SHORTFALLS IN STATES' PLAN OUTLAYS
AN ANALYSIS

S. GOPALAKRISHNAN
and
T.S. RANGAMANNAR

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Shortfalls in States' Plan Outlays: An Analysis

The objective of this paper is to examine and analyse the shortfalls in plan outlays of the fourteen major States in the Sixth and the Seventh plans. For the purpose of the present study the term 'shortfall' in plan outlays is defined as the deficiency in the per capita actual outlays achieved expressed as a percentage of the per capita originally estimated outlays. The per capita magnitudes are the plan averages at 1981-82 constant prices. Also, States have been grouped according to income averages as high income States - Gujarat, Haryana, Maharashtra and Punjab, middle income States - Andhra Pradesh, Karnataka, Kerala, Tamil Nadu and West Bengal, and, low income States - Bihar, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh.

This analysis is useful for three important reasons. First, constitutionally and also under the planning process, the State Governments are entrusted with the responsibility of providing essential economic and social infrastructural facilities. Therefore, any shortfall in plan outlays vis-a-vis the originally estimated plan outlays indicates a weakness, a deficiency or even failure of the Plan concerned to achieve the objectives, strategies and physical targets envisaged in the Plan. Secondly, the originally estimated plan outlays are determined not only on the basis of the plan objectives and expenditure needs but also after taking into account both the resource constraints and possibilities. Therefore any shortfall in plan outlays is a reflection on the performance of the various categories of plan financing items. Shortfalls in the financing categories can cause changes in the relative shares of these items in the total plan resources. The relative changes in the financing mix have important implications for evaluating the shortfalls in sectoral plan outlays. Thirdly, an analysis of shortfalls, coupled with one of plan financing, can identify administrative or technical constraints for policy action and can provide clues as to the preferences of the government to a researcher. This paper basically pays attention to the aspects indicated in the second reasoning mentioned above.

For the purpose of analysis the paper is divided into the following sections. Section 1 indicates the pattern of shortfalls in State plan outlays. Section 2 concentrates on aspects of the plan financing items and their shortfalls. Section 3 analyses in detail the changes in the pattern of plan financing mix. Section 4 is an attempt to evaluate the sectoral shortfall levels, given the shortfall in plan outlays and the changes that took place in the plan financing mix. Section 5 presents the summary and conclusion.

Section 1: Shortfalls in Plan Outlays

Per capita original plan outlays, per capita actual plan outlays and the shortfall percentages of the fourteen major States in the Sixth and Seventh plans are presented in Table 1. A few observations emanating from the table are the following:

(i) In all the individual States, shortfalls in plan outlays emerged in the Sixth plan; so is the situation in the Seventh plan but for the two States of Orissa and Rajasthan.

(ii) If the two Plans are compared, in the Seventh plan, the percentage shortfall levels of all the individual States barring Tamil Nadu declined drastically.

(iii) Inter-State variations in the shortfall levels in outlays are quite conspicuous under both the Plans. In the Sixth plan the shortfalls ranged from a relatively low level of 9 per cent obtained in Tamil Nadu to a high level of 50 per cent in West Bengal. Similarly, in the Seventh plan, the shortfall levels varied from a negligible order, for States like Andhra Pradesh, Karnataka, Kerala and Bihar, to a relatively high level of 26 per cent for Haryana.

(iv) If attention is concentrated on the group average shortfalls of the three income categories of States, the following picture emerges. In the Sixth plan, the shortfalls of the low income States (23 per cent), the middle income States (24 per cent) and the high income States (23 per cent) bear a common pattern. In the Seventh plan the group average shortfalls in plan outlay of the low income States at 6 per cent and the middle income States at 8 per cent were clearly lower than the corresponding shortfall of the high income States at 11 per cent. It may be noted at this stage that the ensuing analysis is mainly based on the average behaviour of the three income categories of States.

The specific inference that may be drawn here is that it were the relatively less developed states which undertook concerted effort to achieve the plan estimated outlays. This view is substantiated in the Sixth plan context by the comparable shortfall levels of the three income groups of States, for, given the relatively low revenue mobilisation capacity of the less developed states, it requires much more concerted effort on the part of these states even to catch up with the group average shortfall level obtained in the high income States. In the Seventh plan, the group average shortfalls in plan outlay of the low income States and middle income States (6 percent and 8 percent respectively) were lower than the shortfall of the high income group of States at 11 percent. In order to strengthen the above inference further, it can be noted that if the Sixth and Seventh plans are compared, the group average shortfalls in plan outlays of the low income States and the middle income States marked a decline by as much as 16 to 18 percentage points while the corresponding decline for the high income States was relatively low (by 12 percentage points).

It should be noted that in the Seventh plan, the group average shortfalls of all the three income groups of States are lower than the corresponding shortfalls in the Sixth plan. It is necessary to mention that the States' shortfall levels *per se* can be lower in an inter-temporal sense due to the following situations: either the originally estimated outlays were not too ambitious, or the actual performance better, or both of the above events occurred simultaneously. In the Seventh plan, the shortfall levels were lower than the Sixth plan in most of the States, barring Tamil Nadu, not only because in the Seventh plan per capita originally estimated outlays were relatively low, but also the Seventh plan per capita actual outlays were relatively high, subject to certain exceptions. For instance, in most of the States, barring Tamil Nadu, Madhya Pradesh, Orissa and Uttar Pradesh, the per capita originally estimated outlays were much lower in the Seventh plan than in the Sixth plan. Similarly, in all the individual States with the exception of Tamil Nadu, the per capita actual outlays in the Seventh plan were higher than under the Sixth plan.

The above inter-plan differences observed in the levels of per capita originally estimated outlays of the States may be attributable to differences in the then prevailing fiscal situations. For instance, the Seventh plan was formulated in an environment of fiscal stress consequent on a drastic increase in non-plan expenditures and the overdraft regulations imposed by the Reserve Bank of India. On the other hand, the Sixth plan outlay estimates of the States were worked out in the wake of the recommendations of the Seventh Finance Commission which envisaged a significant increase in the tax devolution to the States; furthermore the Sixth plan outlay estimates were also influenced by the unprecedented proliferation of Centrally sponsored schemes in the Plan (see Rao and Sen, 1993). It is likely that the overemphasis placed on these factors, to some extent, induced the States to draw up ambitious plans to begin with. Similarly, the major fiscal factor that had a dampening effect on the Sixth plan actual outlays of the States was their inordinate increase in the non-plan revenue deficit causing a reduction in Government savings becoming available for plan financing. While the States' revenue deficit continued even during the Seventh plan, the resources for the Plan were increased mainly by the generation of capital account surpluses (see Rao and Sen, 1993).

