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First Award of the Ninth Finance Commission

An Appraisal

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FIRST AWARD OF THE NINTH FINANCE COMMISSION

An Appraisal

by

Amaresh Bagchi

An award of a Finance Commission meant to cover only an odd fraction of its reference period, one year out of six, and close a gap left by its predecessor before it gets on to its main job would in ordinary circumstances have attracted little notice. There could be no cause for complaint had it chosen merely to maintain the status quo for the odd year pending the formulation of its approach and a fuller examination of the government finances at the Centre and the States as it is expected to do. In several respects the First Report of the Ninth Finance Commission (NFC) relating to 1989-90 does no more than that, *viz.* applying the principles laid down by its predecessor. In certain important respects however the Report goes beyond that and marks a significant departure from the approaches of the earlier Commission some of which reflect an attempt to correct the deficiencies of earlier awards and break new paths, but some are of questionable logic and have produced results which cause concern. This note seeks to appraise the recently announced award in order to identify its strengths and weaknesses in the background of the fears expressed over the terms of reference of the Commission and criticisms of the approaches followed by the earlier Commissions.

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The Backdrop

Before one proceeds to pronounce any judgement on its award, it is necessary to note that the NFC came to be formed at a time when the Indian fiscal scene presented a picture radically different from what the Constitution makers had envisaged while providing for the institution of a Finance Commission to adjudicate the flow of funds from the Centre to the States. Recognising the imbalance in the limitations of fiscal powers of the States as compared to the responsibilities assigned to them and the obvious need for evolving an arrangement for the devolution of federal funds which would command acceptance all round, the Indian Constitution provided for the appointment of a Finance Commission by the President at least once in every five years. The basic tasks envisaged for the Finance Commission were (i) to decide how much of the Central revenues were to devolve on the States to enable them to meet their budgetary requirements in the form of share in taxes and grants-in-aid of revenue and (ii) determine their distribution among the States in an equitable manner. To reassure the States that a portion of the taxes collected by the Centre would be passed on to the States, the Constitution stipulated that the proceeds of the income tax would have to be compulsorily shared with the States while the excise duties could also go to the sharable pool. Provision was also made for grants-in-aid "in aid of the revenues of the States from the Consolidated Fund of India". A separate provision of the Constitution (Article 282) permitted transfer of funds from the Centre in the form of grants under "Miscellaneous Financial Provisions". While the interpretation of the scope of Article 282 has been a matter of controversy, from a plain reading of the provisions governing the devolution of federal funds under the

Indian Constitution and their legislative history it would appear that these were premised on the presumption that the revenues collected by the Centre would be appreciably in excess of its requirements while only the States would be in deficit and that while there would be no bar to the Centre (as also the States) making grants for any public purpose, such grants should be made only in exceptional circumstances and the main channels of transfer from the Centre to the States would be the devolution of taxes and grants-in-aid on the recommendations of the Finance Commission.

For reasons which are well known, the assumptions underlying these premises do not quite hold valid any longer. Instead of the States being short of funds, it is the Centre which has run into deficits and since the beginning of the present decade even the revenue account of the Centre after devolution of taxes and grants to the States has been consistently in the red and the deficits are increasing alarmingly in recent years. The State budgets on the other hand have been on the whole balanced and have shown some surplus on the revenue account after devolution of Central revenues except for one or two years. While opinions vary as to what has brought about this situation - some would blame the Centre's improvidence in expenditure and its intrusion into areas which come within the sphere of the States, coupled with laxity in tax effort, whereas others point to excessive devolution - apparently, the vertical imbalance anticipated by the Constitution makers has almost turned upside down. The other presumption, viz., that the Finance Commission will be the principal if not exclusive channel of transfer did not materialise. Contrary to what was possibly contemplated by the Constitution makers, large transfers from the Centre to the States have been taking place via

Article 282 in the form of Plan grants governed by principles laid down by the National Development Council and also discretionary transfers by the Centre.

The latter development was the outcome of the country going in for planning with the public sector assuming a large role strictly under Central direction, a development which was not foreseen by the Constitution makers. While it is recognised that the country has made notable strides in economic development under the Plans, dissatisfaction has been expressed about the pattern of development and its financing that has emerged on the ground that (i) these have not helped to achieve one of the major goals of a federal state, viz., reducing the regional disparities and (ii) there is too much Central control over Planning and over the dispensation of federal funds among the States, bypassing the statutory mechanism set up under the Constitution for overseeing the federal devolution, viz., the Finance Commission. Exclusion of the revenue component of the Plans from the Finance Commission's purview since the Fourth Finance Commission (in effect, since the rejection of the majority view of the Third Commission) and the Planning Commission stepping in to provide even non-Plan revenue gap grants to some States undermined the role of the Finance Commission to an extent that could not possibly be justified even by invoking the requirements of the Plans. Although the introduction of the Gadgil formula brought about a measure of objectivity in the allocation of Central transfers under the Plans, the Plan grants did little to moderate the degree of disparity in the devolution of federal funds. Moreover, the proliferation of the Centrally Sponsored Schemes undermined the force of Gadgil formula in the matter of Plan transfers. Finance Commission awards, by contrast, appeared to be more evenhanded, although it was pointed out that they too did not go far to reduce regional disparities in the country and, despite all innovations in the distribution formula, poorer States did not fare much better in their capacity to undertake public investment needed to build up the basic infrastructure for growth and the inequalities in income levels are getting sharper.

Aggravation of the trends towards a chronic imbalance in government budgets which have come to mark the Indian fiscal scene in recent years was also believed to be another worrying result of the Finance Commission's awards. Many were inclined to think that the gap filling approach followed by the Commission had generated a climate of fiscal indiscipline all round and has been a prime factor underlying the intractable deficits that have beset the government budgets at the Centre and the States. The big step-up in the tax devolution ordained by the Seventh Commission helped generate some surplus in the States but the Centre had little left on the revenue account after meeting the expenditures on interest, defence and transfer to States. With a large share of its revenues going to the States, the Centre too appeared to have lost interest in strengthening its revenue base particularly income tax and turn instead to non-tax sources of revenue like administered price hikes, provoking protests from the States. All in all, the situation as it has developed over the last two Plans is almost desperate and what appeared to need attention more than anything else was to see how to bring about some balance in the government budgets and arrest the growth of the deficits.

Viewed in this background it should not have been surprising that the terms of reference of the NFC required a normative approach to be adopted in assessing the receipts and expenditures on the revenue account of the States and the Centre, and focussed on the need for providing adequate incentives for better resource mobilisation and financial discipline and the objective of generating surpluses for capital investment. In appraising any award of the present Finance Commission one has to keep this context in mind.

