account of increased share in the central taxes following the Finance Commission's award (Economic Survey, 1980-81). On the other hand, total receipts of states which were Rs. 95881.23 crore in 1991-92 and Rs. 304630.56 crore in 2003-2004 (Table 1). It was due to reforms undertaken by the states towards "enhancement/restructuring of various taxes within their fold such as land revenue, vehicle tax, entertainment tax, sales tax, betting tax, electricity duty, tax on trade, professional tax and luxury tax" (State Finances: A Study of Budgets of 2003-04). Total receipts further showed an increasing trend and reached to the line of Rs. 553222.92 crore in 2005-06 – registered the growth of 13 per cent per annum during the post-reform period (Table 2). Total receipts reached to Rs. 727900.95 crore in 2007-08 (R.E.) This improvement in total receipts was due to the introduction of state level VAT on April 1, 2003.

It is always better to increase the receipts on revenue account. Such receipts rose from Rs. 7423.16 crore in 1975-76 to Rs. 52747.76 crore in 1989-90 - recorded the growth of 15 per cent per annum during the pre-reform period of fifteen years. It constituted 86.55 percent in 1975-76 of the total receipts of the states. This share declined to



Table 1: Total Receipts of the States

Year	Revenue Receipts*		Capital Receipts		Total Receipts	
	(Per cent)	(Rs. crore)	(Per cent)	(Rs. crore)	(Per cent)	(Rs. crore)
1975-76	86.55	7423.16	13.45	1153.89	100	8577.05
1976-77	84.20	8507.25	15.80	1595.95	100	10103.20
1977-78	81.82	9272.49	18.18	2059.87	100	11332.36
1978-79	78.35	10859.06	21.65	3000.48	100	13859.54
1979-80	82.27	12812.77	17.73	2761.45	100	15574.22
1980-81	79.2	14786.53	20.80	3882.76	100	18669.29
1981-82	84.45	17169.69	15.55	3162.09	100	20331.78
1982-83	81.89	19924.14	18.11	4406.63	100	24330.77
1983-84	79.62	22525.11	20.38	5764.25	100	28289.36
1984-85	78.82	25851.95	21.18	6947.38	100	32799.33
1985-86	77.17	31451.53	22.83	9303.80	100	40755.33
1986-87	80.77	35606.98	19.23	8479.40	100	44086.38
1987-88	78.62	41555.26	21.38	11300.26	100	52855.52
1988-89	79.31	47099.45	20.69	12283.40	100	59382.85
1989-90	77.48	52747.76	22.52	15329.91	100	68077.67
1990-91	77.12	62081.45	22.88	18418.40	100	80499.85
1991-92	80.48	77165.31	19.52	18715.92	100	95881.23
1992-93	80.64	86149.71	19.36	20689.01	100	106838.72
1993-94	84.44	101024.96	15.56	18609.20	100	119634.16
1994-95	79.28	117076.97	20.72	30606.25	100	147683.22
1995-96	88.87	131654.08	11.13	16490.34	100	148144.42
1996-97	79.47	145443.00	20.53	37570.83	100	183013.83
1997-98	77.18	163327.15	22.82	48297.88	100	211625.03
1998-99	69.23	170695.41	30.77	75859.39	100	246554.80
1999-00	67.92	199379.95	32.08	94180.41	100	293560.36
2000-01	70.33	219737.05	29.67	92718.41	100	312455.46
2001-02	72.63	246288.78	27.37	92808.57	100	339097.35
2002-03	71.13	259774.58	28.87	105439.73	100	365214.31
2003-04	70.29	304630.56	29.71	128771.49	100	433402.05
2004-05	75.05	354671.47	24.95	117885.82	100	472557.29
2005-06	77.46	428518.96	22.54	124703.96	100	553222.92
2006-07	95.79	532534.56	4.21	23401.50	100	555936.06
2007-08 (R.E.)	87.50	636889.48	12.50	91011.47	100	727900.95

Note: * Includes States' share in Central taxes but excludes transfer from States' funds.

Source: Computed on the basis of the data compiled from various issues of Indian Public Finance Statistics.