Having indicated broadly the fiscal environment responsible for the inter-plan differences in shortfall levels in plan outlays, it should be pointed out that, for a given originally estimated plan outlay, the true magnitude of the shortfall is accounted for by the shortfalls in the plan financing items. Hence the need for a careful analysis of the shortfalls in the plan financing items.

Section 2: Shortfalls in Plan Financing Items

For the purpose of the present analysis, the sources of plan financing are classified into: (1) Revenue account resources (2) Capital account resources, (3) Central plan assistance and, (4) Withdrawals from reserves etc. However, withdrawals from reserves etc. is a residual category and hence excluded from any detailed analysis here. The per capita plan average levels of the above financing categories and their shortfall levels in the Sixth and the Seventh plans are presented in Tables 2 through 5; however, in respect of withdrawals from reserves etc. only the absolute shortfall levels are presented in Table 5.

a. Revenue Account Resources

States' revenue account resources is the aggregate of the balance from current revenues and the contribution from State enterprises. The former represents the governments' savings as it is defined as the surplus of the current revenue receipts over non-plan revenue expenditures, and the latter is the profits generated by State enterprises which are available for plan financing (for a detailed discussion see Bagchi and Sen, 1992). In order to understand the significance of the shortfall level in revenue account resources in a proper perspective, it will be useful to highlight the following feature of this financing item.

One of the prominent features of the per capita revenue resources, as evident from the data for the Sixth and Seventh plans, is the inter-State disparity of the item. This is a natural outcome of the fact that the relatively more developed States have a comparative advantage of a larger base for tax and non-tax revenues than the relatively poor States. The inter-State differences in per capita revenue resources are reflected both in the originally estimated levels and actuals of the financing item. For instance, the Sixth plan group average per capita original estimates of revenue resources of the middle income States at Rs. 80 and the low income States at Rs. 59 constituted just 49 per cent and 36 per cent respectively of the corresponding per capita of the high income States at Rs. 163; these percentages in fact declined to 43 per cent and 28 per cent respectively if the actual per capita revenues in the Plan is considered. This indicates the accentuation of the inequalities in revenue resources in the actual financing scheme of the Plan. Similarly, in the Seventh plan, the group average per capita originally estimated revenue resources of the middle income States at Rs. 50 and the low income States at Rs. 43 constituted only 37 per cent and 31 per cent respectively of the corresponding per capita of the high income States at Rs. 137. These percentages have however, increased to 52 per cent and 40 per cent respectively if the group average actual per capita revenue resources were considered. This indicates the relatively poor performance of the high income States in raising own revenue resources for the Seventh Plan.

Despite the fact that plan revenue resources were unequal in favour of the relatively developed States, the poorer States undertook more effort to mobilise these resources with a view to achieve the plan envisaged target levels, in the Seventh plan. Illustration of this aspect calls for a detailed look at the shortfall levels in per capita revenue resources.

The first point to note about the shortfall in revenue resources of the States is that there were considerable inter-State variations in the percentage shortfall levels which ranged between: (a) 17 per cent for Tamil Nadu and 117 per cent for West Bengal in the Sixth plan, and, (b) 13 per cent for Andhra Pradesh and 201 per cent for Kerala in the Seventh plan. The second point to mention is that the Sixth and the Seventh plans offer two distinct patterns in shortfalls of revenue resources. That is to say, the Sixth plan shortfall levels were relatively high in the less developed States and the Seventh plan shortfall levels were relatively high in the comparatively developed States. For instance, in the Sixth plan the group average shortfall in revenue resources of the high income States at 44 per cent was lower than the corresponding shortfalls of the middle income States at 50 per cent and the low income States at 56 per cent. But in the Seventh plan the group average shortfall in revenue resources of the high income States at 61 per cent was much higher than the corresponding shortfalls of the middle income States at 44 per cent and the low income States at 50 per cent. Here it is necessary to mention that the single State of Punjab has contributed much to the average shortfall in revenue resources observed for the high income States. It is also important to note from the above that in the Seventh plan, among the less developed States, the group average shortfall was relatively low for the middle income States. Thirdly, inter-plan differences in the shortfalls of the three income categories of States can elucidate the relatively greater effort made by the less developed States in mobilising revenue resources, for the group average shortfall of the high income States increased in the Seventh plan, as compared to the Sixth plan, by as much as 17 percentage points, whereas the shortfall decreased by 6 percentage points both for the middle income States and the low income States. This shows that the relatively poor performance of the high income States was not only poor in comparison to the other two groups of States, but also in comparison to their own performance earlier in generating internal resources.

b. Capital Account Resources

Capital account resources is the aggregate of the States' liabilities in the form of small savings loans, provident funds, net miscellaneous capital receipts, market borrowings and negotiated loans. Capital resources was a source of inter-State inequity in State plan outlays. This is a logical consequence of the fact that the richer States have greater access and capacity to mobilise capital resources than the less developed States. However, given that capital resources are primarily loans with usually difficult future obligations, it is difficult to take a position on the Statewise distribution of capital resources.

To elucidate the inequities, in the Sixth plan, the group average per capita originally estimated capital account resources of the middle income States at Rs. 39 and the low income States at Rs. 35 comprised only 60 per cent and 53 per cent respectively of the corresponding figure for the high income States, which stood at Rs. 65. The above percentages in respect of the middle income States and the low income States further deteriorated to 52 per cent and

38 per cent of the corresponding group average of the high income States at Rs. 73, if the actual performance in the Plan were considered. Similarly, under the Seventh plan, the group average per capita originally estimated capital resources of the middle income States at Rs. 49 and the low income States at Rs. 47 comprised just 59 per cent and 57 per cent respectively of the corresponding per capita of the high income States at Rs. 83. Furthermore, in the Plan the inequities in this regard increased under the actual financing scheme as the above percentages declined to 56 per cent and 49 per cent respectively with reference to the group average actual per capita capital resources of the high income States at Rs. 107. An inter-temporal comparison indicates that the inequities in per capita actual capital resources declined marginally under the Seventh plan, compared to the Sixth plan. For the percentages of the group average actual per capita capital resources of the middle income States and the low income States in the corresponding per capita of the high income States showed an increase from 52 per cent and 38 per cent respectively under the Sixth plan to 56 per cent and 49 per cent respectively under the Seventh plan.

