Almost all the countries, both developed and developing, are experiencing positive growth in their public expenditure to meet the requirement of their growing economy. However, this certainly emphasizes the need for generating more and more fiscal revenue by the governments. Where much work has been done to understand the cause-effect relationship between public expenditure and economic growth of the country or states, significant attention is not given to examine the interrelationship of economic growth and government revenue. On one side the higher economic growth calls for the greater efforts on the part of government to raise revenue, whereas on the other side, an increase in national income certainly provides a greater base to collect revenue, particularly revenue receipts which includes Tax and Non-Tax Revenue. Taxes and user charges or fees are mainly collected from the economic activities of the country such as production of goods and services, sales and purchase of goods, social services etc. In a growing economy that would be experiencing increase in its real per capita output, improvement in the living standard, better physical and social infrastructure etc., there will be an expansion in the base for collecting taxes and user charges. This indicates the fact that with the economic growth of the country it may enhance the revenue raising capacity of the government.
Apart from the national level, in the country that has federal structure even sub-national governments enjoy certain constitutional power to collect revenue and incur expenditure. India being a federal nation, state governments undertake their own fiscal measures for generating their revenue and incur public expenditure. Hence the above discussed argument can also be applied to the Indian states where state governments have the power to collect taxes and user charges from their own economic activities and moreover enjoy their share in the union transfers. However where each state has a different pattern of economic growth rates and socio-economic culture, the diversity may also lead to variation in their revenue generating capacity. Unfortunately a few researchers have so far looked into this issue of fiscal performance. Nevertheless, they carry one or the other limitations in terms assumptions, data coverage or a model building such as taking a single Tax Revenue rather than the over all states’ Revenue Receipts, assumption of independence of Tax Revenue, excluding Non-Tax Revenue, taking only time series data for one state or taking only cross sectional data for a particular year are some of the critical limitations observed in those studies. With upcoming issues of economic and fiscal disparities, there is an urgent need to have a theoretical frame work to examine performance of revenue generation of the states and to develop a model to examine the relationship between economic growth and revenue performance of the government.

This study makes an attempt to examine the revenue performance and compositional structure of the Indian states and develop a theoretical frame work to study the impact of economic growth on the states’ revenue.
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