INTRODUCTION

Sound fiscal health of the economy not only ensures its uninterrupted growth it also makes the fiscal instruments effective in managing the economy vis-à-vis macroeconomic stabilisation, allocation of productive resources along the desired line, and redistribution of income in accordance with the social and political philosophy. Imbalance in government finances not only hampers the growth momentum of the economy but also affects adversely the quality of public goods. In a federal country the issue becomes complicated as the fallout of fiscal imbalance does not remain confined to the level of government where it occurs but affects other layers of the government as well. Since responsibilities and the sources of revenue are constitutionally assigned to different levels of government they are independent in matters of taxes and expenditures in their areas of jurisdictions. Thus even if imbalance at one level affect the other one it is not possible for the government whether at Centre or at the State to transcend the jurisdictional boundaries in attempting fiscal corrections.

India is federation with three layers of government namely the Central government, the State government and the Local government, the last one created through 73rd and 74th amendment to the constitution as late as in 1992 but the local bodies so created largely function as subsidiary bodies or the decentralised entities of States.

Structure of Indian federation is said to be asymmetric in nature where States have been assigned less elastic and relatively insignificant sources of revenue while they shoulder greater responsibilities of providing public goods and economic services. Constitution provides for the devolution of resources from Centre to States to make up for the inadequacy of their revenue. States in turn have to devolve revenue to local governments both Urban and Rural as these local bodies have been assigned a negligible source of revenue specially the later which hardly has any dependable source of revenue. Besides the constitutional transfers, Central government provides assistance to the States
for their development plans. These resources are routed through Planning Commission, a body that was created to carry out India’s development plans.

In India fiscal situation became worse in the early 1990s and reforms were initiated at the Central government level. But as has been stated earlier, what happens at one level of government affect the other one, soon it became clear that fiscal reforms at the Central level alone would not be sufficient as the fiscal situation at the State level continued to deteriorate.

Present study attempts to analyse the imbalances at the State level. It examines the time profile of imbalances as reflected in various fiscal parameters like fiscal deficit, revenue deficit, primary deficit and public debt over the years. The inter-State comparison has been carried out to find if the States exhibit the uniform pattern in terms of fiscal imbalances or their pattern differs in accordance with the difference in their respective fiscal capacity, per capita State Domestic Product and growth potentials.

Issue of fiscal imbalance becomes complex in a federal country where the tax resources are constitutionally assigned to different layers of government i.e., Union, State or the Local government with the provision for devolution of resources from Union to State, and from State to Local government. In certain cases, Union government directly transfers fund to the Local government. Though there are countries where horizontal transfers (transfers from one State government to another) and upward transfers (from States to Union government) also takes place but such things are not relevant in India’s case.

Since federating units are not the watertight compartments, therefore if imbalance occurs in a State government or the Union government the rest of the States or units cannot remain insulated. Non performing State becomes drag on the development as such State requires greater share in the pool meant to be transferred to States. Therefore, it becomes extremely essential to understand the nature and causes of imbalance at different layers of the government and what effects will such imbalance creates not only on unit (government) where such imbalance exists but for the rest of the economy as well. Understanding
the nature, causes and effects of fiscal imbalance is essential for finding remedy of such imbalance. Present study attempts to understand the problem of imbalance in India’s States government finances in general and for the State of Uttar Pradesh in particular.

Responsibilities and sources of revenue are assigned to the Centre and States under Article, 246 in the seventh schedule of the constitution. The entries in the States list suggest that they have been required to shoulder the larger responsibilities for social and economic development. To carry out these responsibilities States have been given the legislative power in respect of these items. Sources of revenue too are assigned to the States and Centre separately. But the sources over which States have exclusive jurisdictions yield considerably inadequate revenue considering the vast responsibilities they have to discharge. Constitution provides for financial devolution from Centre to States to make up for the inadequacy in States’ own revenue. Such transfers consist of sharing with the Centre the latter’s tax revenue and devolution of taxes collected by Centre but whose proceed has to be transferred wholly to the States. The mechanism of federal finance is quite asymmetric as though the States have to provide greater amount of public goods but their sources of revenue do not match them. Further, such transfers takes place on the recommendation of Finance Commission (Article 280) but while recommending the award to the States, Centre’s revenue requirements have to be taken into account.

