Fiscal Space and Expenditure Priorities post -14th Finance Commission: A Study of Five Indian States

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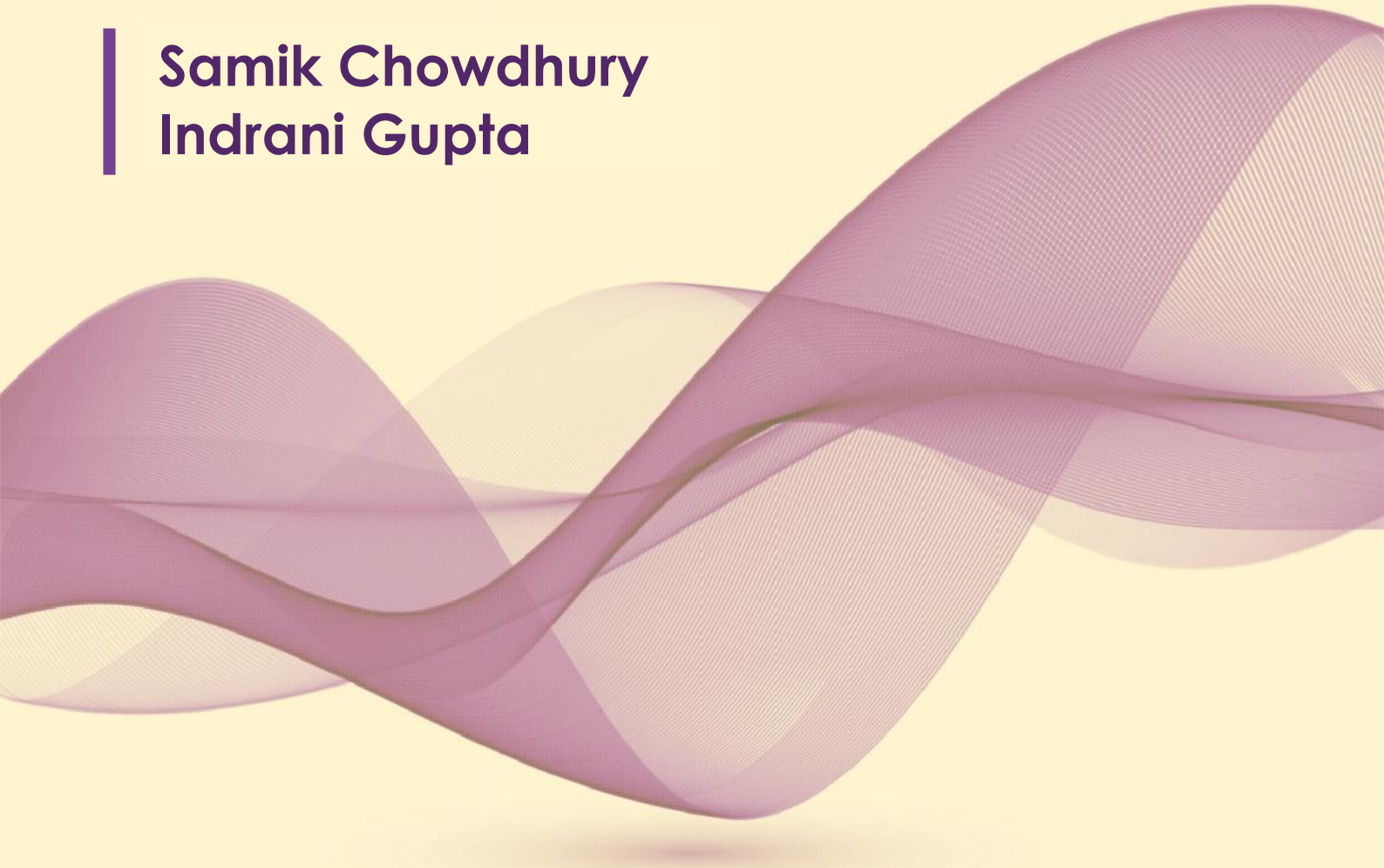