This increase in the percentages should be due to higher rate of growth of capital resources actually mobilised by the low income States and the middle income States than the high income States. In fact, the rate of increase in the group average per capita capital resources actually mobilised, between the Sixth and Seventh plans, were of the order of 91 per cent for the low income States (from Rs. 28 to Rs. 53), 60 per cent for the middle income States (from Rs. 38 to Rs. 60) and relatively low at 47 per cent for the high income States (from Rs. 73 to Rs. 107). An inference that can be drawn in this regard is that in spite of the relatively low access to and the inability to tap fully the capital account resources, they undertook much more effort than the richer States to mobilise capital resources. For that matter, among the low and medium income States, the low income group of States managed to, and perhaps needed to, borrow more. This was despite their better show in raising current resources; the obvious implication is that their plan expenditures grew relatively fast.

The analysis of capital account resources indicates three important aspects. First, the inequities in the per capita levels of capital resources were transmitted to the percentage shortfall also. For instance, in the Sixth plan, the high income States as a group secured a group average surplus of 11 percent with regard to capital resources while the middle income

States and the low income States had group average shortfalls of the order of 3 percent and 20 percent respectively. Similarly, in the Seventh plan, even though all the three income categories of States had group average surplus in respect of capital resources, the percentage surplus was the highest for the high income group of States at 30 percent and the lowest for the low income group of States at 12 percent; the surplus for the middle income States stood at 24 percent. Second, closely related to the above, there has been an all out effort to substitute capital resources for revenue resources by all the three income groups of the States in the Seventh plan, as evidenced by their group average surpluses mainly as a consequence of not generating adequate "internal funds". This tendency to substitute capital resources for revenue resources was visible in respect of the high income group of States even under the Sixth plan which indicates their greater manoeuvrability with regard to capital sources. Third, it is obvious that individual States show marked deviations in their shortfall-surplus situations in the two Plans examined and a few of them even show opposite trends compared to their group average behaviour.

c. **Central Plan Assistance**

Central plan assistance is the aggregate of normal plan assistance, assistance in respect of externally aided projects, and advance plan assistance.

Given the inter-State disparities in development, Central transfers have an important role in equalising the provision of basic economic and social infrastructure. In this context, the Central plan assistance should at least equalise the level of plan finances by diverting more of the assistance to the relatively poor States. But, data for the Sixth plan in this regard indicate that the Central plan assistance played only a limited equalising role and those for the Seventh plan show that the assistance was actually regressive.

In the Sixth plan, the group average per capita originally estimated Central plan assistance of the middle income States at Rs. 37 constituted 93 per cent, and, the low income States at Rs. 47 constituted 117 per cent, of the corresponding per capita of the high income States at Rs. 40. The situation was not very much different even when the group average per capita actual Central assistance is considered for, the above percentages changed only marginally to 94 per cent and 121 per cent of the corresponding per capita of the high income States at Rs. 36. What is indicated here is the limited equalising role of the assistance which is confined only to the low income category of States.

In the Seventh plan, the group average per capita originally estimated assistance exhibited a mild progressivity in the sense that the group average per capita of the middle income States at Rs. 43 constituted 102 per cent, and, the low income States at Rs. 49 constituted 117 per cent, of the corresponding per capita of the high income States at Rs. 42. But the distribution turns regressive when actual Central assistance per capita is considered for, in this regard, the group average per capita of the middle income States at Rs. 41 and the low income States at Rs. 54 constituted just 57 per cent and 74 per cent respectively of the corresponding per capita of the high income States of Rs. 73. It should be noted that the relatively high per capita Central assistance in respect of the high income group of States was partly because of the high level of assistance received by Punjab in the Plan. Similarly, the figures for middle income States were pulled down by the low figures for West Bengal.

Regressivity in the distribution of the Central assistance to States in the Seventh plan can also be deduced from the fact that the inter-temporal rates of growth of the assistance in the relatively less developed States were not adequate. In this regard, a comparison between the Sixth and Seventh plans shows that the group average per capita assistance actually secured by the high income States increased by 103 per cent (from Rs. 36 to Rs. 73) whereas the order of increase were much lower at 22 per cent for the middle income States (from Rs. 34 to Rs. 41) and 24 per cent for the low income States (from Rs. 43 to Rs. 54).

An examination of shortfalls in Central plan assistance is indicative of two important aspects. First, the high income States as a group were successful in eliciting more Central plan assistance than the plan anticipated level in the Seventh plan. Even though the low income group of States secured a group average surplus of 9 per cent in the Plan, this surplus is of a negligible order as compared to the group average surplus of 72 per cent secured by the high income States. Second, dependence of States on Central plan assistance has rather increased in the sense that in most of them, the Seventh plan shortfall is lower than in the Sixth plan; a prominent exception in this case is that of West Bengal.

The point emphasised earlier that the Central plan assistance lacks the kind of redistributional thrust expected of the assistance needs a few observations. The major point that needs mention here is that the Gadgil formula, which formed the basis for the inter-State distribution of the normal plan assistance, is itself flawed. For instance the 'performance' criterion for the assistance offers some scope for discretion for the Planning Commission which to certain extent can be taken advantage of by the well off States. Secondly, among the less developed States, most of the middle income States to the extent they are marginal cases may be adversely affected under the national average per capita income criterion under which the assistance is provided only to those States the per capita income of which are lower than the national average per capita. More than these, the redistributional bias of the assistance programme is also constrained by the fact that the assistance is provided for all the States whether rich or poor. The Central plan transfers by way of externally aided projects, are not likely to be redistributive for the reason that the absorption of assistance in this case depends largely on the technological and administrative inputs the States can muster. Hence it is no surprise that the bulk of the assistance in this case went to the two States of Maharashtra and Gujarat if the Sixth and Seventh plans are examined, even though Uttar Pradesh and Madhya Pradesh were also major beneficiaries in the Seventh plan (Bajaj, 1992).