78.35 percent in 1978-79 mainly due to increase in the amount of capital receipts and inadequate expansion and erosion of tax bases because of concessions and exemptions in case of major state taxes (Economic Survey, 1979-80). On account of efforts to raise tax revenue (Report on Currency and Finance, 1978-79), this share could be increased to 82.27 per cent in 1979-80. Thereafter, the proportion of revenue receipts in total receipts of the states declined from 84.45 per cent in 1981-82 to 80.77 per cent in 1986-87 and remained less than 80 per cent for the last four years of 1980s.

Table 2: Compound Growth Rates of Receipts of the States

Year	<i>(Per cent)</i>			
	1975-76 to 1989-90	1990-91 to 2005-06	1991-92 to 2005-06	1975-76 to 2005-06
Revenue Receipts	15	11	12	14
Capital Receipts	19	16	18	17
Total Receipts	16	12	13	15

Note: The whole period of the study has been split into pre and post-reform period i.e., 1975-76 to 1989-90 and 1991-92 to 2005-06. The growth rate for the period between 1990-91 to 2005-06 which also includes the crisis period i.e., 1990-91 has been calculated as stated above. However, in the interpretation, the main emphasis has been put on the post-reform period of 1991-92 to 2005-06.

Source: Computed on the basis of data compiled from various issues of Indian Public Finance Statistics.

Revenue receipts increased from Rs. 62081.45 crore in 1990-91 to Rs. 77165.31 crore in 1991-92 and to Rs. 246288.78 crore in 2001-02. This rise in revenue receipts was on account of the higher growth in current transfers from the central government (State Finances: A Study of Budgets of 2001-02). In order to augment revenue, the states, besides introducing VAT, have attempted to expand taxpayer base, better compliance and rationalization of tax rates (Singh, 2008). Consequently, these receipts stepped up to Rs. 428518.96 crore in 2005-06 – registered the growth of 12 per cent per annum. These have grown to Rs. 636889.48 crore in 2007-08 (R.E.). Its share was 77.12 per cent in 1990-91 and rose to 80.48 per cent in 1991-92. This increase in the share of revenue receipts was almost entirely due to an increase in grants from the centre and states' share of income-tax and union excise duties, collected by the central government (Economic Survey, 1992-93). Its share further rose to 88.87 per cent in 1995-96 but declined to 67.92 per cent in 1999-00 and stood at 77.46 per cent in 2005-06. The share of revenue receipts witnessed an upsurge during the 2006-07 (95.79 per cent) "mainly due to higher devolution and transfer of resources from the central government and improvement in tax revenue" (State Finances: A Study of Budgets of 2001-02).



Further, capital receipts of the state governments, a major share of which is from loans from the central government, in the pre-reform period increased from Rs.1153.89 crore in 1975-76 to Rs. 3882.76 crore in 1980-81. It further declined to Rs. 3162.09 crore in 1981-82. This was mainly on account of the decline in loans from the centre and shortfall in miscellaneous capital receipts (Economic Survey, 1981-82). It further moved up to Rs. 15329.91 crore in 1989-90 which constituted of 13.45 per cent of the total receipts of the states in the year 1975-76. This percentage rose to 22.83 per cent in 1985-86 and further declined to 20.69 per cent in 1988-89. During post-reform period, it rose from Rs. 18715.92 crore in 1991-92 and to Rs. 128771.49 crore in 2003-04. This was due to the rise in market borrowings and special securities issued to NSSF (State Finances: A Study of Budgets of 2003-04). Most of the reduction in capital receipts in 2004-05 was due to substantial decline in gross market borrowings and power bonds and recovery of loans (State Finances: A Study of Budgets of 2004-05). The sharp decline in capital receipts to Rs. 23401.5 crore in 2006-07 was on account of lower recovery of loans and advances (State Finances: A Study of Budgets of 2006-07). Looking at the proportion of capital receipts in total receipts of the states, the data reveals that from 1996-97 it has remained more than 20 per cent and was even more than 30 per cent during 1998-99. But in 2006-07, the share of capital receipts declined to 4.21 per cent due to the recommendation of Twelfth Finance Commission for the states to borrow directly from the market.

