A number of studies on various aspects related with fiscal parameters of the Indian states have already been conducted, and have come out with diverse conclusions. In order to be able to make a precise formulation of the present study, entitled “Revenue and Economic Growth among Indian States: An Empirical Analysis”, we have made a brief review of the related studies, as it would provide us with broad idea about the nature of the work having already been done on the subject, and would also indicate the research gaps in the existing literature, thereby enabling us to explore the avenues for further research in the area. It also would provide us with a basis for compilation of the requisite information and analytical techniques to be adopted in the present study. A few general studies related with our own investigation have been discussed in a chronological order, as follows. It may, however, be added that theme-wise related studies have been subsequently reviewed in the corresponding chapters.

The study by Sahota (1961) was undertaken for the period 1951-52 to 1957-58 and he calculated tax buoyancy as well as tax elasticity. The buoyancy of corporate tax with respect to national income for the period was 1.45. He found that the elasticity of corporate taxation to national income and urban income were 1.25 and 1.44, respectively.

Krishnan (1972) studied financial resource position of the states, the constitutional framework of taxation and the central government's role in Indian federal fiscal set up. The study examined additional taxation of the agricultural sector, both in terms of intersectoral equity, pressure on state resources, agricultural surplus potential and evasion of taxes. It was noticed that ceiling on land holdings, low yields from land revenue and agricultural income tax had led to reduction in total net income per farm unit and a smaller taxable surplus. The author suggested effective and productive system of agricultural taxes with elements of progression and uniformity. Further, it was suggested that for enhancing revenue potential of states, complete revamping of the agricultural taxation should be done.
Nanjundapa (1974) suggested building up of a comprehensive integrated index of
development to provide an effective criteria for distribution of the proceeds. He also
examined the disastrous consequences of the revenue gap filling approach and
provided a system which could be fool-proof and might assist in solving various
outstanding problems. The study also dealt the problem of debt finance under a
multi-level public sector, advocated a new pattern of grant-loan-assistance, which
was in accordance with variations in the financial strength of the states and the
difference in the earning capacity of assets from the loans.

Purohit (1976) conducted a state-wise analysis of growth and composition
of tax revenue in India. The study covered the period from 1957-58 to
1970-71. It was observed that taxation has been a very important source of revenue.
During the study period, states own tax revenue had grown at a rate of 14.35 per
cent and its contribution to total revenue had increased from 39.51 percent in 1957-
58 to 45.33 percent in 1970-71. Taxes on land and income showed declining
contribution in all the states, excepting Assam. While reporting the importance of
taxes on commodities and services in the state's tax structure, he observed that more
than three-fourth of states own tax revenue came from these taxes in each state,
except Assam. Revenue from entertainment tax had been increasing in all the
states. The study concluded that the role of taxes on agricultural land, income,
property and taxes on commodity & services had assumed increasing importance
because of the policy of the least resistance of state governments, contrary to the
idea of framing a progressive tax structure.

Gupta (1977) examined that public expenditure program could help in reducing the
inequality and poverty; it not only would make good political and social sense, but
also would ensure good economic sense. Since it could be used to change the
patterns of consumption in a society; therefore, such programmes could ultimately
result in the expansion of gainful employment opportunities at a faster rate.

Ahuja (1978) attempted at measuring the incidence of benefits of government
expenditure at the instance of Planning Commission in three selected districts, viz.,
Kanpur in U.P., Thanjavur in Tamil Nadu and Gaya in Bihar. By taking direct
collection of extensive primary data, he concluded that the bottom 20 per cent of the
population had only 11 per cent share in the benefits from such expenditure, while
the top 20 per cent got 35 per cent. The study also identified areas of government expenditure which benefits the poor, and suggested selective action to achieve enhanced distribution of benefits from government expenditure to a large section of the poorer society.

Chona (1980) studied to identify certain issues in respect of expenditure of the central government and concluded that public expenditure in India has served the objectives of accelerating the growth of the economy coupled with better distribution of income and optimum allocation of resources. He recommended that there should be a National Expenditure Commission to undertake a review of the expenditure of both union and the states, so as to ensure the effective use of resources and to provide the basis for the division of resources between the union and the States.

Purohit (1982) opined that the evolution of sales tax in India has taken place in varying circumstances in different states. The existing structure was thus heterogeneous and multifarious. Various forms include single-point tax, double-point tax and multi-point tax. However, there has been a pronounced movement towards a single-point tax and predominated reliance on first-point tax. Also, there existed an additional sales tax and surcharge on sale tax. The effective rate had thus gone up considerably and varied from one state to another. From the points of view of growth, equity, administration, expediency and coordination, it was necessary that the states imposed as few rates as possible. There should be uniformity of rates, especially in neighbourhood states. Raw material should be exempted to avoid the problems of cascading. However, if state’s sales tax is levied, the rate should not be higher than that of Central Sales Tax (CST). Further as per the author, the rate of CST, should be slashed down to one percent only. Tax on services should be introduced to make the tax progressive in the Indian context. Finally, the incidence of tax should be calculated by taking account of effective rates of tax and not simply looking into the statuary rates.