Planning Commission is another channel through which resource transfer takes place. These transfers take the form of financing the schemes that are part of Centre’s five year plans. Besides, Planning Commission provide assistance to States’ plan in the form of loans and grants in the ratio of 70 and 30 respectively for general category States and 10 and 90 respectively for special category States.
Thus it can be said that States depend a great deal on Centre for the resources they require to fulfill their constitutional obligation with regard to the provision of public goods which includes socio-economic development as well.

In the late nineties States’ finances began to be focused. Serious concerns were expressed about the capabilities of States in managing their fiscal affairs in a prudent manner. Many states became debt burdened to the extent that large portion of their finances were going to meet committed expenditures like salaries, interest and pensions – at one point in late nineties, liquidity crunch was so severe that States were “finding it much more difficult to pay bills, and even salaries”. All this had constrained the ability of States to bring about economic development and to provide adequate and efficient delivery of public goods and services. Not only did States come to be perceived as not having succeeded in living up to what was constitutionally expected of them, but also to be the poor manager of their finances. States did not use their tax powers adequately and became too much dependent on the Centre even for their day-to-day maintenance despite having borrowed beyond sustainable levels.

In order to understand the imbalances and their implications, both current and future, for the economy of India’s States it is imperative to look into the expenditures and revenues of States, their components, their nature, their respective effects, their movements over time, their changing composition as well as the institutional arrangements that facilitate the working of State’s finances.

1.1: STATES’ EXPENDITURE

In the budget documents the expenditure of States are classified into capital and revenue expenditures. There are other classifications as well and fall into either of the categories mentioned above depending upon their nature. These are development and non-development expenditure, planned and non-plan expenditure but considerable amount of overlapping exists thereof. Items
of expenditure on various social and economic services, both on revenue and capital account can be classified as development expenditure. For all the States taken together, development expenditure accounted for about 70 per cent of the total expenditure in 1996-97. Almost 80 per cent of the capital expenditure and a little less than two-thirds of the revenue expenditure can be classified as development expenditure. While social services accounted for the major share of revenue development expenditure, economic services accounted for the major share of capital development expenditure.

Non-development expenditure accounts for about 30 per cent of the total expenditure of the States. This consists of over one-third of revenue expenditure and a little over 20 per cent of the capital expenditure. The principal non-development expenditure components of revenue expenditure are interest payments, administrative services and pensions. On the capital expenditure side the major items of non-development expenditure are repayment of loans to the Center and discharge of other debts.

Apart from meeting the unavoidable expenditure on account of maintenance of the various organs of the State and general administration, the State governments incur considerable expenditure in providing various social and economic services. Part of which is in the form of revenue expenditure and the remaining in the form of capita expenditure. Indeed these expenditures are important instruments of economic and social transformation of society and as such they constitute what is known as development expenditure.