States' total receipts as per cent of GDP have shown substantial increase during 1975-76 to 2007-08 (R.E.) (Table 3). As percentage of GDP, total receipts of the states, comprising revenue and capital receipts, had risen from 10.3 per cent in 1975-76 to 14.8 per cent in 1987-88. In the post-reform period, it has shown a declining trend and reached to 13.9 per cent in 1997-98. Total receipts as per cent of GDP were 15.8 per cent in 2003-04 and reached to 15.5 per cent in 2005-06.

Revenue receipts as per cent of GDP increased from about 8.8 per cent in 1975-76 to 11.6 per cent in 1987-88. This increase was mainly due to the rise in tax revenue. Declining revenue-GDP ratio was a major reason of fiscal imbalances. During post-reform period, trend in states' revenue receipts showed a decline from 10.9 per cent of GDP in 1990-91 to 9.7 per cent of GDP in 1998-99. The fall in states' revenue receipts was due to decline in central transfers to states. During 2000s, a number of states have taken up fiscal reforms such as introduction of uniform floor rate and state-level VAT. As a result, proportion of revenue receipts to GDP rose to 13.4 per cent in 2007-08 (R.E.). This helped states to reduce revenue deficit to 0.1 per cent and fiscal deficit of 2.7 per cent of GDP.



Table 3: Total Receipts of the States as per cent of GDP

Year	Revenue Receipts	Capital Receipts	Total Receipts
1975-76	8.8	1.4	10.2
1976-77	9.4	1.8	11.2
1977-78	9.0	2.0	11.0
1978-79	9.8	2.7	12.5
1979-80	10.5	2.3	12.8
1980-81	10.2	2.7	12.9
1981-82	10.1	1.9	12.0
1982-83	10.4	2.3	12.7
1983-84	10.1	2.6	12.7
1984-85	10.4	2.8	13.2
1985-86	11.2	3.3	14.5
1986-87	11.3	2.7	14.0
1987-88	11.6	3.2	14.8
1988-89	11.1	2.9	14.0
1989-90	10.8	3.1	13.9
1990-91	10.9	3.2	14.1
1991-92	11.8	2.9	14.7
1992-93	11.4	2.7	14.1
1993-94	11.7	2.1	13.8
1994-95	11.5	3.0	14.5
1995-96	11.0	1.4	12.4
1996-97	10.5	2.7	13.2
1997-98	10.7	3.2	13.9
1998-99	9.7	4.3	14.0
1999-00	10.2	4.8	15.0
2000-01	10.5	4.4	14.9
2001-02	10.8	4.1	14.9
2002-03	10.6	4.3	14.9
2003-04	11.1	4.7	15.8
2004-05	11.2	3.7	14.9
2005-06	12.0	3.5	15.5
2006-07	12.9	0.6	13.5
2007-08 (R.E.)	13.4	1.9	15.3

Source: Computed on the basis of the data compiled from various issues of Indian Public Finance Statistics.



Capital receipts of the states shown fluctuations during 1975-76 to 2007-08 (R.E.). It was 1.4 per cent of GDP in 1975-76 and reached to 2.8 per cent of GDP in 1984-85 and 3.1 per cent of GDP in 1989-90. In the post-reform period, it rose to 4.8 per cent of GDP in 1999-2000 from 3.2 per cent of GDP in 1990-91. Due to substantial decline in special securities issued to NSSF and lower recovery of loans and advances, it dipped to 0.6 per cent of GDP in 2006-07 (State Finances: A Study of Budgets of 2006-07). It further went up to 1.9 per cent of GDP in 2007-08 (R.E.).

Thus, it may be concluded here that the share of revenue receipts as per cent of GDP has fluctuated between 10 and 11 per cent during 1980 to 2004. The near stagnation in revenue receipts has primarily been on account of sluggish nature of tax to GDP ratio, which remained stuck at about 8 per cent. On the other hand, capital receipts have hovered around 2 to 3 per cent during the study period.