Baragava (1984) in his study reviewed the entire growth of the Indian tax system and made suggestions for its rationalisation. Over the years, the state governments have become more dependent on the centre. The state governments not only have more inelastic sources of tax revenue, but also face certain problems due to which
they are unable to exploit their resources fully. The state governments have made no serious efforts on taxing the agriculture sector, although the paying capacity of their inhabitants has gone up. There should be full integration of agricultural and non-agricultural incomes to reduce the scope of tax evasion, assure equity and provide a bigger tax base itself. In the case of corporation tax, efforts should be made to accelerate capital formation and industrialization.

Dwivedi (1985) offered alternative measures of state tax efforts. The study was carried out in respect of 15 states of India for the period 1973-76. For measuring the relative taxable capacity ratio, a multiple regression equation was estimated. The study revealed that most state governments have made a high or good effort in mobilising this taxable potential. Only Orrisa and West Bengal had shown a poor performance.

In his study, Sinha (1987) made an attempt to objectively identify the sources of current dissatisfaction, and worked out the corresponding corrective measures. He felt that a rational structure of allocation of resources, first between the Union and the states and, then, among the states is a crux of the problem of centre-state relations in India. In his view, large scale adherence inter-governmental transfers represents an unhealthy and potentially dangerous aspect of fiscal federalism. In India, no viable arrangement of partnership can be built on the basis of such decisions. He pleaded for the early setting up of an inter-state council as provided for in the constitution for discussion, dialogue and co-ordination of the centre-state financial policies and relations.

Bawa and Gill (1988) examined the tax efforts of different Indian states. It was observed that states like Kerala, West Bengal, Karnataka, Tamil Nadu and Haryana had made commendable efforts in mobilizing tax revenue according to their potential. States like Punjab, Maharashtra and Gujarat were placed at medium level in respect of tax effort. The authors suggested that more vigorous efforts in other states need be made to tap the tax potential.

Jha et al. (1989) assessed the burden of indirect taxes, both before and after the reforms in indirect taxes introduced with the modified value added tax (MODVAT). The study concluded that MODVAT was beneficial for consumers, since it reduced the burden or incidence of indirect taxation for government; it was revenue-neutral,
but for producers the burden went up. They observed that consumers face lower effective tax rates with the introduction of MODVAT. Also, the nominal excise duties were very close to effective duties. This helped in correctly estimating the actual taxes being paid by a particular sector. The study also found that indirect taxes on most commodity groups were either progressive or proportional, cereals being a significant exception where the taxes were regressive.

Johar and Parkash (1989) examined the substitution of additional duties of excise for sales tax in India. The study revealed that the rate of growth of revenue from additional duties of excise has been much less than the yield from sales tax levied by the state governments. They argued that if the same amount of revenue is to be obtained, then the additional duties of excise in lieu of sales tax on a commodity had to be at a much higher rate than the latter. The authors observed that taking away of sales tax from the states would financially cripple the states and, therefore, would have to raise additional resources for their development plans. They pointed out that the principle of federalism envisaged in the constitution had whittled down a great deal and further transfer of items from the sales would erode the autonomy of states. The study concluded that substitution of additional duties of excise for sales tax would create quite an amount of union-state friction.

Sharma (1997) examined the need for and revenue potential of the Minimum Alternative Tax (MAT) levied on the book profit of companies against the Alternative Minimum Tax (AMT), which is leviable on their total assets as suggested by the World Bank. The author argued for the enforcement of either of these two measures. The study further made a case for reduction in corporate tax rates coupled with reduction in fiscal incentives which are prone to misutilization. It also suggested a reduction in the depreciation rates admissible under the income tax act for bringing about their harmonization with corresponding rates admissible under the Companies Act, which would also neutralize the loss of revenue from abolition of MAT, if it is so decided in the next budget. The study showed that the larger corporate pay lower effective tax.

Nambiar (2000) attempted to examine the case of Kerala, which was experiencing deep financial crisis and stagnant economic growth. He also examined the quality of fiscal management of Kerala during the period of 1991-97. The study revealed that
the state had a commendable performance on the resource mobilization front compared to other states. The size of resources allocated to development activities had shown fair growth in all the years. At the same time, the study also pointed out the startling features of the finance of the state. The state had not been able to allocate to development activities, a comparable share of the resources as allocated by the other states, inspite of availability of higher resources. The study also threw light on the worsening fiscal position of Kerala due to which the state had become heavily indebted. The author suggested to curtail the growth of non-plan development expenditure and the state should strive for getting a higher share out of the central resources.