2020

IEG Working Paper No. 400

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July, 2020

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1. Introduction

Inter-governmental fiscal transfers comprising specific purpose (tied/conditional) and general purpose (untied/unconditional) transfers, underwent a significant change following the 14th Finance Commission (FFC) recommendations and its subsequent acceptance by the Government of India. The FFC increased the tax devolution to states from the divisible pool and adopted a new formula for the inter-se distribution of the shareable proceeds between states (GOI 2014). Simultaneously, the Union government reduced the Plan outlay to states from the Union budget in order to accommodate this increased tax devolution (GOI 2015, Reddy 2015). The reduction in Plan outlay was operationalized by doing away with grants that earlier used to flow from the erstwhile Planning Commission, and an altered sharing pattern of expenditure for the Centrally Sponsored Schemes (CSS), with the states now required to contribute a larger share in these CSSs, than before. These significant changes were expected to create a disruption in the quantum and composition of state finances and consequently, state spending patterns (Rao 2015, Chakraborty and Gupta, 2016)

The specific purpose transfers are primarily sector specific grants from the Central ministries, which often came with conditionalities and a matching contribution requirement from the states, as in the case of CSSs. However, the general purpose grants are un-tied in nature and, therefore, are an unconditional addition to the general revenue stream of the states. By definition, unconditional addition to the states' revenue enables the state government to follow its own expenditure priorities. On the other hand, despite their potential attractiveness, CSSs suffered from two problems. One, they were designed at the Central level and were often found wanting in their acknowledgement of state level heterogeneities. Two, a requirement to match contributions of as high as 40% (of total expenditure) from the state treasury implied a reduction in fiscal space for pursuing other state level priorities. Over the years, because of a proliferation in these CSSs, the nature and composition of

[1] The authors are grateful to The Bill and Melinda Gates Foundation for funding this research.
[2] Research help extended by Diwas Singh Saun is sincerely acknowledged.
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central transfers were getting biased towards specific purpose grants, thereby affecting the fiscal and functional autonomy of sub-national governments. The FFC recommendations and the subsequent modifications in inter-governmental fiscal flows were aimed at correcting this bias, at an aggregate level. (Chakraborty 2016, Rao 2015)

Fiscal profiles of states in India are vastly different, as are their performance on social indicators. It is, therefore, logical that the changes in federal fiscal flows would make a differential impact on budgets of each state. Given that expenditure responsibilities in India, especially in the social sector, primarily rests with state governments, these changes were expected to have an impact on the quantum and composition of social sector spending. Specifically, a net increase in untied funds could lead to greater flexibility for spending decisions at the state level, which may or may not benefit the social sectors. On the other hand, a net decline in untied funds can unambiguously constrain fiscal space for pursuing these priorities. There have been a number of studies that have looked into the impact of the FFC on level and composition of state governments' revenues and expenditures (Amarnath and Singh 2019, Choudhury et. al 2018, Kumar et. al. undated) in general. There have also been some state specific studies that have looked at the impact of these changes on the fiscal profile of particular states (Chakraborty 2016, Shetty 2016, Kotasthane and Ramachandra 2015, 2016). There is another strand of literature that has looked into the impact of FFC on specific sectors (Kundu 2018, Kapur and Srinivas 2017, Das 2016, CGD & AI 2015). Findings have been mixed, sensitive to choice of states, sectors, years and method of analysis.

Against this backdrop, this paper tries to answer the following questions based on a comparative analysis of the revenue and expenditure profiles of 5 states viz. Tamil Nadu (TN), Himachal Pradesh (HP), West Bengal (WB), Uttar Pradesh (UP) and Bihar, across two finance commission periods viz. the 13th Finance Commission (TFC - 2010 to 2015) and the FFC (2015 – 2020).

1. What has been the overall impact of the FFC on the state revenues?
2. What are the changes -if any - in the composition of revenues – tied vs untied funds?
3. What has been the overall impact of the FFC on the state expenditures?
4. If and how has the social sector benefited from these changes?
5. Which are the sectors that have been prioritized within the social sector in terms of allocation/expenditure?
6. Has the health sector been prioritised?

2. Methodology and Data

The paper does a comparative analysis of five states on each of the five questions. In order to understand the changes during the FFC award period, the TFC period is used as a comparator. Only actual (not budget estimate or revised estimate) revenue and expenditure is used for the analysis. As a result, the FFC period could be covered only till 2016-17, as actuals are available with a two period lag. The basic data source is Finance Accounts (CAG, GoI) of respective state governments for the period 2010-11 to 2016-17.