III. Composition of Revenue Receipts of the States

Revenue Receipts of the states are composed of tax revenue, non-tax revenue and grants from the centre. Looking at the share of tax revenue, non-tax revenue and grants from the centre, it is observed that the main source of revenue of the state governments is the tax revenue which remained 65 to 75 per cent of the total revenue receipts during the study period. Tax revenue which was Rs. 5172.06 crore in 1975-76 showed substantially large increase (Rs. 9117.22 crore) in 1979-80 from 'mainly because of larger devolution of share in central taxes, as recommended by the Seventh Finance Commission' (Report on Currency and Finance, 1978-79). It further rose to Rs. 21856.26 crore in 1985-86 and to Rs. 39153.85 crore in 1989-90 (Table 4). The share of states' tax revenue had shown a declining trend during 1975-76 to 1978-79. It was 69.7 per cent in 1975-76 and fell to 64.1 per cent



Table 4: Share of Tax, Non-Tax Revenue and Grants from the Centre in Total Revenue Receipts of the States

(As per cent of Total)

Year	Tax Revenue	Non-Tax Revenue	Grants from the centre	Total Revenue Receipts
1975-76	69.7	13.0	17.3	100
1976-77	67.5	13.9	18.6	100
1977-78	66.7	12.7	20.6	100
1978-79	64.1	12.3	23.6	100
1979-80	71.2	11.7	17.1	100
1980-81	70.7	10.7	18.6	100
1981-82	73.1	10.3	16.6	100
1982-83	71.2	10.8	18.0	100
1983-84	70.2	10.8	19.0	100
1984-85	70.4	10.1	19.5	100
1985-86	69.5	9.7	20.8	100
1986-87	70.4	9.8	19.8	100
1987-88	69.9	9.3	20.8	100
1988-89	70.5	8.9	20.6	100
1989-90	74.2	9.5	16.3	100
1990-91	71.2	8.9	19.9	100
1991-92	68.3	11.9	19.8	100
1992-93	69.0	10.5	20.5	100
1993-94	67.9	11.1	21.0	100
1994-95	68.8	14.0	17.2	100
1995-96	70.7	13.5	15.8	100
1996-97	73.1	10.8	16.1	100
1997-98	74.4	10.2	15.4	100
1998-99	75.4	10.5	14.1	100
1999-00	73.7	10.7	15.6	100
2000-01	73.8	9.2	17.0	100
2001-02	73.4	9.2	17.4	100
2002-03	74.1	9.6	16.3	100
2003-04	74.2	9.4	16.4	100
2004-05	75.5	8.4	16.1	100
2005-06	73.9	8.0	18.0	100
2006-07	72.0	9.9	17.9	100
2007-08 (R.E.)	71.3	8.7	19.9	100

Source: Computed on the basis of the data compiled from various issues of Indian Public Finance Statistics.



in 1978-79. This deceleration can be attributed to the concessions announced by several states with regard to profession tax, sales tax, property tax, land revenue (Economic Survey, 1977-78). Thereafter, the bulk of the increase in the share of tax revenue to 73.1 per cent in 1981-82 came from sales tax and state excise duties (Economic Survey, 1981-82). It was 69.5 per cent in 1985-86 and rose to 74.2 per cent in 1989-90. States were slow in reforming their tax system than the central government. States resorted to tax reforms measures in the late 1990s in the face of deteriorating fiscal situation. They reduced the rate categories in the case of sales tax, reduced exemptions and introduced floor rates. Adoption of state-level VAT by almost all states has been the most important step. Consequently, states' tax revenue has shown an uptrend during post-reform period. It jumped from Rs. 52686.13 crore in 1991-92 and further to Rs. 316563.05 crore in 2005-06 – showing therein the growth of 13 per cent per annum in the post-reform period as compared to 16 per cent per annum in the pre-reform period (as shown in Table 5). The states' tax revenue was Rs. 454493.99 crore in 2007-08 (R.E.). As a proportion of total revenue receipts, tax revenue increased from 71.2 per cent in 1990-91 to 75.4 per cent in 1998-99. However, the share of tax revenue declined to 73.4 per cent in 2000-2001 'mainly due to lower realization in taxes on commodities and services and property' (State Finances: A Study of Budgets of 2001-02). Following certain pro-revenue reforms, the improvement in the share of tax revenue to 75.5 per cent in 2004-05 resulted in reduction in fiscal deficit. It again declined and reached to 71.2 per cent in 2007-08 (R.E.). Further, the states experienced sluggish performance in non-tax revenue throughout the study period. Non-tax revenue was gone up from Rs. 966.25 crore in 1975-76 to Rs. 5050.46 crore in 1989-90 – recorded the growth of 12 per cent per annum during this period. The relative share of non-tax revenue declined from 13.9 per cent in 1976-77 to 10.3 per cent in 1981-82. The primary cause for the declining trend and this unsatisfactory situation