Ninth Finance Commission's Approach

While it was not possible for the Commission to formulate its approach in regard to all the issues facing it in its first report, the Commission has endeavoured to make a beginning by introducing a normative approach in assessing the tax revenue potential and tax effort of the States and the Centre. Not that the previous Commissions accepted the figures of the revenue and expenditure put forward by respective governments uncritically - close scrutiny was made of the revenue and expenditures, and projections appear to have been made on the basis of elasticities - this time the methodology is more sophisticated at least in the assessment of the States' tax revenue potential. A "co-variance" model has been used with the help of "pooled data". Another notable difference is that unlike the previous Commissions, the NFC has attempted to get out of the shackles of the "base year" by working out a "normative base" in an attempt to quantify the levels of undertaxation relative to potential.

It may be argued that revenue potential of a State may not be captured adequately by a few variables however carefully selected especially in a country where the States are far from homogenous in their economic structure and, what is more, their tax powers are subject to limitations which do not operate uniformally on all States[1]. There is also the possibility that tax effort itself is a function of the level of development of a State with increasing pressures for public expenditures and may not be an entirely exogenous factor. Income, it is pointed, is as much a ´demand´ as a ´supply´ factor and the identification problem in this is almost insuperable (Bird, 1976). Some of these possibilities are sought to be taken care of by grouping the States into "high-income", "middle-income" and "low-income" categories. Further, the tax potential worked out has been moderated by the Commission in recognition of the problems the States may be having in attaining the norms in the short run. Those who still have reservations about the normative approach based on econometric models (and some of them may be valid especially when there are severe limitations of data) have to come up with alternative approaches which would be more objective or less questionable. It can be nobody´s case that a State which does not exploit its tax potential at the average standards or runs its enterprises inefficiently (e.g., by having a staff-bus ratio in its transport undertakings more than double of most others) should be allowed to get away with it and have its inefficiency underwritten by the Centre which in effect means residents of other States. It is significant that after the initial protests against the terms of reference of the Commission, the need for a normative approach in place of the ad hocism inherent in the gap filling attempts of the earlier Commissions was finally accepted by all concerned. Some serious effort to evolve norms on scientific lines was therefore called for.

However, the methodology followed for assessing the Centre´s revenue potential does not bear any evidence of sophistication.

For tax revenue, the trend rate of growth has been adjusted upward from 14.5 per cent to 15 per cent the reasons for which are not clear. Perhaps this was intended to bring some parity in the growth rate of the tax revenue of the Central with that of the States. But there is no apparent reason to expect such parity either since basis of the taxes levied by the Centre and the States, though often overlapping do not quite coincide. No attempt was made to assess how much the Centre could be expected to raise if, for instance, some of the tax concessions of questionable efficacy were not given or the taxes were better administered and by looking into the scope for exploiting new sources of revenue (like taxation of services). No doubt, the task is far from simple since these observations are applicable also to the States (e.g., to their reluctance to tax agriculture). Further, the tax bases of the Centre and the States are often mutually dependent. Excessive exploitation of a given source by the Centre (e.g., through Union excise) can affect the tax potential of the States (such as for sales tax). But application of the normative approach to the States cannot be acceptable if it fails in the case of the Centre.

Also, on the revenue side of the States, the NFC has explored an econometric approach only for collections from taxes and chosen to maintain the status quo for the non-tax revenues. Reservations may be expressed about the equity of such segregation of tax and non-tax revenues since the bases often overlap particularly where there are State-owned enterprises in major areas as surpluses generated through pricing of products of such enterprises partake of the nature of a tax. Projections of tax revenues on a normative basis at the State level also might be questioned on the ground that the practices followed in the matter of delegation of tax powers to local bodies is not uniform among the States (e.g., entertainment tax is collected by municipalities in Kerala, and octroi in Maharashtra). To some extent the Commission has tried to get round the problem, e.g., by excluding electricity duty from tax revenue. In equity, an integrated view of tax and non-tax revenue would be advisable. It is to be hoped that the Commission will duly take these pitfalls into account before pronouncing its final judgement on the tax potential and tax effort of the States. It will not be fair to cast aspersion on the attempt being made by the Commission to bring about a degree of sophistication in the measure of revenue potential of the States unless the results turn out to be patently perverse or the deficiencies appear to be too serious to be ignored. No, the NFC´s First Report cannot be faulted on account of its attempt to devise a normative basis for assessing the revenue capacity of the States or the Centre, though, as pointed out earlier, in the case of the latter, the Commission has to do a little better than merely adjusting the trend rate of growth of tax revenues.

On the expenditure side, the Commission has followed its predecessor´s method, that is, projecting the non-Plan expenditue by applying reasonable ("sometimes, quite liberal") rates of growth barring a few items which call for a different basis. How the Commission goes about its task of formulating objective norms of current expenditures for the Centre and the Staes in its final report will be keenly awaited.

Overall, apart from the adoption of a normative approach in a selective manner, the Commission has not done anything which could indicate a serious attempt to assess the vertical imbalance inhering in the Indian federal system. The question how much of the Central revenue should go to the States does not seem to have been even addressed. Hence the feeling that the States have not got their due share. As for the distribution of the amounts which would finally devolve, while the status quo is largely maintained, significant departures have also been made yielding odd results as is shown below in a subsequent section. Since the subject matter of federal finance arouses passions and discussions often turn subjective, whether and if so how far the NFC helps in addressing its basic tasks, viz., mitigating the vertical and horizontal imbalances and disparities needs to be examined a little more closely.

Assessment of Vertical Imbalance

On the face of it, the dispensation of the NFC for 1989-90 does not upset the share of the States in the revenue of the Centre flowing from what is known as "statutory transfers" in recent years. The proportion of estimated non-plan revenue transfers in the Central revenue works out to 23.2 per cent as compared to less than 23 per cent in the preceding two years (vide Table 1).

The proportion of Central revenues devolving to the States under statutory transfers during the Sixth Plan averaged 21.9 per cent and 20.8 per cent during the Fifth Plan. Taking the transfers recommended by the NFC under Central assistance for the revenue component the State Plan, the proportion of aggregate transfers under statutory and Plan transfers in the Central revenues will continue to remain at the same, if not a slightly higher, level as in the earlier years of the decade.

Those who feel that the States ought to have a larger share of Central revenue, as the Centre's fiscal powers are much more extensive than those of the States, will still find fault with the quantum of devolution ordained by the NFC for 1989-90 and would contend that the States ought to be given more - or alternatively, more tax powers should be transferred to them - if the vertical fiscal imbalance embedded in the Indian Constitution is to be effectively redressed.