Till 2013-14, Central share of CSSs went directly into the accounts of the implementing agencies of these schemes, thereby bypassing the state budgets. From 2014-15 onwards this mechanism changed and state budgets started reflecting the Central share in CSSs. Thus, revenue and expenditure data for these two periods are not strictly comparable. The distribution of central share in CSSs across states, as well as the expenditure incurred by the scheme implementing agencies before 2014-15 are not available from regular sources and, hence, has not been included.

Table 1: Key indicators of health inputs, outputs and outcome, 2015-16

Select Key Indicators	**Bihar**	**UP**	**WB**	**HP**	**TN**	**India**
Infant mortality rate (IMR)	61	64	48	34	21	41
Mothers who had antenatal check-up in the first trimester (%)	18.7	45.9	38.6	70.5	64	58.6
Institutional births in public facility (%)	3.5	44.5	31.8	61.6	66.7	52.1
Children age 12-23 months fully immunized (BCG, measles, and 3 doses each of polio and DPT) (%)	32.8	51.1	64.3	69.5	69.7	62
Children under 5 years who are underweight (weight-for-age) (%)	55.9	39.5	38.7	21.2	23.8	35.7
All women age 15-49 years who are anaemic (%)	67.4	52.4	63.2	53.4	55.1	53
Households with any usual member covered by a health scheme or health insurance (%)	0.9	6.1	6	25.8	64.1	28.7

Source: NFHS IV (2015-16)

The five states that have been selected for the study differ widely in their performance on selected basic health indicators of output and outcome. Table 1 presents the performance of these states on

select key indicators in 2015-16. While TN and HP do well in all the indicators, UP and Bihar do poorly, and WB lies somewhere in the middle. However, WB, Bihar and UP do worse than the national average on almost all the indicators.

3. Analysis

3.1. Comparative fiscal profile - revenue

Table 2 portrays a comparative profile of the selected states on some key revenue indicators. The comparison is made between 2014-15, the last year of the TFC, and the average for the first two years of the FFC i.e., 2015-16 and 2016-17.

Table 2: Comparative profile of key revenue indicators

	Bihar		UP		WB		HP		TN	
	2014-15	FFC (Avg)	2014-15	FFC (Avg)	2014-15	FFC (Avg)	2014-15	FFC (Avg)	2014-15	FFC (Avg)
TR per capita	9187	11631	10764	14379	15368	16867	41971	45453	22496	27071
TR as % of GSDP	27.4	29.5	22.7	26.7	16.8	15.9	28.4	27.1	14.4	15.3
TRR as % of TR	83.6	83.5	84.4	77.2	61.0	72.1	60.7	77.1	79.0	71.7
PD as % of TR	14.8	16.5	15.5	22.7	38.9	26.4	37.0	22.8	20.1	27.2
OR as % of GSDP	6.5	6.6	9.3	9.3	4.8	4.7	7.7	7.3	8.1	7.5
OR as % of TRR	28.4	26.7	48.7	45.3	47.4	40.8	45.0	34.8	71.1	68.8
CT as % of GSDP	16.4	18.1	9.8	11.3	5.4	6.8	9.5	13.6	3.3	3.4
CT as % of TRR	71.6	73.3	51.3	54.7	52.6	59.2	55.0	65.2	28.9	31.2
CTD as % of TRR	47.1	53.4	34.4	41.4	28.4	35.9	14.8	16.0	13.7	16.7
NPG as % of TRR	4.2	3.9	3.5	3.6	3.8	9.7	6.7	35.0	5.0	4.7
PG as % of TRR	20.2	16.0	13.4	9.7	20.4	13.6	33.5	14.2	10.2	9.8

Note: FFC (Avg) means average of 2015-16 and 2016-17.

TR-Total receipts, TRR-Total revenue receipts, PD-Public debt, OR-Own revenue, CT-Central transfers, CTD-Share in central taxes and duties, NPG-Non-plan grants, PG-Plan grants.

Source: Author's calculation based on Finance Accounts of selected states and years

The following points emerge from this table.