All public goods and services cannot be efficiently provided centrally. Decentralisation of the provision of public goods and services is therefore has an economic rationale. Therefore, the government has to be a decentralised set up in India. Decentralised governments can be unitary or federal. Japan and China are large unitary countries but are highly decentralised. However, United States, Australia and Canada are organised on federal principles with each tier of government being politically organised with specific jurisdiction. Similar is the Indian case where the decentralisation is combined with the political
democratisation. India is a federally organised country with two principal tiers – Union and the States. All other tiers- municipalities and rural local bodies, despite the 73rd and 74th amendments to the Indian Constitution are primarily the subsidiary bodies or decentralised entities of States. States have been assigned substantial legislative authority and executive responsibilities. Indian constitution (Article 246) divides the ‘subject matters’, for the purposes of making laws, between Parliament and States’ legislatures. States have executive authority, but this executive authority is subject to the laws made by the Parliament and executive authority of the Centre. The States need financial resources largely for delivering goods and services to the people in there respective jurisdictions. Though there are no explicit provisions in the Indian constitution about ‘expenditure assignments’ but the executive authority of States can be expected to extend to subjects mentioned in the State list. It is implicit that public goods and services within the scope of matters mentioned in the States lists only can be delivered by the States. The States can also choose to deliver goods and services, which are not ‘public goods’ in the sense of non-rival and non-excludability conditions, if they have the positive externalities and market provision of such goods leads to inefficient allocation. The expenditure jurisdiction of the states can thus be taken to extend to the exclusive provision of public goods and services covered in the State list, optional provision of private goods (largely merit goods) in such list and public/private goods and services mentioned in the concurrent list. There is one more kind of expenditure, which is difficult to be classified in any type of goods or as purely transfers. This relates to payments of interest and pensions by the states. These payments are presently classified as general services. In fact, these payments do not relate to any goods or services being provided in the present. Interest, to the extent, this relates to borrowing for acquiring capital assets, can be treated as part of the cost of capital.
1.2: REVENUE OF STATE GOVERNMENTS

While expenditure assignments might not be explicitly defined in the Indian Constitution, the sources of revenue are well defined for both the Centre as well as State governments. Besides the proceeds from the assigned taxes the States also receive some revenue from non-tax sources. These include the returns from various economic services that are provided the State governments, returns from their investments and interest receipts on the loans and advances made by them. As mentioned above States’ own tax revenue is awfully inadequate to carry out the constitutional responsibilities. States’ non tax revenue too is not very significant either.

Inadequacy of revenue, as appears on the face, might not be entirely due to insufficient assignments as is often complained by the States. Inefficient tax administration, competitive populism, lack of political will to withdraw unwarranted subsidies, under recoveries of its loans and advances and reluctance to levy optimum user charges on the economic services as well as their realisation could well be the other reasons for the revenue gap the States’ budgets experience. The gap between revenue and expenditure is then largely filled by the Central transfers. Such transfers flow to States through both statutory and non-statutory channels.

1.3: CENTRAL TRANSFERS

The federal fiscal transfers mechanism imply a design of transfer of resources from one layer to the other layer of government in a particular federation. The objective of the system of intergovernmental fiscal transfers is to correct vertical imbalances and horizontal inequalities in the distribution of federal resources. The vertical imbalance arises due to the asymmetric assignment of functional responsibilities and financial powers between different levels of governments, the horizontal inequalities, on the other hand, exists because of the disparities in revenue capacity across the constituent units of federation, which mainly arises due to the differences in their levels of
income. The extent of these imbalances is different across federations in different countries and so also the design of transfers.

This brings to focus the issues regarding the working of fiscal federalism. The issues pertinent in this respect are whether fiscal transfers maintain delicate balance between revenue equalisation and efficiency, and to what extent such transfers induce fiscal discipline among States. Yet another aspect that needs attention is political economy of fiscal management both at the Centre as well as at the State level especially in view of the changing political landscape of this country since the beginning of the decade of nineties. Political influence of regional parties has tremendously grown during this period.

Institutional mechanism of federal transfers in India revolves around three institutions, viz., Finance Commission, Planning Commission and various Central government ministries transfers. Under the Constitution, the Finance Commission is appointed by the President of India every five years mainly to decide on the distribution of resources, viz., tax sharing and grants from the Center to the States. The Finance Commission’s recommendations, once accepted by the Parliament become mandatory, so that the transfers of funds executed in pursuance of these recommendations could be said to have a statutory sanction.