The States have been asking for a much larger share for some time and the Eighth Commission was taken to task for not even attempting to offer an estimate of what could be a fair proportion of the Centre's resources that the States as a whole could legitimately demand. It has been pointed out that in the aggregate budgetary resources (tax, non-tax and capital receipts), the share of the States has been declining and the Finance Commissions do not even seem to inquire what should be the respective shares of the Centre and the States in the aggregate budgetary resources (Gulati, 1987).

What ideally ought to be the respective shares of the States and the Centre in the aggregate government revenues and whether the distribution of fiscal powers between the Centre and the States need to be changed involve issues going beyond the purview of the Finance Commission's Terms of Reference. Given a predetermined distribution of powers and functions, were one to start from a clean slate, in principle, the correct way to assess the degree of vertical imbalance would be to take a view of what are the constitutional functions and responsibilities of the two levels of government, the costs of discharging them efficiently and how much each can raise by exercising its fiscal powers judiciously. This, however, is simply not possible when the reality is different and governments are committed to undertake expenditures not all of which can be said to be essential for discharging their constitutional responsibilities but cannot retrace their steps all of a sudden. The fact of the matter is that, both the Centre and the States have gone on to expand their activities and have permitted wastes beyond what could be supported with their resources resulting in a situation in which there is continuous pressure for transfer of more resources to the States on the one hand, and the Centre, being unable (or some might say, unwilling) to raise more revenue through taxation, turns more and more to borrowing to meet its requirements on the other. The hard reality at present is that of the aggregate (gross) revenue of the Centre, nearly 94 per cent goes under four heads, viz., transfers to the States (39 per cent), interest payments (26 per cent), defence (17 per cent) and major subsidies (12 per cent).[2] It can of course be argued that the Centre ought to contain its defence expenditures, borrowings and subsidies and also do better in raising revenues from tax and non-tax sources. However, one can urge similar restraint on the part of the States in their expenditures and more intensive efforts to raise revenue.

Indeed, a truly normative approach would call for making a judgement about all these. But norms totally divergent from reality may end up creating fictional surpluses. Nevertheless, norms serve the purpose of pointing to what is the right thing to do. If they appear unrealistic, their application may be phased. To start with, areas where the Centre and the States have stepped in without being required by the Constitution or without adequate justification can be identified and attention drawn to the need for stepping out. It must be said that in its First Report the

NFC has attempted to mitigate the severity of even a limited application of the normative approach and also pointed out some of the areas where there is the scope for cutting down Centre's involvement (e.g., in Centrally Sponsored Schemes). Presumably, the Commission will explore how norms can be formulated for application over a wider area of the finances of both the Centre and the States without introducing any subjectivity before making its final recommendations.

While a thoroughgoing application of norms might suggest major alteration of budgetary resources between the Centre and the States, it is difficult to see how, in the given situation, the NFC could recommend a substantial step up in the volume of devolution from the Centre. It needs to be noted that with the devolution recommended by the NFC, the States should have a revenue surplus of Rs 7202 crores in the aggregate while the Centre would be expected to have a deficit of Rs. 7994 crore after allowing for expenditure of the Centre on Plan revenue account. Of course these estimates may turn out to be entirely fictional, being "normative". Not many States will probably have any appreciable surplus while the Centre's deficit may in reality be much larger than has been projected by the FC. But, one may wonder about the logic or relevance of the norms in assessing the degree of vertical imbalance if the end result is huge revenue deficits at the Central level and large aggregate surpluses for the States even after all the normative calculations.

It would be understandable if the Commission found the revenue gaps so large that transfers of the order recommended were unavoidable even if that meant a larger Central deficit [unless of course one takes the stand that the overall deficit should be shared between the Centre and the States, a plea (Guhan, 1988) which makes little economic sense. But that obviously was not the case. Some States had surpluses on their budgets on a normative basis and even they have been awarded sizable share of the devolution, resulting in an enlargement of their revenue surpluses enormously. The NFC's approach so far does little to correct the imbalance that has overtaken the federal fiscal scene in India as it does not go far to point out what the Centre and the States can do and ought to do to bridge their budgetary gap without any detriment to their ability to discharge their respective constitutional responsibilities.

One may say that a modest beginning has been made in that some items of revenue and expenditures of the Centre and the States have been subjected to some scrutiny but that is about all. For all its efforts towards evolving objective norms, the NFC is yet to chart out a course markedly different from its predecessors', so far as redressal of vertical imbalance is concerned. As argued by Gulati and others, in assessing the extent of the imbalance, it is necessary to take a view of the what should be the respective shares of the Centre and the States in the budgetary resources in their totality. A fragmented application of norms would be unfair. While it may not be possible for a short lived Commission to fix an invariant proportion as the share of the States in the overall resources in a dynamic situation - that is a task which is best undertaken by a permanent Commission - a broad judgement for five-year scenario can perhaps be attempted. There is no indication that the NFC is going to make such an attempt in which case the normative approach may not carry conviction. This is where the NFC's approach to the vertical imbalance issue disappoints and not so much in not allowing a larger share of Central revenues to the States straightaway.

Horizontal Fiscal Capacity Equalisation

In the matter of equalisation of fiscal capacities of the States - the horizontal equalisation issue - the NFC's approach marks no improvement over that of the previous Commissions in reducing the sharp disparities among the States in fiscal capacities. In fact, some of the criteria used in deciding the distribution of taxes and grants are positively retrograde. Undeniably, there are serious problems in attempting any comparison of the equalizing impact of the NFC's award with those of earlier Commissions because of the creation of several new small States in the last few years (e.g., Goa and Mizoram). Also, the comparisons are vitiated by the fact - not often taken note of by researchers in the area - that the full picture of inter-State allocation of devolution awarded by the FCs is difficult to construct out of the figures set out in their reports as there are items for which the figures resulting from their recommendations are not worked out, in fact, they remain indeterminate at the time the reports are written, even though they are substantial, e.g., grants for net interest liability on Central loans. The picture of States' share in the aggregate federal transfers is further blurred by the tendency of the Planning Commission to give even revenue gap grants. However, a comparative analysis of the figures of per capita devolution and revenue budget surpluses of the 15 major States resulting from the NFC's award as given in its First Report with those of the previous two Commissions provides some idea of the directions in which the NFC's approach is going to take us in the matter of fiscal capacity equalisation.