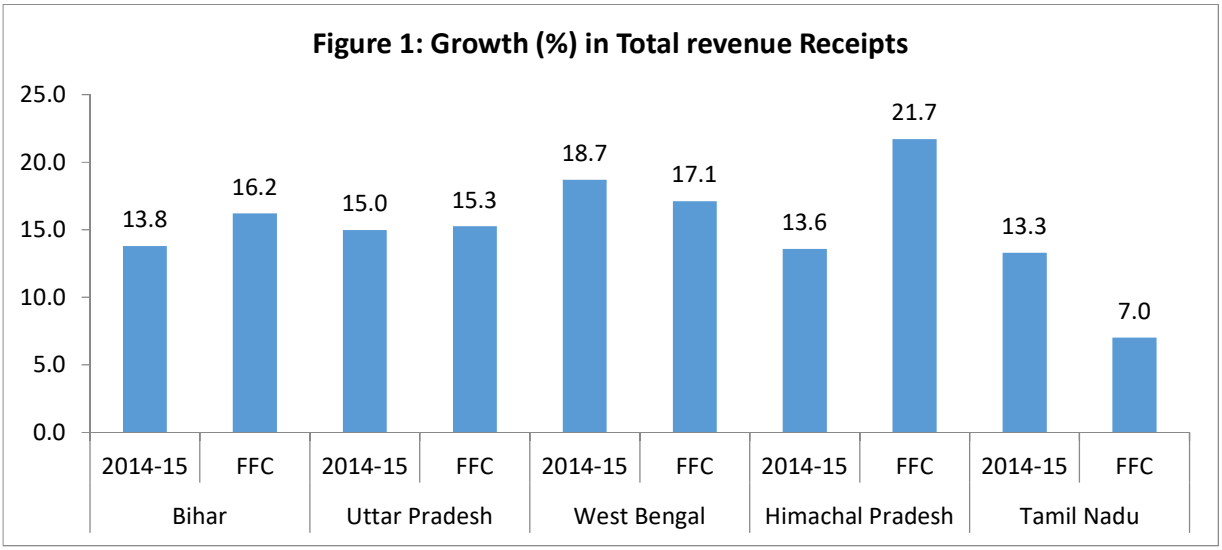
- There is considerable disparity in per capita total receipts. Receipts per capita in HP is more than four times that of Bihar and three times that of UP. Even with respect to TN, a developed general category state, total receipts in HP is higher by more than INR 18,000 per capita.
- As share of GSDP however, total receipts in the poorer states of Bihar and UP do much better compared to relatively better off states like WB or TN. Between the two periods, total receipts as a share of GSDP has declined for West Bengal and HP
- Revenue receipts had the major share of the total receipts in all states. The share has decreased between the two periods for UP and TN. The extent of borrowing, denominated by public debt as a share of total receipts vary quite a bit, ranging from 17% in Bihar to 27% in TN.
- Own revenue comprising tax and non-tax revenue, denotes fiscal autonomy of a state. The rationale is that greater the amount of resources generated from a state's own sources, lesser the dependence on Union government transfers, most importantly the conditional transfers. On this aspect, TN is way ahead of the rest, with 69% of its total revenue coming from own sources. Bihar, on the other hand generates just 27% of its total revenue from own sources. UP (45%) does much better in this aspect and is second only to TN, though substantially behind the leader.
- Following from the above, Bihar is the most dependent on Central transfers followed by HP, WB, UP and TN in that order. Central transfers comprise state's share in Central taxes and duties and grants-in-aid, both plan and non-plan. Any change in intergovernmental fiscal transfer architecture is, therefore, likely to affect the state finances in the same order. The share of Central transfers in total revenue has increased between the TFC and FFC periods for all states with a corresponding decline in the share of own revenues.
- The last three rows of Table 2 presents the share of components of Central transfers in total revenue receipts of each state. State's share of Central taxes and duties is the largest component with more than half of total Central transfers for all states except HP. Another notable trend is that the share of Central taxes and duties in total revenue receipts has increased for all 5 states between the last year of the TFC and the FFC (average). This implies an increase in the share of untied funds which translates to an increase in fiscal autonomy of states.
- Share of non-plant grants has remained largely the same between the two periods barring a remarkable increase of nearly 30 percentage points for HP and a 6 percentage point rise for

WB. Non-plan grants also are mostly general purpose, thereby contributing to the state's fiscal autonomy.