These statutory transfers are unconditional transfers and the State governments can utilise them according to their own expenditure priorities based on local needs. However, given the system of transfers so evolved over the years, the transfer of resources have fallen largely outside the ambit of Finance Commission and it is the Planning Commission through which larger share of resources are getting transferred to the States. It is important in this context to remember that Planning Commission is an executive authority of the Central government rather than a constitutional body like Finance Commission. The Planning Commission transfers are non-statutory transfers in the form of plan grants, which has emerged as the single largest component of grants
transferred to the States from the Centre. These non-statutory grants are decided on a year-to-year basis. At the same time as the States have to negotiate for these grants year after year, it creates a great deal of uncertainty about whether non-statutory grants will be available to States and if so in what amount and on what terms.

Apart from this, there are non-statutory discretionary transfers made to the States by various Central government ministries in the form of Centrally Sponsored Schemes (hereafter CSS). By nature, CSS grants are conditional specific purpose grants. CSS have become an important vehicle for transfer of resources to the States, outside the State plans, and over and above the transfers flowing through the mechanism of Finance Commission. These were started primarily to provide funding for projects in areas / subjects considered to be of national importance and priority by the Central government. The Centre draws up the details of the schemes and their implementation and funds for implementation are allocated to the State governments directly through District Rural Development Agencies or similarly created organisation. There is little freedom left to the State governments to modify the schemes to local governments or to divert funds to areas, which are considered of local priority. On the other hand the State budgets are burdened with additional revenue expenditure when the schemes are completed and their maintenance expenditure is pushed under the non-plan category and therefore add to State’s revenue expenditure.

Therefore the issues that need to be examined with respect to India’s fiscal situation are;

1. Growth of such imbalances over the years.
2. The comparison across States of the imbalances in their budgets.
3. If the asymmetric fiscal federalism is responsible for it?
4. If the mechanism of fiscal transfers is faulty?
5. If the revenue equalisation sought to be achieved through such transfers acts as disincentive for better performing States?

These questions assume importance as the fiscal reforms initiated at the Centre reveal that without taking the States along fiscal consolidation would remain elusive.

Imbalances arise due to different types of deficit like fiscal deficit, revenue deficit, primary deficit etc. These deficits lead to public debt which in turn increases the interest liabilities and may cause revenue deficit to swell. It may therefore be observed that there could be a chain of circular causation. It is for this reason that the nature of these deficits be understood in order to have a proper grasp of the genesis of fiscal imbalances.

The term fiscal deficit in the budget documents of the government of India was perhaps first used in 1991, before that the term budgetary deficits and deficit financing was in use. Deficit financing as used in India can be defined as the overall budgetary deficit, which means the aggregate of the deficit on both the revenue account and capital account. If fiscal deficit is compared with the conventionally measured budgetary deficit in India’s context, it is found that later does not completely serve the purpose. Budgetary deficit does not reflect the total borrowing requirement but is confined to only one particular form of borrowing i.e. 91 days treasury bills besides running down of its cash balances with RBI. This measure was supposed to represent the creation of additional credit or reserve money. Inflationary impact of the budget was used to be gauged through this deficit financing measure. The other forms of borrowing for which RBI extends credit support to the government are not reflected in budgetary deficit. These borrowing are current market loans; special securities issued by RBI, small savings and provident funds etc. In nutshell it can be said that budgetary deficit measure understates the borrowing and therefore makes it difficult to capture the complete monetary impact of fiscal operations.
Further, budgetary deficit measure is also inadequate in capturing the full impact of fiscal expansion. It does not take cognizance of the composition of budget which is necessary to find such impact as different taxes and expenditures affect aggregate demand differently.

1.4: FISCAL DEFICIT AND ITS MEASUREMENTS

Fiscal deficit is defined as the difference between total receipts (excluding net borrowings) and total expenditure. This part of the expenditure is financed through public borrowings.