Section 3: Changes in the Plan Financing Mix

The shortfalls and surpluses in the major financing categories are only reflections of the changes in the actual financing pattern compared to the plan envisaged financing pattern. In order to fully appreciate the changes that took place in the actual financing pattern vis-a-vis the plan anticipated pattern, it is useful to present the percentage shares of the various financing categories as (a) envisaged in the Plan and (b) actually realised in the plan period. The difference of the two percentage shares can indicate the nature of the change in the financing pattern that actually occurred. Table 6 presents the percentage shares of revenue resources, capital resources and Central plan assistance in the total plan outlay of the major States in respect of the Sixth and Seventh plans. It may be noted that the differences between the plan anticipated shares and the plan realised shares in respect of the three financing categories mentioned above may not cancel out on adding them as the similar difference for the residual category 'withdrawals' from reserves etc. is not presented here as the item was excluded from detailed analysis.

Table 6 may be summarised in the following highlights. (1) The percentage share of revenue resources in the actual financing scheme declined almost uniformly in the three income groups of States (by 17 to 18 percentage points) in the Sixth plan; but in the Seventh plan the decline was of a relatively high order in the high income States, by as much as 29 percentage points compared to 14 to 15 percentage points in the middle income States and the low income States. (2) The increase in the percentage share of capital resources in the actual financing scheme from the originally estimated in the Sixth and the Seventh plans were relatively high in the high income group of States (by 11 and 14 percentage points respectively), followed by the middle income group of States (by 7 and 12 percentage points respectively) and the low income group of States (by 1 and 6 percentage points respectively). (3) The increase in the percentage share of Central plan assistance in the actual plan financing scheme in the high income group of States was relatively the least in the Sixth plan (by 3 percentage points) and relatively the highest in the Seventh plan (by 15 percentage points); in this regard the percentage increase in the Sixth and the Seventh plans were by 5 and 1 percentage points respectively in the middle income group of States, and 7 and 6 percentage points respectively in the low income group of States. Together the highlights noted above help to draw the inferences outlined below.

First, the percentage share of revenue resources in the actual financing pattern declined drastically in all the three income groups of States in both the Plans examined; on the other hand, the percentage shares of capital resources and Central plan assistance increased in the actual financing pattern in the two Plans for all the three income groups of States. If the Capital resources and Central plan assistance are taken together their relative share in the actual financing scheme is higher under the Seventh plan than the Sixth plan for all the three income groups of States. This shows a general tendency for drawing up plans of sizes not commensurate with the own resource availabilities. This tendency appears to have accentuated in the Seventh Plan. Second, the increase in the percentage share of capital resources in the actual financing pattern was higher in the Seventh plan than under the Sixth plan for all the three income groups of the States demonstrating a rising tendency to finance plans with borrowed funds. Third, with regard to Central plan assistance, there is a marked difference among the States in the sense that the group average percentage share of Central plan assistance under the actual financing scheme was relatively high in the Seventh plan as compared to the Sixth plan in respect of the high income States, but for the middle income States and the low income States, the percentage share of the plan assistance in the actual financing scheme was relatively high in the Sixth plan. A look at the total plan expenditures show that despite a difficult own resources position, the high income States did not have to scale down their plan sizes very much, thanks to the Central transfers and increased borrowings. It may be interesting to note that some of the repayment obligations (of Punjab) of the loans from the Centre have subsequently been written off by the Centre, so that in effect, a part of the borrowings were converted into grants.

Section 4: Evaluation of the Sectoral Shortfalls in Outlays

To help understand in a proper perspective the shortfall in sectoral outlays in the two Plans studied, it is useful to examine the two hypotheses that: (1) when the shortfall in overall plan outlays are high, in general, economic services suffer as they have a large element of capital expenditure which is the first to be axed in times of resource constraint, and, (2) when large shortfall in current resources are made up by capital resources, to a large extent, economic services may get preference as (a) loans may be project specific and (b) there could be better prospects for definite and relatively early returns on investment in economic infrastructure.

The first hypothesis above implies that there should be a higher correlation for shortfall in plan outlays and the shortfall in economic services outlays ($r_{p,e}$) than for shortfall in plan outlays and the shortfall in social services outlays ($r_{p,s}$). On the other hand, the second hypothesis implies that there should a significant negative correlation between excess capital resources and shortfall in economic services ($r_{c,e}$) which should be lower than for the excess capital resources and shortfall in social services outlays ($r_{c,s}$). The plan magnitudes mentioned above are reproduced for the sake of convenience in Table 7.

In this regard, the computed correlation coefficients by pooling the Sixth and Seventh plans data supported the hypothesis that overall shortfall in plan outlays were accompanied by an increase in the relative shortfall in economic services outlays vis-a-vis the social services outlays as ($r_{p,e}$ = 0.67) > ($r_{p,s}$ = 0.55). A similar exercise in respect of the second hypothesis, by: (a) pooling the Sixth and Seventh plan data as well as by (b) eliminating the observations in the case of States for which the capital resources fell short of the plan envisaged levels, failed to support the hypothesis as the estimated coefficients are not significant though relative values are as expected ($r_{c,e}$ = -0.07, $r_{c,s}$ = - 0.01); this has the implication that the excess of capital resources raised over the plan targeted levels do not matter much either for the shortfall in economic services or for the shortfall in social services.

The above two findings considered simultaneously, can indicate that it was the overall shortfall levels in plan outlays that decided the relative shortfall in economic services vis-a-vis the social services. This aspect is crucial when it is considered that the shortfalls and surpluses in the States' plan financing items lead to an increase in the percentage share of (a) capital resources in most of States barring Bihar and Madhya Pradesh in the Sixth plan, and, Punjab and Rajasthan in the Seventh plan and (b) Central plan assistance in most of the States (barring Karnataka in the Sixth plan and the five States of Andhra Pradesh, Kerala, West Bengal, Bihar and Orissa in the Seventh plan).

It is well known that the increase in the percentage share of capital resources have the inter-temporal effect of accentuating the States' debt, interest burden and repayment liability. The interest burden can fuel non-plan expenditure growth that can cause a reduction in the Government savings available for plan financing. Similarly, the debt redemption process can drain the net miscellaneous capital receipts which is known to be a negative quantity for most of the States. The Central plan assistance is likely to have a similar inter- temporal effect as that of capital resources, given the predominant share of the loan component in the assistance programme in respect of the major States.