- The restructuring of CSSs affects the plan grants component. The share of this component was found to decline for all states between the two periods. Three major components of plan grants were block grants (general purpose/untied), grants for Central sector schemes (specific purpose/tied) and grants for CSSs (specific purpose/tied). Post FFC, block grants were cut drastically at an aggregate level, and are to be abolished after the end of the 12th Plan period i.e., 2017. Grants for CSS was also reduced following the altered sharing pattern where the Centre contributes less than before. The net effect on fiscal autonomy of individual states needs deeper investigation and will be taken up later.

3.1.1. Impact of the FFC on state revenues – levels and composition

Figure 1 plots the growth rate of total revenue receipt for the states in the two periods. Three states HP, Bihar and UP had a higher growth of total revenue receipts in the current period compared to the TFC period. TN and WB registered lower growth rates in the FFC period. HP saw over 8 percentage point increase while TN saw over 6 percentage point decrease in the growth rate of total revenue receipts between the two periods. A slowdown in revenue growth is likely to be accomodated by an increase in borrowing in order to finance necessary expenditure. However such a compensatory approach was noticeable only for TN where public debt receipts grew by 50% in the FFC period, double the rate of growth in 2014-15. WB, the other state showing a slowdown in revenue growth, registered a negative 17.5% growth in public debt.



Note: FFC stands for the average of the Actuals of 2015-16 and 2016-17, the first two years of FFC for which Actuals are available. 2014-15 stands for Actuals of 2014-15, the last year of the TFC.

Source: Author's calculation based on Finance Accounts of selected states and years

UP, Bihar and HP – states with a relatively higher revenue growth in the FFC period - saw a decline in the growth of public debt receipts. Thus, to answer the first question, the FFC period saw an enhancement in the revenue receipts of our study states, HP being way ahead of the rest. However, the rate of growth was lower in this period, for two out of the five states.

Table 3: Growth rate (%) of revenue receipts and its components

	Bihar		**UP**		**WB**		**HP**		**TN**	
	2014-15	**FFC**	**2014-15**	**FFC**	**2014-15**	**FFC**	**2014-15**	**FFC**	**2014-15**	**FFC**
State own revenue	3.7	9.2	13.3	10.5	8.4	8.6	16.2	4.5	4.8	5.0
Share of central tax & duties	18.3	19.0	16.6	19.6	29.8	25.0	11.5	34.6	41.8	11.9
Non-plan grants	-0.5	18.1	-14.2	17.2	-13.7	123.1	-40.8	307.5	90.3	5.9
Plan grants	70.8	0.6	78.9	-5.3	118.4	-9.0	39.4	0.5	111.1	2.4
Public Debt Receipts	40.5	24.7	138.4	50.3	8.3	-17.5	168.5	-1.6	25.3	49.7
Total revenue	**13.8**	**16.2**	**15.0**	**15.3**	**18.7**	**17.1**	**13.6**	**21.7**	**13.3**	**7.0**

Source: Author's calculation based on Finance Accounts of selected states and years

More than the levels, the recommendations of the FFC were supposed to alter the composition of state finances, particularly transfers from the Union government. To understand changes in the composition we need to look at the components of state revenue. Table 3 shows the component- wise growth in total revenue receipts for the two points of time.