Table 5: Compound Growth Rates of Revenue Receipts of the States

(Per cent)

Year	1975-76 to 1989-90	1990-91 to 2005-06	1991-92 to 2005-06	1975-76 to 2005-06
Tax Revenue	16	12	13	15
Non-Tax Revenue	12	9	9	14

Note: The whole period of the study has been split into pre and post-reform period i.e., 1975-76 to 1989-90 and 1991-92 to 2005-06. The growth rate for the period between 1990-91 to 2005-06



which also includes the crisis period i.e., 1990-91 has been calculated as stated above. However, in the interpretation, the main emphasis has been put on the post-reform period of 1991-92 to 2005-06.

Source: Computed on the basis of data compiled from various issues of Indian Public Finance Statistics.

during 1980s was the losses incurred by the departmentally run state public undertakings. During the post-reform period, non-tax revenue rose from Rs. 9151.76 crore in 1991-92 and further to Rs. 34476.12 crore in 2005-06 - registered the growth of 9 per cent per annum. The amount was reached to the level of Rs. 55540.59 crore in 2007-08 (R.E.) Two factors were mainly responsible for the low level of growth of states non-tax revenue. The first was the low recovery from various socio-economic services provided by the states. The second was the low rates of return from investment, in terms of dividends and profits made by the states in state public sector undertakings (State Finances: A Study of Budgets of 2006-07). States' non-tax revenue has shown a low and declining proportion in total revenue receipts. It declined from 14 per cent in 1994-95 to 8 per cent in 2005-06. Throughout the decade of 2000s, it has been realized that this was due to a number of reasons such as reluctance of the states to levy proper user charges on social and economic services and the poor and declining returns from departmental and non-departmental commercial enterprises (State Finances: A Study of Budgets of 2001-02; Singh, 2008). Another reason for the deterioration in the performance of non-tax revenue of the states was the lesser attention towards non-tax revenue received from policy makers.

The grants from the centre increased from Rs. 1284.85 crore in 1975-76 to Rs. 2568.2 crore in 1978-79. But Seventh Finance Commission recommended to decrease the amount of grants (Report on Currency and Finance, 1978-79). However, it further rose to Rs. 8573.45 crore in 1989-90. The relative share of grants from the centre was 17.3 per cent in 1975-76 and stood at 19 per cent in 1983-84 and 20.6 per cent in 1988-89. During the post-reform period 1991-92 to 2007-08 (R.E.), it increased from Rs. 15327.42 crore to Rs. 126854.9 crore. As proportion of total revenue receipts, it stood at 21 per cent in 1993-94 and declined to the level of 17.4 per cent in 2001-02 and no uniformity has been observed thereafter and it reached at 19.9 per cent in 2007-08 (R.E.).



IV. Composition of Capital Receipts of the States

Capital receipts of the states are composed of market loans, loans from the centre, other loans, state provident funds and miscellaneous capital receipts. Table 6 shows the relative share of different components of capital receipts. It reveals that loans from the centre constituted significant share up to 2000 and thereafter the share of other loans turned significant in total capital receipts of the states. A wide variation in the share of market loans in total capital receipts of the states has been noticed.