What is indicated by the above is the need for a more prudent use of plan resources (a) in capital intensive sectors where the productivity of capital is relatively high and (b) in assets which are an immediate pre-requisite for development. In this context, an idea that can be put forth is that given the overall shortfall in plan outlays of the States, it was desirable that their shortfall in economic services outlays should be at least lower than the shortfall in social services outlays. This is because, investments in economic services have a faster gestation period than the social services investments, the returns from which may help to reduce the fiscal burden of the State in the immediate future. When the fiscal crisis of the immediate future is alleviated the financing mix should be reoriented so that adequate own savings of the State Governments can finance the social services investments. But, as Table 8 indicates, the stipulation that the relative shortfall in economic services should be lower than the social services was satisfied only in the high income group of States, that too in the Seventh plan alone.

As evident from Table 8, each one of the three income groups of States presented a unique situation with regard to the relative shortfall in economic services vis-a-vis the social services. (i) The shortfall in economic services outlays exceeded the shortfall in social services outlays for the high income group of States in the Sixth plan, though only by a negligible order of 5 percentage points. This Sixth plan situation for the group turned around in the Seventh plan where their group average shortfall in economic services outlays became lower than the shortfall in social services outlays by as much as 16 percentage points. (ii) For the middle income States in the Sixth plan as well as in the Seventh plan, their group average shortfall in economic services outlays exceeded the shortfall in social services outlays, though marginally by 5 percentage points and 3 percentage points respectively. (iii) For the low income group of States, in the Sixth and the Seventh plans, their group average shortfall in economic services outlays far exceeded the corresponding shortfall in social services by increasing margins of 15 percentage points and 21 percentage points respectively. In this regard, it is also useful to indicate the situation of the individual States. In fact, in most of them, the relative shortfall in economic services outlays were higher than the corresponding shortfall in social services outlays; exceptions in this regard are the three States of Punjab, Karnataka and Tamil Nadu in both the Plans, whereas Gujarat, Maharashtra and Bihar joined them in the Seventh plan.

The relatively high shortfalls in economic services outlays vis-a-vis the social services outlays in the less developed States were likely to aggravate the inter-State inequities in the level of economic services. This is for the reason that given the relatively low level of economic infrastructure in the less developed States, if inter-State inequalities in the provision of economic services are not to be accentuated, as a necessary condition at least the shortfall in economic services outlays should be relatively lower in the less developed States than in the richer States. But this criteria is not really fulfilled in the Sixth and Seventh plans. For instance, as can be seen from Table 8, the average shortfall in economic services outlays of the low income group of States at 27 per cent in the Sixth plan was almost the same as the corresponding shortfall of the high income group of States, and that, the shortfall of the middle income group of States in this context was marginally higher at 29 per cent. It was a welcome change in the Seventh plan that the shortfall levels of all the three income groups of States for economic services declined; the shortfall level was the highest in the low income group of States at 16 per cent, and the least in the middle income group of States at 11 per cent. The corresponding shortfall for the high income States stood at 15 per cent in the Plan. The figures thus indicate that there was not much variation in the shortfall levels of States in the three income categories when economic services are considered by themselves; however, the priority accorded to economic services in relation to social services was noticeably lower in the low income States. While it is difficult to prescribe which should take priority, it may be pointed out that investment in social infrastructure is likely to have a longer gestation period. Also, the expenditure on social services may have greater externalities. Thus, it seems that economic services ought to have received priority in the low income States in particular, which they did not. While an explanation of this phenomenon is beyond the scope of this paper, one possible reason could be the tied or specific grants from the Central Government.

Section 5: Summary and Conclusions

Objective of the present study is to analyse the shortfall in plan outlays of the major States in the Sixth and the Seventh plans. This analysis is important because shortfall in aggregate plan outlays are traceable to the shortfall in plan financing items, and, the changes in the financing pattern in the actual plan period compared to the plan envisaged scheme has implications for evaluating the shortfalls in sectoral outlays.

The analysis indicated that the Sixth and the Seventh plans witnessed noticeable shortfalls in States' aggregate outlays consequent of sharp shortfalls in revenue resources, which in many of them were partially made up by capital resources and Central plan assistance. This practice has deleterious inter-temporal effect on the States' own resources through the debt servicing obligations, and can put constraints on plan resources in the future; this is aside from the iniquitous inter-State distribution of capital resources and Central plan assistance.

The analysis has drawn attention to the observed fact that (i) the relatively high shortfall in economic services outlays vis-a-vis the shortfalls in social services outlays was occasioned by the overall shortfall in plan outlays, and (ii) the excess of capital resources raised in the two plans as compared to the plan targeted levels had little role in affecting the relative shortfall in sectoral outlays, whereas one would expect a relative decline in the shortfall in economic services outlays in this situation. A detailed analysis of the three income categories of States in this regard indicated that only in the high income group of States the excess capital resources raised coincided with a relatively low shortfall in economic services outlays as compared to the shortfalls in social services outlays; that too only in the Seventh plan. It is also pointed out that the failure of the less developed States to reduce the relative shortfall in economic services might have accentuated the inter- State inequalities in the provision of economic services, thus raising the degree of potential inequalities in the future.

It is necessary to reiterate that the present analysis has several limitations, in view of the narrow scope adopted. The analysis concentrated on the broad trends in the plan financing and sectoral allocation of resources, but never attempted to explain the realities of the individual States in the regard. This offers scope for further discussion and detailed research.

Selected References

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Table 1

Plan Outlays

(Annul Average Per Capita at 1981-82 Prices)

(In Rs)