If the proof of the pudding lies in eating, the ultimate test of the horizontal equalisation impact of devolution of the Centre's funds in a federal set up must be the extent to which it helps to narrow the differences in the revenue surpluses (or deficits) of the constituent units on a reasonable (`normative') estimate of their revenue potential and costs of providing public services required under the constitution at a reasonable standard. Table 2 sets out the figures of annual averages of the per capita budget surpluses of the States budgets before and after devolution (including grants) resulting from the awards of the Seventh and Eighth Commissions along with those for 1989-90 as recommended by the NFC in its First Report. Apart from the fact that the aggregate volume of surplus after statutory devolution registered a big rise over the last two decades - the increase has been elevenfold between the Sixth and the Eighth Commission (Lakdawala, 1984) - the co-efficient of variation (CV) of the surpluses among the States has tended to rise. It was 0.71 under the Seventh FC's award, and 0.75 under that of the Eighth. Under the NFC's award the co-efficient goes up to 0.83. Taken together with the fact that the correlation co-efficient of these surpluses with per capita SDP bears a positive sign, the increasing trend in the CV would suggest a worsening of the inequalities in the distribution of the surpluses. The co-efficient of correlation of the per capita surplus with SDP per capita under the NFC's award is smaller than under the awards of the two previous Commissions. But the gap between the State with the lowest surplus and that having the highest has increased. It was 42 fold under the Seventh FC's award (Rs 2.38 for Orissa as against Rs 100.85 of Haryana); under the Eighth Commission's award it had come down to 14 (Rs 13.27 for West Bengal as against Rs 185.48 of Punjab).

Under the NFC's award for 1989-90, the gap again goes back to about 40 fold (Rs 7.08 for Assam as against Rs 286.64 for Maharashtra). It cannot be said that the devolutions do not have any equalizing effect on the budgets. In their absence the disparities in the budget positions would be still worse. Also the devolutions do appear to be progressive as is evidenced by the negative sign of their co-efficient of correlation with per capita SDP. But the degree of progressivity which increased markedly under the Eighth FC's award as compared to that under the Seventh shows a decline under the NFC's First award (the respective co-efficients being - 0.59, - 0.74 and - 0.62).

As for transfers to the special category States, the per capita devolution to these States continue to be markedly high as compared to that for the other States but there seems to have been a decline in this gap under the NFC's award. However not much should be made of these disparities as the per capita surplus in the budgets of the special category States remain way below that of others even after sizeable devolutions[3].

As the size of the Plans of the States depends largely on the surpluses they can generate on their revenue account, it is only to be expected that the Plan expenditures of the States per capita bear a high degree of correlation with their per capita revenue surplus. Annual averages of per capita Plan expenditure for 15 major States from the years covered by the Finance Commission awards from the Fifth FC onwards are given in Table 3, along with averages, standard deviations and co-efficients of variation. Table 4 gives the correlation co-efficients between (i) SDP and revenue surpluses of the 15 States; (ii) SDP and Plan expenditure and (iii) surpluses and Plan expenditures (all per capita) over the Plan periods covered by the FCs' awards starting from the Fifth. The figures confirm the expectation that per capita Plan expenditure closely follows the level of revenue budget surpluses. The roots of the growing disparity in the per capita income levels of the States can perhaps be traced to this, viz., the sharp disparities in their budget surpluses affecting their capacity to undertake investments for growth as reflected in Plan expenditure.

It may be asked, what have the FCs' awards got to do with Plan expenditures since Plans are formulated by the Planning Commission and not by the FCs? As is well known, the size of the States' Plans depend primarily on the surpluses they can raise on their revenue account and the latter is influenced considerably by the devolution decided by the Finance Commissions. To quote a former member of the Planning Commission and Finance Commission: "It can no longer be maintained that the transfers from the Finance Commissions have no bearing on regional disparities in Plan outlays, as the amount of surpluses left with the States on revenue account are the direct consequence of the formula devised for the distribution of resources among the States" (Hanumantha Rao, 1988).

But can the FCs be held really responsible for leaving large surpluses in the budgets of some States while for some the revenue budgets are just balanced with a "revenue gap grant"? After all, the quality of financial management varies markedly across States. A poor State may have a positive surplus or a relatively small surplus while a State with better potential may be in financial straits because of improvident management. It would obviously not be fair to deny a share in the devolution or allocate a smaller share to States which do better and are therefore in a better position to undertake large investment under the plans. While the logic of this argument is undeniable, the fact remains that it is the higher income States which generally do better in showing surpluses in their revenue budgets as is evident from the high degree of correlation between budget surplus and SDP per capita observed over two decades (Table 4). Even for 1989-90, according to normative estimates of the NFC, non-plan revenue account before devolution reveals positive surpluses in States which rank high in the level of per capita SDP (viz., Gujarat, Haryana, Maharashtra and Punjab). (One exception is Karnataka, which though belonging to the middle group also shows a surplus.) The point to note is that these surpluses have been worked out on a normative basis which, for all its limitations, proceeds by assuming an average or representative revenue effort leaving out any surplus a given State may be able to achieve through prudent management. It may so happen that the potential of revenue in the richer States is so high that even by average or below average effort they can have a comfortable budget. Under a normative approach, undertaxation due to lack of effort gets corrected (or should get corrected) and that helps to improve the budgetary picture of these States even more. But that does not explain how one State can have revenue surplus in per capita terms, as high as 40 times that of another whereas their per capita income ratios differ by a factor of only 3 or 4. It is pertinent to ask, is there a case for permitting large devolutions to the States which have such large normative surpluses on their budgets? Obviously, the FCs' awards, for all their attempts to make them progressive, have made little difference to the inter-State disparities in fiscal capacities and thereby their growth potential although it must be acknowledged that they have served to reduce the disparities in the provision of certain public services (Rao, 1987). The NFC's approach and norms do nothing to improve matters. As pointed out earlier, if anything, they make things a little worse[4].

Given the constitutional framework for devolution of federal funds, whereby certain taxes are to be compulsorily shared and some may be put into the sharable pool, depending on the FC's judgement, there seems to be no way of preventing the flow of federal funds to a State even in a situation in which it does not have any gap in its revenue budget on normative projections. The FC does not have much discretion in this regard. The quantum of devolution whether of the sharable taxes or of grants is however a matter entirely for the FC to decide. For reasons which are not quite convincing the proportion of shared taxes in the total devolution has been raised by successive Commissions. As Table 5 would show, since the Fifth Commission's time, the share of taxes in the total devolution under the FCs' awards has hovered around 90 per cent (under the Sixth Commission's dispensation, the proportion stood at 80 per cent). The corresponding figures for First, Second, Third and Fourth FCs were 77 per cent, 73 per cent, 75 per cent and 84 per cent, respectively. In its award for 1989-90, the NFC has reduced the proportion to a little less than 90 per cent as compared to 93 per cent under the Eighth, but the commanding position of tax shares in the total devolution stands undisturbed. If the devolution under the NFC's award turns out to be less progressive than that under that of the Eighth FC, it is because of the changes made by the NFC in the tax devolution formula and substantial amounts given under discretionary grants under "special problems".