Gross fiscal deficit therefore is equal to the difference between revenue receipts (net) plus non-debt capital receipts and the total expenditure including loans (net of repayments). This is a measure, which captures the entire shortfall in the non-debt resources for financing the central government operations.

1.4.1: Gross Fiscal Deficit = (revenue expenditure + capital expenditure + Net domestic lending) – (revenue receipts + grants).

The government may cover the deficit either by running down its accumulated balances or by borrowing from the central bank of the country which in turn would entail creating new money or it can go in for market borrowing. For example, as per Keynesian prescription to fight great depression government should create the deficit budget, which may be either financed through the creation of new money or through borrowings of funds which were lying idle with the people and which need to be activated. Fiscal deficit therefore is of greater analytical use as compared to budgetary deficit. If net domestic lending is excluded from gross fiscal deficit remainder is net fiscal deficit. Which particular measure of fiscal deficit is to be used depends on the kind of problem being studied.

1.4.2: Primary Deficit may be defined as gross fiscal deficit minus interest payments. Primary deficit measures the discretionary component of budget (interest payment is committed expenditure). Other items of expenditure are
due to the current action of the government and are, therefore, controllable to some extent. Interest receipts are, however, due to the past contract of the government.

Therefore;

\[ \text{Primary Deficit} = \text{Fiscal Deficit} - \text{Interest Payment} + \text{Interest Receipts} \]

Some time, for analytical use a distinction is made between gross fiscal deficit and net fiscal deficit, and gross primary deficit and net primary deficit. While fiscal deficit could be termed as gross fiscal deficit, net fiscal deficit may be defined as fiscal deficit net of ‘loans and advances’ mentioned in capital account of the budget. Since ‘loans and advances’ are supposed to create net assets of the government and are not meant for consumption purposes they are netted out to arrive at net fiscal deficit.

1.4.3: **Monetised Deficit** measures the new money supply on account of Reserve Bank of India’s net credit to the government. Since in India security market is not well developed, the RBI holds significant portion of government securities. This in turn leads to the printing of new money. Such phenomenon is also called monetisation of public debt.

1.4.4: **Revenue Deficit** is yet another measure that indicates the short fall in revenue receipts to carry out the current revenue expenditure. In other words it is a measure that indicates as to what extent capital receipts, in other words the borrowings, are used to finance the revenue budget.

Since revenue receipt and revenue expenditure constitute revenue budget (and the gap between two is revenue deficit / surplus) they need to be defined to understand the nature of this and other deficit measure. Normally every receipt that does not carry the financial liabilities for the government is revenue receipt. All the tax receipts and the non tax receipts like profit from public sector enterprises and the receipts from economic services that government provides are the revenue receipts. But the proceeds from disinvestment of public sector enterprises which is though non debt incurring but is qualitatively
different. Whether to include this revenue in the revenue receipt or not depends on the purposes for which the deficit measure is used. Thus Chelliah suggests;

“If the term impact of the budget on aggregate demand through net borrowing is to be judged, the sale proceeds of assets could be included in revenues. Alternatively the proceeds could be netted out against capital formation expenditure.”

1.5: DEFICITS OF STATES

All the deficit measures mentioned above are relevant at State level also except the primary deficit as States do not have any direct influence over monetary expansion or contraction. Union government not only transfers resources to States but also re-lends the borrowed money. Therefore it can not be said with a reasonable degree of certainty that States’ deficits have no monetary implications. Thus States’ deficits have significant implications not only for their own finances but, as mentioned earlier, for the Union finances as well as they do affect the federal transfer liabilities of the Central government. It is probably for this reason that there is an argument for having the consolidated fiscal deficit of the Centre and States’ governments. Argument seems to be valid for the reason that a considerable portion of Union government’s deficit is on account of the poor financial conditions of States. Therefore the study of States’ finances becomes important. If we have to get to the genesis of the imbalances analyses of the revenue deficit could be the beginning point. Revenue deficit indicates the quality of Fiscal deficit which in turn indicates the borrowing requirement of the government and results in public debt which has the potentiality of aggravating the revenue deficit by raising the interest liabilities of government. Composition of deficit thus becomes important.