States	Original Estimates 1980-85	Actuals 1980-85	Short-fall	Percentage Short-fall	Original Estimates 1985-90	Actuals 1985-90	Short-fall	Percentage Short-fall
High Income States								
Haryana	346.94	221.07	125.87	36.28	320.33	238.54	81.79	25.53
Gujarat	270.93	218.12	52.81	19.49	258.76	250.18	8.57	3.31
Maharashtra	245.19	196.03	49.16	20.05	239.79	213.92	25.86	10.79
Punjab	292.67	214.83	77.84	26.60	288.47	252.71	35.76	12.40
Aggregate	268.79	207.01	61.78	22.99	259.50	231.14	28.36	10.93
Middle Income States								
Andhra Pradesh	144.60	115.74	28.87	19.96	140.36	140.16	0.20	0.14
Karnataka	153.08	133.78	19.30	12.61	138.05	137.50	0.55	0.40
Kerala	154.23	124.13	30.09	19.51	125.97	124.22	1.75	1.39
Tamil Nadu	164.57	149.28	15.29	9.29	180.45	142.71	37.73	20.91
West Bengal	160.04	79.25	80.79	50.48	108.86	95.84	13.02	11.96
Aggregate	155.39	117.97	37.42	24.08	138.92	127.18	11.74	8.45
Low Income States								
Bihar	115.30	76.51	38.79	33.64	105.67	104.33	1.35	1.27
Madhya Pradesh	181.24	138.98	42.26	23.32	191.02	168.52	22.50	11.78
Orissa	142.94	113.86	29.08	20.34	151.59	153.14	-1.55	-1.02
Rajasthan	146.89	112.36	34.53	23.51	123.82	143.69	-19.87	-16.05
Uttar Pradesh	131.56	107.22	24.34	18.50	135.13	119.36	15.77	11.67
Aggregate	139.36	106.77	32.58	23.38	138.29	130.46	7.83	5.66
All Major States	170.48	130.46	40.02	23.47	162.56	149.34	13.23	8.14

Source: Basic data are from State Governments.

Note : Nominal figures are deflated by using deflators derived from the Wholesale Prices Index(1981-82=100)

Table 2

Revenue Account Resources *

(Annual Average Per Capita at 1981-82 Prices)

~~(In Rs)~~

States	Original Estimates 1980-85	Actuals 1980-85	Short-fall	Percentage Short-fall	Original Estimates 1985-90	Actuals 1985-90	Short-fall	Percentage Short-fall
High Income States								
Haryana	224.87	96.32	128.55	57.17	215.00	33.19	181.81	84.56
Gujarat	158.02	85.57	72.46	45.85	115.66	42.32	73.34	63.41
Maharashtra	152.65	104.90	47.75	31.28	125.01	90.47	34.55	27.64
Punjab	167.29	48.53	118.76	70.99	162.55	-47.90	210.44	129.47
Aggregate	163.42	91.39	72.03	44.08	136.74	53.74	83.00	60.70
Middle Income States								
Andhra Pradesh	80.84	45.22	35.62	44.06	60.02	52.15	7.87	13.12
Karnataka	89.70	65.85	23.85	26.59	63.24	35.63	27.61	43.66
Kerala	72.52	31.66	40.87	56.35	12.64	-12.80	25.44	201.23
Tamil Nadu	91.80	75.78	16.02	17.45	87.16	33.59	53.57	61.46
West Bengal	64.50	-11.20	75.70	117.36	17.01	12.09	4.92	28.93
Aggregate	79.69	39.72	39.97	50.16	50.11	27.88	22.23	44.36
Low Income States								
Bihar	45.10	11.78	33.32	73.88	22.62	17.06	5.56	24.56
Madhya Pradesh	88.97	58.73	30.24	33.98	85.86	61.01	24.85	28.94
Orissa	47.15	21.79	25.36	53.79	46.83	26.18	20.65	44.09
Rajasthan	62.94	18.63	44.31	70.39	13.10	1.97	11.13	84.99
Utter Pradesh	54.41	21.83	32.59	59.88	43.43	10.24	33.18	76.41
Aggregate	58.71	25.64	33.07	56.33	42.82	21.37	21.45	50.10
All Major States	86.62	43.47	43.15	49.81	63.93	29.99	33.93	53.08

Source: Basic data are from State Governments.

Note : Nominal figures are deflated by using deflators derived from the Wholesale Prices Index(1981-82=100)

* Balance from Current Revenues and Contributions from State Enterprises

Table 3

Capital Account Resources

(Annul Average Per Capita at 1981-82 Prices)

(In Rs)

States	Original Estimates 1980-85	Actuals 1980-85	Short-fall	Percentage Short-fall	Original Estimates 1985-90	Actuals 1985-90	Short-fall	Percentage Short-fall
High Income States								
Haryana	78.91	67.52	11.39	14.43	72.43	120.45	-48.02	-66.29
Gujarat	66.55	86.87	-20.32	-30.54	98.03	142.68	-44.64	-45.54
Maharashtra	56.78	53.70	3.08	5.43	74.20	94.99	-20.79	-28.02
Punjab	84.63	120.09	-35.45	-41.89	91.78	70.59	21.20	23.10
Aggregate	65.34	72.78	-7.43	-11.38	82.63	107.10	-24.47	-29.61
Middle Income States								
Andhra Pradesh	20.82	19.50	1.32	6.35	42.81	47.13	-4.32	-10.10
Karnataka	26.94	24.55	2.39	8.87	35.53	72.35	-36.82	-103.65
Kerala	38.90	36.73	2.17	5.58	55.60	72.59	-16.99	-30.57
Tamil Nadu	38.16	39.52	-1.36	-3.56	48.78	65.72	-16.94	-34.73
West Bengal	65.52	63.18	2.33	3.56	59.82	54.73	5.09	8.50
Aggregate	38.94	37.67	1.27	3.25	48.62	60.19	-11.57	-23.79
Low Income States								
Bihar	25.14	10.79	14.34	57.06	36.58	38.72	-2.14	-5.86
Madhya Pradesh	45.32	26.29	19.03	41.98	57.43	63.91	-6.48	-11.29
Orissa	32.94	31.31	1.64	4.96	43.36	60.40	-17.04	-39.31
Rajasthan	40.98	39.86	1.13	2.75	63.68	53.88	9.79	15.38
Utter Pradesh	33.76	34.37	-0.61	-1.81	45.04	54.36	-9.32	-20.70
Aggregate	34.54	27.70	6.85	19.82	47.32	52.85	-5.52	-11.67
All Major States	42.15	40.03	2.11	5.01	54.77	66.09	-11.32	-20.67

Source: Basic data are from State Governments.