The share of market loans was 23.9 per cent in 1975-76, which declined to 10.8 per cent in 1985-86 and further went up to 13.2 per cent in 1990-91. In the post-reform period, it was 15.8 per cent in 1991-92 and rose abruptly

Table 6: Share of Different Components of Capital Receipts in Total Capital Receipts of the States

(As per cent of Total)

Year	Market Loans (net)	Loans from the centre (net)	Other Loans* (net)	State Provident Funds (net)	Miscellaneous Capital Receipts**(net)	Total Capital Receipts
1975-76	23.9	47.9	8.6	11.6	8	100
1976-77	12.3	47.4	5.4	11.1	23.8	100
1977-78	9.8	56.5	0.1	9.25	24.35	100
1978-79	6.8	62.2	2.1	7.38	21.52	100
1979-80	7.1	69.6	2.0	10.2	11.1	100
1980-81	5.7	56.8	5.3	7.32	24.88	100
1981-82	11.3	69.8	3.3	11.9	3.7	100
1982-83	9.5	64.3	2.7	13.5	10.0	100
1983-84	10.2	52.3	6.7	11.4	19.4	100
1984-85	11.1	53.4	3.3	11.3	20.9	100
1985-86	10.8	63.5	0.8	8.2	16.7	100
1986-87	13.5	55.5	-2.0	14.7	18.3	100
1987-88	13.6	51.5	2.1	11.6	21.2	100
1988-89	15.6	54.7	3.5	13.3	12.9	100



1989-90	15.0	51.8	3.6	12.1	17.5	100
1990-91	13.2	54.2	1.5	10.2	20.9	100
1991-92	15.8	50.3	2.4	12.6	18.9	100
1992-93	16.7	43.3	3.4	12.7	23.9	100
1993-94	19.3	48.1	4.7	16.7	11.2	100
1994-95	16.0	48.1	1.8	12.3	21.8	100
1995-96	35.9	89.6	5.9	25.0	-56.4	100
1996-97	17.0	46.8	3.1	12.2	20.9	100
1997-98	15.1	49.1	6.1	8.4	21.3	100
1998-99	14.1	41.0	5.1	13.0	26.8	100
1999-00	14.0	34.8	18.4	15.7	17.1	100
2000-01	13.7	14.9	43.8	9.9	17.7	100
2001-02	17.1	24.1	59.9	7.0	-8.1	100
2002-03	26.5	6.0	48.4	6.3	12.8	100
2003-04	36.6	-18.3	61.3	5.8	14.6	100
2004-05	15.2	-16.9	75.9	6.5	19.3	100
2005-06	11.8	-17.9	82.4	7.9	15.8	100
2006-07	70.7	-18.1	201.8	570.2	-724.6	100
2007-08 (R.E.)	63.3	3.7	20.3	11.6	1.1	100

Note: *Includes loans from national agricultural credit (long-term operations) funds of the RBI, National Cooperative Development Corporation, Central Warehousing Corporation, Life Insurance Corporation, and floating debt (other than ways and means advances and floating debt (other than ways and means advances and the overdrafts from the RBI).

**Includes inter-State settlement, contingency funds, deposits and advances, remittances, suspense and miscellaneous accounts.

Note: net means gross receipts minus repayments

Source: Computed on the basis of the data compiled from various issues of Indian Public Finance Statistics.



to 35.9 per cent in 1995-96. Thereafter, it declined to 26.5 per cent in 2002-03 due to the increase in the magnitude of loans from banks and other institutions. In 2003-04, the high level of market loans was the outcome of additional allocations under the debt swap scheme (State Finances: A Study of Budgets of 2004-05). It further rose to 70.7 per cent in 2006-07. The relative share of loans from the centre which was half of the total capital receipts of the states in 1977-78 rose to 69.6 per cent in 1979-80. This rise in central loans was on account of both plan and non-plan loans (Report on Currency and Finance, 1980-81). Its share was 69.8 per cent in 1981-82 and declined to 54.2 per cent in 1990-91. The relative share of loans from the centre which was 50.3 per cent in 1991-92, had significant share in total capital receipts of the state governments up to 1999-2000. Further, the share of loans from the centre in total capital receipts started declining on account of gradual disintermediation by central government and the debt consolidation and debt waiver scheme based on the recommendations of Twelfth Finance Commission. Over time, state governments were encouraged to borrow directly from the market and not from the central government. In addition, state governments were allowed to prepay their high-cost loans. As a result, the share of loans from the centre declined to 3.7 per cent in 2007-08 (R.E.).