Regressive Role of Poverty Ratio Criterion in Tax Devolution

Recognising the predominant role of tax shares in statutory devolution, successive FCs have tried to introduce certain criteria in the formula governing the allocation of the sharable pool of Central taxes which could impart a measure of progressivity in their awards. Thus, the weight given to contribution or collection has been reduced to no more than 10 per cent and factors like "distance of the per capita income of a given State from that of the highest income State" and "income adjusted total population (IATP)" have been brought in to give greater weightage to backwardness. But the co-efficient of variation in the tax devolution per capita has been much smaller than in per capita SDP. For instance, the co-efficient of variation in tax shares was 0.08 under the Seventh FC's award. It improved to 0.17 under that of the Eighth. The corresponding figure under the NFC's award works out to 0.19 (vide Table 6) whereas in respect of per capita SDP the co-efficient was 0.26 during the mid-seventies and has increased to 0.30 in recent years. It is extremely doubtful whether tax sharing can be made progressive enough to neutralise the fiscal capacities to an extent that the gaps in their budget surpluses are brought down. But it is noteworthy that the Eighth FC's formula did make a big difference to the progressivity of the tax devolution. That of the NFC shows no improvement. If anything there is slight reversal in the trend. The main reason seems to be the re-injection of poverty ratio as a criterion for tax devolution.

While proposing not to make any radical departure from 1989-90 from the pattern prescribed by the Eighth Commission, pending further examination of the issues and facts, the NFC has

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nevertheless made a significant modification in the formula for tax devolution which now governs the inter se allocation of the sharable proportion of both income tax and Union excise. The change consists of a reduction in the weight attached to IATP from 25 per cent to 12.5 per cent and attaching the remaining 12.5 weightage to a new factor, viz., "proportion of poor people in the State to the total number of poor people according to the estimates from 1983-84 made by the Planning Commission". Ironically, this change has resulted in reducing the share in the tax devolution for several States whose per capita SDP falls below the national average while some with above average SDP per capita have gained. Maharashtra is the greatest beneficiary of this change (Rs 35 crores, vide Table 7). Another above average income State (West Bengal) has gained while Bihar has been the worst loser followed by Kerala, Uttar Pradesh and Assam.

The criterion which has resulted in this somewhat bizarre outcome was first injected by the Seventh FC but was rejected by the Eighth Commission partly because the Statewise data in this regard were not reliable and also because they thought that its use was inappropriate. The NFC has brought it back on the ground that it constitutes the best indicator of backwardness of a State in the absence of any other index of backwardness. The Commission has indicated its intention to evolve a suitable formula for the purpose after consulting the States and leading experts on the subject. That the Statewise data on people below the poverty line are highly questionable is well known. As pointed out in a perceptive paper on the subject, in estimating poverty at the State level it is necessary to take into account inter-State differences in (a) population structure, (b) activity composition, (c) climatic conditions, and (d) differences in the price structure and their trends. For factors (a), (b) and (c) have a vital bearing on the calory requirements and the minimum cnsumption basket to meet the requirements while price differences influence the monetary equivalent of the poverty line (Hashim and Sharma, 1988) to quote the authors of this paper:

> "Attempt has not been so far made to estimate separate poverty lines for different States mainly for want of firm and reliable data on the parameters which are essential for doing such exercises".

Because of these limitations, use of the poverty figures as a criterion in the tax devolution formula by the Seventh FC evoked sharp comments from Dandekar, one of the pioneers of poverty studies in India.

The NFC was not unaware of the limitations of the state level poverty data. Yet it thought it fit to bring back the poverty ratio as a criterion for inter-State allocation of sharable taxes, with the result that the improvement in allocation of Centre's tax share which had been taking place with the Eighth Commission's formula has suffered a set back. Under the Eighth FC's formula for tax devolution, the co-efficient of variation in per capita devolution had shown an increase to 0.17 from 0.08 under the Seventh Commission's award. Under the NFC's first award the CV showed a further increase to 0.19 but would have improved further to 0.23 had no chage been made in the set of criteria and their relative weights (vide col. 7, Table 6). The justification for introducing the poverty ratio is questionable also in principle since the relative poverty factor is implicit in IATP. Besides, the basic function of federal devolution is to equalise the revenue capacity of the States and meet their budgetary needs as determined on a normative basis. The significance of poverty or backwardness should be reflected in the revenue capacity itself. What is the justification for introducing a dubious supplement to a more straightforward measure of revenue capacity? In any case, the logic of taking two variants of the same variable, viz., per capita income in the tax devolution is not clear. Perhaps an appropriate exponential can take care of this factor more rationally.

Another factor which blunts the equalising impact of the statutory transfers in the FCs' awards is the reliance on the 1971 population in the devolution formula. As argued forcefully by Hanumantha Rao on more than one occasion, this is an instance of equity being sacrificed for no gain in efficiency. Are we to believe that the population growth rate of the country will come down if the States experiencing a higher growth are punished with a lower share of Central funds than they would otherwise be entitled to? However, in this the NFC may plead helplessness as it is built into the terms of reference.

Even if there was no change in the set of factors used by the Eighth Commission as criteria for deciding the inter se allocation of sharable taxes, tax devolution by itself would still not have been able to impart the necessary degree of progressivity which could have brought down the disparities in the revenue surpluses of the States. That can be achieved only if the proportion of taxes in the total devolution is brought down and the grants component is enlarged.

Grants under Article 275 are more progressive as may be seen from their CVs since the Seventh Commission's award. But it does not seem to lend much support in improving the progressivity of the statutory transfers since, as noted already, their share in the FC's awards is small - no more than 10 per cent or so at present - and has tended to come down over the years. NFC's recommendation for 1989-90 has raised the share of this component of devolution a little but again has undermined its progressivity by introducing considerations which do not help the poorer States. While the proportion of grants in the aggregate amount of devolution recommended by the NFC has gone up to 10.1 per cent from 6.7 per cent under the Eighth Commission and 2.7 per cent under the Seventh, the CV of the grants component in the NFC's first award shows a sharp decline to 1.02 against 1.20 in the Eighth FC's award and 1.86 under the Seventh (vide Table 6). As a result, the grants fail to offset the regressive impact of the poverty ratio criterion in the tax devolution formula and the CV of the per capita devolution (taking taxes and grants together) goes down, albeit slightly, and the co-efficient of correlation of devolution with SDP per capita also shows a regressive change from (-) 0.739 under the Eighth Commission's award to (-) 0.620.

What appears to have undermined the progressive influence of grants in the statutory transfer is the large amount given for "special problems". The practice of awarding grants for broadly specified purposes is not new. In fact, the trend was set by the First FC itself. The principles enunciated by the First FC to govern the eligibility of a State to receive grant-in-aid and its quantum centred mainly around "fiscal need" assessed in the light of factors like tax effort and economy in expenditure, need to equalise standards of basic services, meet special burdens of national concern, etc. The NFC has avowedly gone by these principles and recommended "grants-in-aid not to fill the budgetary gaps of the States, but to meet their fiscal needs as represented by the difference between normatively determined revenue receipts and non-Plan expenditures. Also, "in keeping with enunciated principles", the NFC has recommended grants-in-aid "to raise standards of social services, to help the States to meet special burdens and obligations of national concern and to importance in the national interest in less advanced States".