Note : Nominal figures are deflated by using deflators derived from the Wholesale Prices Index(1981-82=100)

Capital resources consist of Small Savings, Provident Funds, Misc Capital Receipts, Market Borrowings and Negotiated Loans

Table 4

Central Plan Assistance

(Annul Average Per Capita at 1981-82 Prices)

(In Rs)

States	Original Estimates 1980-85	Actuals 1980-85	Short-fall	Percentage Short-fall	Original Estimates 1985-90	Actuals 1985-90	Short-fall	Percentage Short-fall
High Income States								
Haryana	45.27	45.79	-0.52	-1.16	42.97	77.80	-34.84	-81.07
Gujarat	44.15	36.20	7.95	18.01	45.35	60.39	-15.03	-33.15
Maharashtra	34.78	33.36	1.42	4.08	40.57	38.55	2.02	4.98
Punjab	44.87	37.35	7.51	16.74	41.00	224.58	-183.58	-447.71
Aggregate	39.70	35.92	3.78	9.51	42.15	72.64	-30.50	-72.36
Middle Income States								
Andhra Pradesh	42.25	41.10	1.15	2.73	43.74	43.50	0.24	0.55
Karnataka	36.44	31.65	4.79	13.16	39.28	39.23	0.05	0.13
Kerala	42.80	35.57	7.24	16.91	68.20	61.15	7.04	10.33
Tamil Nadu	34.73	32.30	2.43	7.00	45.12	45.71	-0.59	-1.30
West Bengal	31.11	28.78	2.33	7.48	32.04	27.95	4.08	12.74
Aggregate	36.89	33.84	3.04	8.25	43.04	41.27	1.77	4.12
Low Income States								
Bihar	45.06	38.14	6.92	15.37	47.45	46.61	0.84	1.78
Madhya Pradesh	48.33	42.43	5.90	12.21	51.28	47.36	3.91	7.63
Orissa	62.85	56.97	5.88	9.36	64.22	63.10	1.12	1.74
Rajasthan	45.43	51.30	-5.87	-12.92	47.04	82.20	-35.15	-74.73
Utter Pradesh	43.38	41.53	1.85	4.27	46.66	50.34	-3.68	-7.89
Aggregate	46.64	43.41	3.23	6.93	49.25	53.82	-4.56	-9.27
All Major States	41.93	38.66	3.28	7.81	45.74	53.32	-7.57	-16.55

Source: Basic data are from State Governments.

Note : Nominal figures are deflated by using deflators derived from the Wholesale Prices Index(1981-82=100)

Table 5

Withdrawals From Reserves #

(Annul Average Per Capita at 1981-82 Prices)

(In Rs)

States	Original Estimates 1980-85	Actuals 1980-85	Short-fall	Original Estimates 1985-90	Actuals 1985-90	Short-fall
High Income States						
Haryana	-2.11	11.43	-13.54	-10.07	7.09	-17.16
Gujarat	2.21	9.49	-7.28	-0.29	4.80	-5.09
Maharashtra	0.98	4.07	-3.09	0.00	-10.09	10.09
Punjab	-4.12	8.86	-12.98	-6.87	5.44	-12.31
Aggregate	0.32	6.91	-6.59	-2.01	-2.34	0.32
Middle Income States						
Andhra Pradesh	0.70	9.92	-9.22	-6.21	-2.62	-3.59
Karnataka	0.00	11.73	-11.73	0.00	-9.71	9.71
Kerala	0.00	20.18	-20.18	-10.47	3.28	-13.75
Tamil Nadu	-0.12	1.67	-1.80	-0.62	-2.31	1.69
West Bengal	-1.09	-1.51	0.42	0.00	1.07	-1.07
Aggregate	-0.13	6.74	-6.86	-2.85	-2.15	-0.70
Low Income States						
Bihar	0.00	15.80	-15.80	-0.97	1.94	-2.91
Madhya Pradesh	-1.38	11.52	-12.90	-3.55	-3.76	0.21
Orissa	0.00	3.80	-3.80	-2.81	3.46	-6.27
Rajasthan	-2.47	2.57	-5.04	0.00	5.65	-5.65
Utter Pradesh	0.00	9.49	-9.49	0.00	4.42	-4.42
Aggregate	-0.54	10.03	-10.57	-1.11	2.43	-3.54
All Major States	-0.23	8.29	-8.52	-1.88	-0.07	-1.81

Source: Basic data are from State Governments.

Note : Nominal figures are deflated by using deflators derived from the Wholesale Prices Index(1981-82=100)

Includes reserves and surplus with RBI and loans to clear overdrafts

Table 6

Changes in the Percentage Shares of Plan Financeing Sources

(Original Estimates vis-a-vis the Actuals)

(Percentages)

States	Revenue Account Resources						Capital Account Resources						Central Plan Assistance					
	Sixth Plan(1980-85)			Seventh Plan(1985-90)			Sixth Plan(1980-85)			Seventh Plan(1985-90)			Sixth Plan(1980-85)			Seventh Plan(1985-90)		
	Original Estimates	Actuals	Difference	Original Estimates	Actuals	Difference	Original Estimates	Actuals	Difference	Original Estimates	Actuals	Difference	Original Estimates	Actuals	Difference	Original Estimates	Actuals	Difference
High Income States																		
Haryana	64.82	43.57	21.25	67.12	13.92	53.20	22.74	30.54	-7.80	22.61	50.49	-27.88	13.05	20.71	-7.67	13.41	32.62	-19.20
Gujarat	58.33	39.23	19.10	44.70	16.92	27.78	24.56	39.83	-15.26	37.89	57.03	-19.14	16.30	16.60	-0.30	17.53	24.14	-6.61
Maharashtra	62.26	53.51	8.75	52.14	42.29	9.85	23.16	27.39	-4.23	30.94	44.40	-13.46	14.18	17.02	-2.83	16.92	18.02	-1.10
Punjab	57.16	22.59	34.57	56.35	-18.95	75.30	28.92	55.90	-26.98	31.82	27.93	3.89	15.33	17.39	-2.06	14.21	88.87	-74.65
Aggregate	60.80	44.15	16.65	52.69	23.25	29.44	24.31	35.16	-10.85	31.84	46.33	-14.49	14.77	17.35	-2.58	16.24	31.43	-15.19
Middle Income States																		
Andhra Pradesh	55.90	39.07	16.83	42.76	37.20	5.56	14.40	16.85	-2.45	30.50	33.63	-3.13	29.22	35.51	-6.29	31.16	31.03	0.13
Karnataka	58.60	49.23	9.37	45.81	25.92	19.90	17.60	18.35	-0.75	25.73	52.62	-26.88	23.81	23.66	0.15	28.45	28.53	-0.08
Kerala	47.02	25.50	21.52	10.04	-10.30	20.34	25.22	29.59	-4.37	44.13	58.43	-14.30	27.75	28.65	-0.90	54.14	49.23	4.91
Tamil Nadu	55.78	50.76	5.02	48.30	23.54	24.77	23.19	26.47	-3.28	27.03	46.05	-19.02	21.10	21.64	-0.53	25.01	32.03	-7.02
West Bengal	40.31	-14.13	54.44	15.62	12.61	3.01	40.94	79.72	-38.78	54.95	57.11	-2.16	19.44	36.31	-16.88	29.43	29.17	0.26
Aggregate	51.29	33.67	17.62	36.07	21.92	14.15	25.06	31.93	-6.87	35.00	47.32	-12.33	23.74	28.69	-4.95	30.98	32.45	-1.47
Low Income States																		
Bihar	39.11	15.39	23.72	21.40	16.35	5.05	21.80	14.11	7.69	34.61	37.11	-2.50	39.09	49.85	-10.76	44.90	44.67	0.23
Madhya Pradesh	49.09	42.26	6.83	44.95	36.20	8.75	25.00	18.92	6.09	30.06	37.92	-7.86	26.67	30.53	-3.86	26.84	28.10	-1.26
Orissa	32.98	19.14	13.85	30.89	17.10	13.80	23.05	27.50	-4.45	28.60	39.44	-10.84	43.97	50.03	-6.06	42.36	41.20	1.16
Rajasthan	42.85	16.58	26.27	10.58	1.37	9.21	27.90	35.47	-7.57	51.43	37.50	13.93	30.93	45.66	-14.73	37.99	57.20	-19.21
Utter Pradesh	41.36	20.36	21.00	32.14	8.58	23.56	25.66	32.06	-6.39	33.33	45.54	-12.21	32.98	38.73	-5.76	34.53	42.18	-7.65
Aggregate	42.13	24.01	18.12	30.97	16.38	14.59	24.79	25.94	-1.15	34.22	40.51	-6.29	33.47	40.65	-7.18	35.61	41.25	-5.64
All Major States	50.81	33.32	17.49	39.32	20.08	19.24	24.72	30.69	-5.97	33.69	44.26	-10.57	24.60	29.63	-5.03	28.14	35.70	-7.56