The relative share of other loans has abruptly increased during 2000. The share of other loans fell from 8.6 per cent in 1975-76 to 2.7 per cent in 1982-83 and 1.5 per cent in 1990-91. In the post-reform period, it rose rapidly from 2.4 per cent in 1991-92 to 43.8 per cent in 2000-01 and to 82.4 per cent in 2005-06.

State provident funds as a proportion of capital receipts rose from 9.25 per cent in 1977-78 to 14.7 per cent in 1986-87 and declined to 10.2 per cent in 1990-91. During post-reform period, it was 16.7 per cent in 1993-94 and declined to 15.7 per cent in 1999-2000 and further to 7.9 per cent in 2005-06.

The table further reveals that the share of miscellaneous capital receipts was 23.8 per cent in 1976-77, 20.9 per cent in 1984-85 and 17.5 per cent in 1989-90. In the post-reform period, the share has been declining as it stood at 18.9 per cent in 1991-92, 17.1 per cent in 1999-2000 and 15.8 per cent in 2005-06. It thus has emerged that the share of loans from the centre has declined and the share of market loans and other loans has increased to a large extent.



V. Transfer of Resources from the Central Government to the States

States' revenue as well as expenditure in a federal system depends upon the transfer of resources from the centre to the states in order to correct vertical imbalance between centre and states. Similarly in India, out of the total receipts of the central government, resources are transferred to the states in the form of share in central taxes,

Table 7: Transfer of Resources from the Central Government to the States

(Rs. crore)

Year	Total receipts of Central Govt.*	Share of States in Central taxes	Grants from the Centre to States & UTs	Loans from the Centre to States & UTs (gross)	Repayment of loans by States & UTs	Gross transfers to States (3+4+5)	Net transfers to States (3+4+5-6)	(3) as % of 7	(4) as % of 7	(5) as % of 7	(8) as % of 2
1	2	3	4	5	6	7	8	9	10	11	12
1975-76	12702	1599	1289	1296	746	4184	3438	38.2	30.8	31.0	27.1
1977-78	15270	1798	1961	1956	881	5715	4834	31.5	34.3	34.2	31.7
1979-80	21138	3406	2411	2762	844	8579	7735	39.7	28.1	32.2	36.6
1981-82	28516	4274	2855	3460	1264	10589	9325	40.4	27.0	32.7	32.7
1983-84	39272	5246	4402	5059	1941	14707	12766	35.7	29.9	34.4	32.5
1985-86	59076	7491	7067	8473	2739	23031	20292	32.5	30.7	36.8	34.3
1987-88	76275	9598	9210	9414	3563	28222	24659	34.0	32.6	33.4	32.3
1988-89	104420	13232	8713	11311	3356	33256	29900	39.8	26.2	34.0	28.6
1990-91	127333	17197	15805	13199	3781	46201	42420	37.2	34.2	28.6	33.3
1992-93	166746	22241	20956	15263	5192	58460	53267	38.0	35.8	26.1	31.9
1994-95	207297	29285	21577	19627	4790	70489	65712	41.5	30.6	27.8	31.7
1996-97	264339	43548	30452	14729	7125	88729	81604	49.1	34.3	16.6	30.9
1998-99	350654	43481	29837	21462	9791	94780	84989	45.9	31.5	22.6	24.2
2000-01	419019	53528	42489	24528	14002	120545	106543	44.4	35.2	20.3	25.4
2002-03	450268	67366	48430	25449	61179	141245	80066	47.7	34.3	18.0	17.8
2004-05	481096	95887	73677	5654	8799	175218	166419	54.7	42.0	3.2	34.6
2007-08	881392	153600	108377	6706	8290	268683	260393	57.2	40.3	2.5	29.5

Note: * Include revenue receipts including states' share in taxes, capital receipts excluding repayment of loans and budgetary deficit of the central government.