On a plain reading of the article (Artile 275) which authorises FC to make recommendation for grants-in-aid, the principles evolved to govern the grants-in-aid seem unexceptionable. However, the basic intention underlying this provision clearly is to enable the Centre to give grants to the States in aid of revenue after an objective determination of the gap between revenue and expenditure on a normative basis and not their actual revenue gaps. One would expect that a normative assessment of fiscal needs would take into account revenue deficiency and cost desabilities of the States. There can still be a case for special grants to meet specific problems which are not reflected on normative projection of expenditures or as some States (like Bihar) have urged for giving a higher revenue surplus to the poorer States or for capital expenditure for upgradation of basic public services. But extreme care is needed to ensure that this route does not open up wide scope for subjective judgement as otherwise the role of the norms is severely eroded. The way the grants for special problems have been recommended by the NFC in its report seems to lend credence to this apprehension.

In a total of Rs 1877 crores awarded by the NFC under non-Plan grants, as much as Rs 552 crores are on account of "special problems". Among the greatest beneficiaries of this grant are

West Bengal, Punjab, Haryana and Maharashtra - all high income category States. Among the low income group only Uttar Pradesh has received a comparable amount. Now, it will be granted that the problems for which the grants have been given are of national concern. But how could the Commission make any judgement about the amounts needed to meet them within the short span it has had to examine them? It can legitimately be asked how could it conclude, even before visiting all the States, that the others do not have problem of equal national importance? If Calcutta and Bombay's slums require special attention what about the slums and civic conditions of Ahmedabad, Kanpur and Madras? It needs to be emphasised that this sort of grant giving constitutes a negation of any normative approach and undermines faith in the Commission's objectivity. The sharp drop noticeable in the progressivity of the grants component in the NFC's is attributable largely to the regressive character of the grants for "special problems".

Grants for the revenue component of the Plan by contrast, seem to be more even-handed. The CV is quite large and the correlation co-efficient negative (though of a relatively small order, vide Table 8). This part of recommendation has not been accepted and therefore may be left out for the present.

Overall

While on the question of vertical imbalance, the NFC practically maintains the status quo, the net result of the NFC's first award is, as noted earlier, a widening of the gap in the revenue surpluses among the States. Of course, in the absence of devolution, the gaps would have been even larger. But the fact remains that the mechanism for federal finance in our country has not made much difference to the sharp regional disparities and the trends towards their accentuation. It is becoming increasingly apparent that these trends cannot be reversed unless the capacity for investment on the part of the poorer States is substantially raised. This obviously calls for a brake on the devolution of federal funds to States which can achieve a surplus in their budgets on a normative basis and a marked step-up in that for others. The step up in the tax component of the devolution by the recent Commissions clearly constituted a move in the opposite direction despite all sophistication in the tax devolution formula. The NFC has not raised the share of the tax component in the total but it has not reduced it to any significant extent either. Will it or can it breakaway from the practice of routing almost 90 per cent of the statutory transfers through tax devolution?

The task will not be easy. For there is a strong pressure for stepping up the tax component in the statutory transfers since it enables the States to partake of the buoyancy in the revenue and affords a measure of insulation against inflation. The greatest obstacle to any move towards greater equity in the devolution of federal funds by reducing the tax component is the opposition of richer States on the one hand and the risk of greater subjectivity on the other. However, a totally different approach in the tax devolution formula combined with a marked step up in the grants can help. Can the NFC make a beginning towards this? The real challenge for the NFC lies in this and not so much in the ingenuity it can bring to bear in devising the norms. After all, it does not stand to reason that within a federation one State should have a revenue surplus per capita which is more than forty times that of another. It is time the richer States

NOTES

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1. For instance, the limitations imposed by the stipulation in the CST Act that sales one stage prior to exports cannot be subject to sales tax by the States or that certain commodities (the "declared goods") cannot be taxed beyond the ceiling laid down under the CST Act operate harshly against States where such commodities predominate (e.g., Orissa).

2. Here are the relevant figures:

(Rs crore)

	Total revenue of the Centre (Gross)		**1987-88 (RE)**		**1988-89 (BE)**
1.	Tax (Gross)		37935		42552
2.	Non-tax		9785		10908
3.	Total		47720		53460
4.	Revenue transfer to States (total)				
	a. Taxes	9528		10662	
	b. Grants	9130	18728 (39.2)	9910	20572 (38.5)
5.	Interest payments		11450 (24.0)		14100 (26.4)
6.	Defence		8893 (18.6)		9128 (17.0)
7.	Subsidies		5370 (11.2)		6391 (12.0)
	Total of 4 to 7		44441 (93.8)		50191 (93.9)

Figures in brackets indicate percentages of gross Central revenues

Source: Union budget documents.

3. The relevant figures are as follows:

	Statutory devolution* (Rs per capita)		Budgetary surplus after devolution* (Rs per capita)	
	Specialised category States	Others	Specialised category States	Others
Seventh FC Award	248.01	55.65	7.25	42.96
Eighth FC Award	524.81	91.82	49.57	81.68
Ninth FC Award	796.83	145.44	47.37	97.54

* Average per annum. Source: Table 2, Part II.

4. Since the correlation co-efficient of per capita devolution with per capita SDP works out to -0.62 for the NFC's award for 1989-90 as compared to -0.74 for that of its predecessor.

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TABLE 1

Proportion of Statutory Transfers in Gross Central Revenues (1987-88 to 1989-90)

(Rs crore)

	1987-88 RE*	1988-89 BE*	1989-90 As estimated by NFC
1. Gross Central revenue (Tax and non-tax)	47730	53460	58795
2. Statutory transfers (Non-Plan revenue account)	10905	12022	13622
3. 2 as per cent of 1	22.8	22.5	23.2

Source: Union budget documents.

TABLE 2

BUDGETORY SURPLUS OF STATES - BEFORE AND AFTER STATUTORY DEVOLUTION (1979-1990)

Part I Major States

Units Rs.