Virmani (2001) examined the Central Value Added Tax (CENVAT) in India and opined that excise taxes were, till 1998, the most disappointing feature of the entire tax reform process. He reported that simultaneous reform of the central service tax would lay the ground for its integration into the CENVAT, perhaps a year or two later but while integrating the central service tax into the CENVAT, a few principles must be kept in mind. Changes in service tax prior to integration, must keep in mind the ultimate objective of having an integrated CENVAT on goods and services. Another principle was that service tax rate (including exemption or Zero rating) must not be differentiated by the nature of the producer.

Dhingra and Parkash (2002) examined the relationship between tax-GDP ratio and level of economic development in developing and developed countries, and estimated the tax performance of such countries. The study reported that nearly one-third of the developing countries had more than 20 percent tax ratio; of the developed countries, 72 percent countries had more than 20 percent ratio. The average tax ratio in developing countries was found to be 17.3 percent, while it was 26.2 percent in case of developed countries and this difference was found to be significant. The authors opined that India could be categorized in 'poor tax performance' countries as the tax-GDP ratio in India was mere 8.6 in 1998 and tax performance index was estimated to be 0.81. The study suggested that for improving the tax performance of the country as well as for reducing fiscal deficit, tax rates and design should be re-examined, tax administrations should be streamlined to improve tax compliance and check tax evasion.
Jha (2002) evaluated the fiscal success of recent efforts towards reforming and strengthening rural government in India through the process of rural decentralisation initiated with the 73rd constitutional Amendment Act in 1992. It measured the extent of fiscal decentralisation that has taken place in order to evaluate how for the rural governments have effective control over expenditure decision making. The analysis was based on budget data of rural government in seven Indian states for the decade of 1990s and presented recommendations to make fiscal decentralisation more effective.

Baghi (2005) tried to analyse the powers of the states to impose Value Added Tax (VAT). He argued that it was inappropriate to impose a uniform tax structure in VAT on the states, for it went against the principle of fiscal autonomy. He termed the erosion of federal foundations of the polity as a pity, especially at a time when there was a need to strengthen them.

Noroha (2006) examined VAT as an instrument to liberalize the economy further. He also examined the impact of VAT implementation on different states like Haryana, Delhi, Karnataka, Andhra Pradesh, Himachal Pradesh, Rajasthan and Gujarat. He concluded that with VAT replacing sales tax, the tax base has enlarged. He reported that apprehensions against VAT have lessened due to demonstration of benefits of the new tax system in 21 states and observed that introduction of uniform rates in all states would not only benefit trade and industry but also be a substantial revenue earner for the governments.

Kaur and Sethi (2007) studied some of the important aspects like growth performance and speed of structural transformation in social sector expenditure in respect of major states of India. The paper covered the period from 1985-86 to 2005-06 and 17 major states of India. It was observed that overall averaged rate of growth (56.4 per cent) during pre-liberalization period was significantly higher (at 1 per cent probability level) than that (9.1 per cent) during post liberalization period. The study showed that only three states (viz., Andhra Pradesh, Bihar and Madhya Pradesh) got favourably affected by way of liberalization policy regime, where as Orissa was worst-affected state. The authors felt the need to allocate more resources to social and community services, which will help in reducing economic inequalities.
Chattopadhyay (2007) took a critical look at some of the sources being proposed and implemented to raise funding for higher education. Raising expenditure on higher education to 1 per cent of GDP would prove to insufficient. However, in view of this need for expansion in higher education, the government has to explore perforce the feasibility of trying different sources of higher education. The study suggested possibility of introducing a graduate tax or income contingent loans may be explored. The suggestion mooted by the National Knowledge Commission to utilize land resources of universities will not only be able to garner sufficient resources for setting up new universities, it may vitiate the sanctity of academic ambience of institutions of higher learning.

Sivakumaresan (2010) focused on fiscal imbalance and its adverse effects on macroeconomic equilibrium in India. They opined that fiscal situation in states was more critical than that at the centre, as states have the constitutional responsibility for providing basic social and economic services and cannot borrow from the market or the central bank because of lack of independent power. They outlined the risks to Tamil Nadu’s fiscal outlook, such as interest rate shocks, pressures on the primary balance and contingent liabilities.

Chakraborty and Manay (2011) remarked that Goods and Services Tax (GST) rate in a two-rate structure would be higher than the general rate of VAT at 12.5 percent. The estimated base of services sector was highly conservative one in the sense that it did not fully cover the household services as also those entities providing services but not registered in the stock market. Under the proposed GST regime, these sectors would come under the tax net, thus leading to the overall efficiency gain that GST would bring in. In fact, under the GST regime, the actual taxable base of the service sector will be much broader than what was estimated in the present report and, consequently, the revenue neutral rate will be lower.

No doubt, the studies reviewed above are not exhaustive in nature and content; yet these (duly coupled with the other studies reviewed in the relevant chapters) may be considered as good enough in framing methodology to be adopted in the present investigation. Besides, the reviewed studies would expectedly help in filling the prevailing gaps, thereby making additions to the existing knowledge.