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1.5.1: Effects of Imbalances

Effects of deficit depend upon the option exercised to finance it. There are two ways to do this; borrowing (internal / external) and monetisation (creating new money). Normally a mix of two is employed. Though latter option is not available to the States but part of monetary expansion by the Centre on account of the States’ imbalances can not be ruled out. Similarly external borrowing can be undertaken by the Centre alone. States can do this only with the concurrence of Central government as latter is required, under the provision of Indian Constitution, to write a counter guaranty on any loan the State governments may contract abroad. Therefore it is largely the market borrowings, special securities issued to the National Small Saving Funds, loans from State Provident Funds etc that constitute the States’ debt. Effects under monetisation are not considered here as monetisation of debt does not result directly from States’ action. Effects under debt financing could be the following.

So long as debt is not held externally, it could be argued that debt does not entail any net liability for the economy. Financial assets held by the rest of the economy, in such case, are exactly equal to the net debt liability of the economy. But such is not the case with States as part of the debt may be held by the agents outside the State. So States’ debt can create, in fact they do create, vertical as well as horizontal inequity. Implications of such inequity are not confined to the particular State but for other States as well as the Centre because one of the objectives of fiscal transfers is revenue equalization.

1.5.2: Causes of Imbalances

There is need to examine as to what motivates the sub national governments to let public debt grow knowing well the consequences that it may crowd out private investment, cause inflation and limit the government’s maneuverability through expenditure in revenue budget. On top of it sustainability of debt itself could be cause for concern. Debt is allowed to grow
because it may facilitate the creation of assets, income flows from which could be greater than the interest liability the debt entails. In such case debt may easily be serviced without any difficulty. Accumulation of debt on account of financing the development expenditure by the States with low industrial base and insufficient infrastructural network could be justified. In such States private investments are difficult to come by as returns to the investment may not be expected to be appreciably high. Therefore States have to create infrastructure through borrowed funds so as to attract private investments or alternatively invite investments by offering attractive fiscal concessions. In both the cases there will be fiscal strain. From long term perspective former is advisable. But judicious expenditure of borrowed funds would have to be ensured which could be judged from the enhanced revenue receipts.

But debt which is currently a matter of concern does not arise because of assets creation; it is the consumption out of borrowing. Existence of revenue deficit is the ample proof of that. Availability of cheap credit could be the other reason. Especially the national debts of many developing countries during late seventies could be attributed to this factor. What is remarkable for Indian States in this context is automatic entitlement of the States for the loans so far as the plan funds are concerned. Automatic flow of such loans was inherent in the system evolved to disburse the plan assistance. Only recently, on the recommendations of the Twelfth Finance Commission, such practice was dispensed with. The most common causes of imbalances in States’ finances in the nineties could be summarised as following:

- Declining Tax- GDP ratio.
- Declining user charges.
- Increasing expenditure on salaries, interest payments, subsidies and transfers.

Increasing pressure from declining revenues and increasing revenue expenditures does crowd out productive expenditures on creation and
maintenance of infrastructures. But such pressure does not affect all the States in equal measure. States that move against the populist policies and set up regular markets for services, such as power and water, should eventually be performing better than the one that are tempted by the short term gains and indulge in fiscal profligacy. These States ultimately end up as looser. Former are likely to garner faster State-level economic growth and job creation, from both domestic and foreign investments. Broadly speaking, there are currently rather significant differences in reform interest and economic performance between a large part of northern India and southern India. Karnataka, Tamil Nadu, and Andhra Pradesh are quite dynamic now in trying to improve the physical and legal infrastructure, in order to attract large-scale foreign investment. In the north especially in Bihar and Uttar Pradesh, one does not see the same kind of reform dynamism and the results are therefore poor in terms of economic growth. One can expect that these differences will soon be noticed politically, as inequalities between states in their economic performance become glaring. The States that are ahead will be rewarded with better performance while the States that are behind will find that there is the demand to catch up with the states that are growing.