	Under 7th Finance Commission award (annual average per capita) (1979-84)				Under 8th Finance Commission award (annual average per capita) (1984-89)				Under 9th Finance Commission award (per capita) (1989-90)			
	Surplus before devolution	Devolution	Surplus after devolution	Per capita SDP (1973-76)	Surplus before devolution	Devolution	Surplus after devolution	Per capita SDP (1976-79)	Surplus before devolution	Devolution	Surplus after devolution	Per capita SDP (1982-85)
AP	-20.94	55.00	34.05	928	-27.54	94.31	66.76	1006	-90.71	138.06	47.35	2062
ASM	-39.37	49.79	10.42	791	-120.23	133.80	13.57	960	-208.56	215.63	7.08	1903
BIH	-29.22	61.15	31.93	645	-78.21	104.71	26.50	755	-47.80	169.18	121.38	1331
GUJ	9.26	54.38	63.64	1134	51.63	74.35	125.98	1590	3.18	101.28	104.46	2986
HAR	54.99	45.85	100.85	1399	126.50	57.52	184.02	1895	78.08	99.88	177.96	3052
KTK	0.06	52.10	52.16	1045	16.20	79.57	95.77	1202	64.83	123.59	188.42	2166
KER	-40.57	58.85	18.28	948	-44.45	90.12	45.67	1162	-104.51	136.55	32.04	2071
MP	-15.62	59.05	43.43	776	-26.48	97.60	71.21	895	-97.31	147.27	49.96	1731
MAH	39.69	52.71	92.40	1349	104.45	72.62	177.07	1670	168.32	118.32	286.64	3168
ORS	-70.12	72.50	2.38	793	-111.77	128.29	16.52	918	-180.47	197.01	16.54	1775
PUN	44.89	48.29	93.17	1586	118.66	66.82	185.48	2250	74.07	135.25	209.32	3720
RAJ	-36.98	50.33	13.36	853	-59.98	81.04	21.06	1127	-136.33	144.73	8.40	1818
TN	-34.18	60.54	26.36	942	28.75	91.56	120.31	1165	-53.64	154.44	100.72	1946
UP	-21.90	57.66	35.76	715	-32.82	94.80	61.98	870	-89.46	157.00	67.54	1508
WB	-30.38	56.60	26.22	1033	-96.89	110.16	13.27	1247	-98.07	143.43	45.36	2184
STD.DEV	34.52	6.33	30.36	261.03	79.07	20.64	61.27	409	101.91	30.38	81.24	660.79
AVG.	-12.69	55.65	42.96	995.80	-10.15	91.82	81.68	1247	-47.89	145.44	97.54	2228
Coff.VAR		0.11	0.71	0.26		0.22	0.75	0.33		0.21	0.83	0.30
Coff. of corr. with SDP	0.85	-0.59	0.85		0.84	-0.74	0.84		0.74	-0.62	0.70	

Contd....

Part II Special Category States

Units Rs.

	Under 7th Finance Commission award (annual average percapita) (1979-84)			Under 8th Finance Commission award (annual average percapita) (1984-89)			Under 9th Finance Commission award (annual average percapita) (1989-90)		
	Surplus before devolution	Devolution	Surplus after devolution	Surplus before devolution	Devolution	Surplus after devolution	Surplus before devolution	Devolution	Surplus after devolution
H.P.	-143.28	146.78	3.49	-289.76	215.44	-74.32	-459.96	489.31	29.35
J & K	-114.88	120.74	5.86	-280.00	207.66	-72.34	-556.27	616.94	60.66
MANIPUR	-247.62	261.00	13.38	-494.08	349.68	-144.40	-747.68	783.63	35.95
MEGHALAY	-185.10	192.06	6.96	-425.23	302.61	-122.62	-631.06	657.29	26.24
NAGALAND	-570.87	581.33	10.46	-954.80	642.01	-312.79	-1438.09	1556.00	117.91
TRIPURA	-182.82	186.18	3.36	-407.57	290.12	-117.45	-663.70	677.81	14.11
Standrd	153.20	155.28	3.63	227.28	146.09	81.21	320.60	350.49	34.55
Average	-240.76	248.01	7.25	-475.24	334.59	-140.65	-749.46	796.83	47.37
Coff. of	-0.64	0.63	0.50	-0.48	0.44	-0.58	-0.43	0.44	0.73

TABLE B

(Rs. per capita)

	Statutory Devolution*		Budgetarry Surplus after Devolution*	
	Speciali-alised category States	Others	Specia-lised category States	Others
Seventh PC Award	248.01	55.65	7.25	42.96
Eighth FC Award	524.81	91.82	49.57	81.68
Ninth FC Award	769.83	145.44	47.37	97.54

Note: * Average per annum.

Source: Table 2, Part II.

TABLE 3

Per Capita Plan Outlay and Actual Plan Expenditure of the States (Since Fourth Plan)

(Annual averages)

	Fourth Plan		Fifth Plan		Sixth Plan		Seventh Plan	
	OUTLAY	EXP	OUTLAY	EXP	OUTLAY	EXP	OUTLAY	EXP *
AP	19.4	19.6	55.4	61.0	107.2	102.8	172.6	176.0
ASM	30.6	27.2	55.8	50.4	109.6	108.8	218.6	191.3
BIH	18.8	17.0	41.4	38.0	78.0	72.8	146.8	127.3
GUJ	34.0	40.8	78.4	91.2	187.0	197.0	257.0	248.0
HAR	44.8	71.4	105.4	118.6	229.0	215.0	332.4	294.3
KTK	23.8	25.6	60.8	65.8	115.4	123.4	180.2	165.7
KER	24.2	31.2	48.4	56.8	102.6	114.6	142.0	146.0
MP	18.4	22.8	58.8	61.4	122.6	129.0	233.6	185.3
MAH	35.6	39.8	83.0	94.2	175.2	180.0	285.6	260.7
ORS	20.2	22.8	48.2	52.6	102.6	101.8	208.6	200.7
PUN	43.4	63.2	135.0	125.2	204.6	205.4	308.6	288.0
RAJ	23.4	24.0	48.2	59.0	98.4	115.8	134.8	121.3
TN	25.2	26.8	49.6	50.8	114.2	124.4	218.0	197.3
UP	21.8	26.4	49.8	59.2	90.8	99.4	157.2	153.0
WB	14.6	16.4	50.6	51.0	98.8	82.8	121.4	111.0
AVERAGE	26.55	31.67	64.59	69.01	129.07	131.53	207.83	191.07
STD.DEV.	8.87	15.58	24.95	25.11	44.58	43.82	63.48	56.57
COEF. VA	0.33	0.49	0.39	0.36	0.35	0.33	0.31	0.30

NOTE : * Relates to 1985-87.

Source : Budget documents/ Planning Commission.