Note:The computed differences may not cancel out on adding as the item Withdrawals from reserves etc is excluded here

Source:Computed

Table 7

Shortfalls in Selected Magnitudes

States	Shotfall in Plan-Outlays (In Percentage)		Excess Capital Resources Raised (In Percentage)		Shortfall in Economic Services Expenditures (In Percentage)		Shorfall in Social Services Expenditures (In Percentage)	
	Sixth Plan	Seventh Plan	Sixth Plan	Seventh Plan	Sixth Plan	Seventh Plan	Sixth Plan	Seventh Plan
High Income States								
Haryana	36.28	25.53	-14.43	66.29	24.58	25.30	10.06	30.79
Gujarat	19.49	3.31	30.54	45.54	37.86	33.36	28.92	5.86
Maharashtra	20.05	10.79	-5.43	28.02	25.83	5.57	21.07	36.88
Punjab	26.60	12.40	41.89	-23.10	27.44	8.66	38.95	26.70
Aggregate	22.99	10.93	11.38	29.61	27.44	15.18	22.03	31.31
Middle Income States								
Andhra Pradesh	19.96	0.14	-6.35	10.10	27.91	6.91	16.16	-0.66
Karnataka	12.61	0.40	-8.87	103.65	12.65	7.61	22.90	9.83
Kerala	19.51	1.39	-5.58	30.57	26.28	16.22	6.88	5.01
Tamil Nadu	9.29	20.91	3.56	34.73	17.27	11.08	20.17	14.06
West Bengal	50.48	11.96	-3.56	-8.50	52.35	16.07	40.43	5.22
Aggregate	24.08	8.45	-3.25	23.79	29.02	11.07	23.99	7.64
Low Income States								
Bihar	33.64	1.27	-57.06	5.86	34.58	1.60	26.56	4.88
Madhya Pradesh	23.32	11.78	-41.98	11.29	29.64	25.34	4.60	-4.95
Orissa	20.34	-1.02	-4.96	39.31	25.61	7.82	14.46	-33.03
Rajasthan	23.51	-16.05	-2.75	-15.38	23.45	20.90	20.37	6.59
Uttar Pradesh	18.50	11.67	1.81	20.70	22.22	16.51	3.05	-8.15
Aggregate	23.38	5.66	-19.82	11.67	26.88	15.67	11.49	-5.07
All Major States	23.47	8.14	-5.01	20.67	27.67	14.29	19.93	12.27

Source: Basic data are from State Governments.

Note : Nominal figures are deflated by using deflators derived from the Wholesale Prices Index(1981-82=100)

Table 8

Relative Shortfall in Economic Services Outlays
and Social Services Outlays

(Per cent)

	Shortfall in Economic Services Outlays		Shortfall in Social Services Outlays		Difference in Shortfall Levels (Percentage Points)	
	Sixth Plan	Seventh Plan	Sixth Plan	Seventh Plan	Sixth Plan	Seventh Plan
High Income States						
Gujarat	24.58	25.30	10.06	30.79	14.52	-5.49
Haryana	37.86	33.36	28.92	5.86	8.94	27.51
Maharashtra	25.83	5.57	21.07	36.88	4.76	-31.31
Punjab	27.44	8.66	38.95	26.70	-11.51	-18.04
Aggregate	27.44	15.18	22.03	31.31	5.41	-16.13
Middle Income States						
Andhra Pradesh	27.91	6.91	16.16	-0.66	11.75	7.57
Karnataka	12.65	7.61	22.90	9.83	-10.25	-2.22
Kerala	26.28	16.22	6.88	5.01	19.39	11.21
Tamil Nadu	17.27	11.08	20.17	14.06	-2.89	-2.98
West Bengal	52.35	16.07	40.43	5.22	11.92	10.85
Aggregate	29.02	11.07	23.99	7.64	5.03	3.43
Low Income States						
Bihar	34.58	1.60	26.56	4.88	8.02	-3.28
Madhya Pradesh	29.64	25.34	4.60	-4.95	25.04	30.29
Orissa	25.61	7.82	14.46	-33.03	11.15	40.84
Rajasthan	23.45	20.90	20.37	6.59	3.09	14.31
Uttar Pradesh	22.22	16.51	3.05	-8.15	19.17	24.66
Aggregate	26.88	15.67	11.49	-5.07	15.39	20.74
All Major States	27.67	14.29	19.93	12.27	7.74	2.02

Source: Computed