1.5.3: Changing Political Scenario

Emergence of imbalances in States’ finance in latter part of the decade of eighties coincided with the emergence of regional political parties as major actors at the national level. Their influence grew significantly in national politics. These parties did have priorities oriented into serving their regional constituencies while at the same time they could now get Centre concedes to their demands in matters of financial relations. The government at the Centre became increasingly dependent on the support of these regional parties. Therefore the entire political economic management underwent a sea change during the period. Yet another coincidence was about to take place. It was the beginning of economic reforms at the Central level with fiscal reforms being major part of it.
Considering the linkage that exists between the finances of Union and the State governments, success of reforms depends a great deal on States’ fiscal performance which deteriorated considerably during nineties. Therefore the States’ transition to the reforms was almost inevitable. Transition to reforms was a paradigm shift in the role of the government from being planner to facilitator and regulator of market economy, from the provider of employment through public sector to the facilitator of employment opportunities etc. Besides this the major shift can be observed in the area of policy itself. Whereas the States, so far, largely used to be the implementer of Central policies now the States were making as well as implementing so. This resulted in the variation in policies across States. Furthermore greater emphasis could now be found in improving the quality of existing services as well as expanding their scope. Such thing could be observed in the area of education.

1.6: OBJECTIVE OF THE STUDY

In the circumstance discussed above the study sets the following objectives:

- To find out the imbalances and their genesis in States’ finances.
- Comparison of inter-State imbalances, to find if such imbalances are uniform across States.
- To examine the role of federal financial arrangements in reducing / increasing such imbalances.

The study is therefore aimed at getting to the core of the problem of imbalances in States’ finances which may help in devising the measure for correcting such imbalances. It should also help us understand what could be the possible ways to keep the fiscal imbalances in check and simultaneously keeping the federation intact.

1.7: HYPOTHESIS

The hypothesis proposed to be tested in this study is;
“Indian States’ current endeavor to bring about fiscal discipline did not remove structural weaknesses in the financial system itself.”

Apparently there could be two basic reasons for the financial imbalances of States; one, asymmetric federalism and two, the States’ imprudent fiscal management. It therefore becomes important to find if the fiscal correction presently observed is the result of the States overcoming the above stated factors?

1.8: DATA AND METHODOLOGY

The present study is based on Secondary data. Such data have been obtained from the publications of various government and autonomous agencies. That include Handbook of Statistics on Indian Economy, Reserve Bank of India Bulletin, Report on Currency and Finance, all published by Reserve Bank of India, Indian Public Finance Statistics, Economic Survey both published by Ministry of Finance, Government of India, Budget Documents both States’ and Union Government. The data on GDP and GSDP have been obtained from the publications of Central Statistical Organisation. The data on various aspects of public finance prepared by Centre for Monitoring Indian Economy have also been used.

Ratios and percentages are used to measure changes over time. Most of the fiscal indicators are shown in relation to GDP for the Centre and GSDP for State governments. For examining the trends of imbalances, the tabular and graphical representations have been used.

1.9: LIMITATIONS OF THE STUDY

The major limitation of the study is its inability to use any forecasting technique to project the future course of the variables dealt with in the study. It instead relied on the projections made by the agencies like Finance Commission, Planning Commission and Reserve Bank of India. Methodology of State government’s statistics has also not been examined which might have
caused some errors in inter-state comparisons based on the data from respective States.

Another important limitation could be the absence of the evaluation of the subsidies especially the one that are disguised in the under pricing of various economic services provided by the States. Similarly the growth potentials of some hitherto insignificant sources of revenue could not be looked into. It is hoped that the gaps left here will be covered by the studies undertaken in future on the lead provided here.