TABLE 4

Coefficient of Correlation Between per capita SDP, Budgetary Surplus and Plan Expenditure of 15 Major States

	5th FC	6th FC	7th FC	8th FC	9th FC
Surplus and Plan expenditure	0.816	0.958	0.857	0.864	-
SDP and Plan expenditure	0.592	0.875	0.859	0.739	-
SDP and revenue surplus	0.550	0.870	0.847	0.839	0.692

TABLE 5

Components of Devolution Under Finance Commission's Awards

(Rs crore)

	Tax devolution	Deficit grants	Other grants	Total grants	Total devolution (Statutory)
Fifth FC	3592.52 (88.80)	486.22 (11.92)	-	489.22 (11.92)	4078.74 (100.00)
Sixth FC	6944.5 (79.92)	815.84 (9.39)	928.78 (10.69)	1744.62 (20.08)	8689.12 (100)
Seventh FC	18811.25 (97.29)	136.92 (0.71)	387.38 (2.0)	524.3 (2.71)	19335.55 (100)
Eighth FC	33124.96 (93.27)	968.17 (2.73)	1420.86 (4.0)	2389.03 (6.73)	35513.99 (100)
Ninth FC	10926.36 (89.90)	236.01 (1.94)	991.77 (8.16)	1227.78 (10.10)	12154.14 (100)

Note: Figures in parentheses indicate percentages of the total

TABLE 6

Devolution of Taxes and Grants Under Finance Commission's Award
(Since Seventh Commission)

	7TH FINANCE COMMISSION (Rs. Per capita per annum)		8TH FINANCE COMMISSION (Rs. Per capita per annum)		9TH FINANCE COMMISSION (Rs. Per capita per annum)		
	TAXES	GRANTS	TAXES	GRANTS	TAXES	#	GRANTS
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
AP	54.29	0.60	89.69	4.61	129.97	128.09	8.09
ASM	47.71	1.66	104.18	29.62	154.90	165.11	60.74
BIH	59.41	1.47	99.38	5.33	159.65	175.98	9.53
GUJ	54.38	0.00	70.76	3.59	97.94	96.88	3.33
HAR	45.85	0.00	56.05	1.47	83.06	87.29	16.82
KTK	52.10	0.00	78.88	0.69	120.24	116.48	3.36
KER	58.53	0.28	88.07	2.05	134.36	145.87	2.20
MP	56.70	1.96	92.09	5.60	140.36	129.08	6.91
MAH	52.71	0.00	72.12	0.50	111.03	76.14	7.29
ORS	60.04	10.78	104.91	23.38	162.28	162.04	34.73
PUN	48.29	0.00	63.20	3.62	89.43	93.90	45.82
RAJ	49.26	0.86	74.37	6.67	127.71	131.47	17.03
TN	59.44	0.96	90.75	0.81	148.56	149.15	5.80
UP	55.71	1.63	91.85	2.94	148.53	159.93	8.47
WB	55.73	0.74	89.81	20.10	127.91	114.05	15.52
AVERAGE	54.01	1.40	84.41	7.40	129.06	128.76	16.37
STD.DEV.	4.44	2.59	14.10	8.85	24.06	29.93	16.69
COFF.VAR.	0.08	1.86	0.17	1.20	0.19	0.23	1.02

NOTE : # Denotes award under 8Th.FC'S Formulae i.e.without Poverty Ratio as a criterion.

TABLE 7

Devolution of Income Tax and Union Excise Duties Under Alternative Criteria (IATP v. Poverty Ratio)

(Rs crore)

	Under IATP* criteria	According to Proportion of population below poverty line	Gain (+)/ loss (-) [col. 3 - col. 2]
(1)	(2)	(3)	(4)
Andhra Pradesh	87.28	89.16	(+) 1.88
Arunachal Pradesh	0.82	0.59	(-) 0.23
Assam	31.84	21.62	(-) 10.21
Bihar	175.16	158.83	(-) 16.33
Goa	0.82	5.17	4.33
Gujarat	37.00	38.06	1.06
Haryana	13.63	9.40	(-) 4.23
Himachal Pradesh	6.58	2.70	(-) 3.88
Jammu and Kashmir	8.34	4.46	(-) 3.88
Karnataka	56.03	59.79	3.76
Kerala	42.64	31.13	(-) 11.51
Madhya Pradesh	99.50	110.78	11.28
Maharashtra	65.90	100.79	34.89
Manipur	2.47	0.82	(-) 1.65
Meghalaya	2.35	1.76	(-) 0.59
Mizoram	0.82	2.11	1.29
Nagaland	0.82	0.82	-
Orissa	51.10	51.34	0.24
Punjab	15.04	10.57	(-) 4.47
Rajasthan	58.62	54.86	(-) 3.76
Sikkim	0.35	2.11	1.76
Tamil Nadu	87.64	87.05	(-) 0.59
Tripura	3.52	2.23	(-) 1.29
Uttar Pradesh	242.00	230.60	(-) 11.40
West Bengal	84.00	97.86	13.86

Note: * Derived as follows:

Total amount of allocable share of income tax and excise duty as given in cols. 1 and 2 of Table 9 in the NFC's First Report comes to Rs 9398 crore. Of this, 12.5 per cent works out to Rs 1174.75 crores. This multiplied by the percentages according to IATP and poverty ratios as per Table 7A gives the figures in cols. 3 and 4 here.

TABLE 7A

Relative Shares of States in Tax Devolution Under Alternative Criteria (Per cent)

	IATP	Poverty ratio
Andhra Pradesh	7.43	7.59
Arunachal Pradesh	0.07	0.05
Assam	2.71	1.84
Bihar	14.91	13.52
Goa	0.07	0.44
Gujarat	3.15	3.24
Haryana	1.16	0.80
Himachal Pradesh	0.56	0.23
Jammu & Kashmir	0.71	0.38
Karnataka	4.77	5.09
Kerala	3.63	2.65
Madhya Pradesh	8.47	9.43
Maharashtra	5.61	8.58
Manipur	0.21	0.07
Meghalaya	0.20	0.15
Mizoram	0.07	0.18
Nagaland	0.07	0.07
Orissa	4.35	4.37
Punjab	1.28	0.90
Rajasthan	4.99	4.67
Sikkim	0.03	0.18
Tamil Nadu	7.46	7.41
Tripura	0.30	0.19
Uttar Pradesh	20.61	19.63
West Bengal	7.15	8.33
All States	**100.00**	**100.00**

TABLE 8

Grants-in-aid for Revenue Plan

Per capita NFC

States	Grants
Andhra Pradesh	17.78
Assam	58.18
Bihar	19.24
Gujarat	11.16
Haryana	8.40
Karnataka	13.60
Kerala	19.16
Madhya Pradesh	17.88
Maharashtra	11.94
Orissa	22.49
Punjab	5.20
Rajasthan	19.95
Tamil Nadu	17.08
Uttar Pradesh	16.99
West Bengal	11.99
Average	18.07
Std. DEV	11.66
C.VAR	0.65
COR.COFF with SDP	-0.4627