Source: Computed on the basis of the data compiled from various issues of Indian Public Finance Statistics



grants and loans through three mechanisms – Finance Commission (60 to 70 per cent share of total transfers), Planning Commission and Discretionary transfers for centrally sponsored schemes.

Transfer of resources from the centre to the states is presented in Table 7. Net transfers to the states have increased from Rs. 3438 crore in 1975-76 to Rs. 260393 crore in 2007-08. But during the pre-reform period, these were continuously growing and the share in the total receipts of the central government was more than 30 per cent for most of the years. But during the post-reform period, net transfers from the centre to states declined for few years mainly since 2001-02 and the share in the total receipts was declined from more than 30 per cent to nearly 16 per cent till 2004-05. It is only recently that share has rebounded to the earlier position of more than 30 per cent. Out of total resources transferred, the percentage share of central taxes has increased from 38.22 per cent from 57 per cent and grants from 31 to 40 per cent but the loans from the centre to states and UTs have declined form 31 per cent to 2.5 per cent during the study period. So, all these changes have repercussions on the finances of the centre as well as state governments in Indian federal set up. So declined percentage of net transfers to states for most of the years since mid-90s to mid-2000s have improved the position of central government, on the other hand, deteriorated the fiscal position of state governments.

VI. Conclusion

Conclusively, total receipts of states (including states' share in central taxes), which include revenue and capital receipts, have recorded the growth of 15 per cent per annum during 1975-76 to 2005-06. Revenue receipts of the state governments have grown at a lower rate in the post-reform period (12 per cent per annum) as compared to the pre-reform period (15 per cent per annum) of fifteen years. On the other hand, capital receipts have grown at lower rate in the post-reform period (18 per cent per annum) than the pre-reform period (19 per cent per annum) but the rate is much higher than the growth of revenue receipts in the post-reform period. This indicates that a lower growth of the revenue receipts is mainly responsible for the increasing debt liabilities in terms of capital receipts of the state governments.

Looking at the share of revenue and capital receipts in total receipts of the state governments of India, it can be found that revenue receipts constituted the highest share in total receipts during the study period. On the other hand, capital receipts hovered between 11 to 30 per cent from 1975-76 to 2007-08.

The share of revenue receipts, as per cent of GDP, has fluctuated between 10 and 11 per cent during 1980 to 2004. With the reform measures undertaken by the states, revenue receipts rose to 14 per cent of GDP



in 2007-08. On the other hand, capital receipts have hovered around 2 to 3 per cent of GDP during the study period.

Revenue receipts of the states are composed of tax revenue and non-tax revenue. Tax revenue of the state governments has recorded the higher growth of 15 per cent per annum than the non-tax revenue (14 per cent per annum) from 1975-76 to 2005-06. In the pre-reform period, the rate of growth of tax revenue was higher (16 per cent per annum) in comparison to the rate of growth of non-tax revenue (13 per cent per annum). In the post-reform period, rate of growth of non-tax revenue is lower (9 per cent per annum) as compared to rate of growth of tax revenue of the states (12 per cent annum).

Looking at the share of tax revenue, non-tax revenue and grants from the centre, it is observed that the main source of revenue of the state governments is the tax revenue which remained 65 to 75 per cent of the total revenue receipts during the study period. This indicates that states should also undertake reforms in order to augment revenue targeting non-tax revenue sources.

Loans from the centre had significant share in total capital receipts of the state governments up to 1999-2000. Further, the share of loans from the centre in total capital receipts started declining on account of gradual disintermediation by central government and the debt consolidation and debt waiver scheme based on the recommendations of Twelfth Finance Commission. Over time, state governments were encouraged to borrow directly from the market and not from the central government. In addition, state governments were allowed to prepay their high-cost loans. As a result, for the rest of the period market loans constituted the highest share in the capital receipts of the states.

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