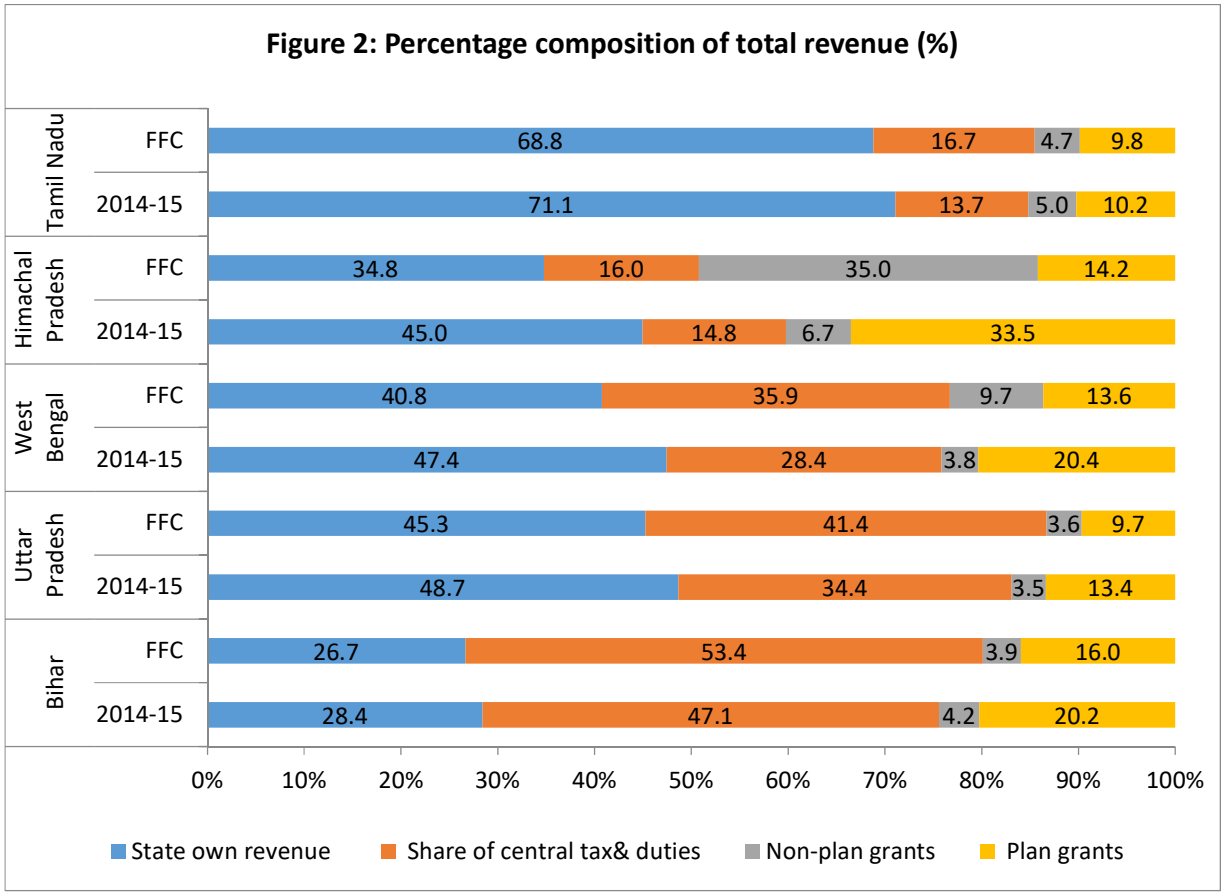
Two broad components of revenue receipts are own revenue and transfers. WB and TN show similar growth rates in own revenues for both the periods. UP and HP show a decline in growth while Bihar is the only state among the five whose own revenue grew at a higher rate in the FFC period when compared to 2014-15. This was mainly on account of a 47% increase in the non-tax revenues of the state. There was a remarkable decline (by almost 11 percentage point) in the rate of growth of own revenues in HP.

The components that constitute transfers from the Union to states are (1) states' share of Central taxes and duties and (2) grant-in-aid (plan and non-plan). As far as the states' share in Central taxes and duties is concerned, except for WB and TN, the three other states show a higher growth in the FFC period, with the highest difference (22 percentage point) in growth rates occurring for HP. On the other hand, for TN, whose share in Central taxes grew at a rate close to 42% in 2014-15, could grow only by 12% in the FFC years. Though tax devolution is intended to benefit the backward states, it might be interesting to analyse the impact of the new sharing formula adopted by the FFC for inter-se distribution of this component. That however is beyond the scope of the current work.

All states except TN registered a higher growth of non-plan grants in the FFC period vis-à-vis 2014-15, during which they were all growing at negative rates. TN's average growth in non-plan grants during the FFC period so far was 6% compared to over 90% in the last year of TFC. The only component in which all states show substantially lower growth in the FFC period, is plan grants. This reduction in plan grant is because of (1) cessation of new grants from the planning commission and (2) change in the sharing pattern of CSS's, as described earlier.

One observation that can be safely made is that TN is the only state which registers a lower growth during the FFC period (relative to 2014-15) in all the three components of revenue receipt. The relatively high growth in borrowing, both across states and over time, is probably a response to this.

The differentials in growth rates of these revenue components are likely to alter their shares in total revenue receipts. Figure 2 presents the percentage composition of total revenue by components for each of the 5 states at two points of time.



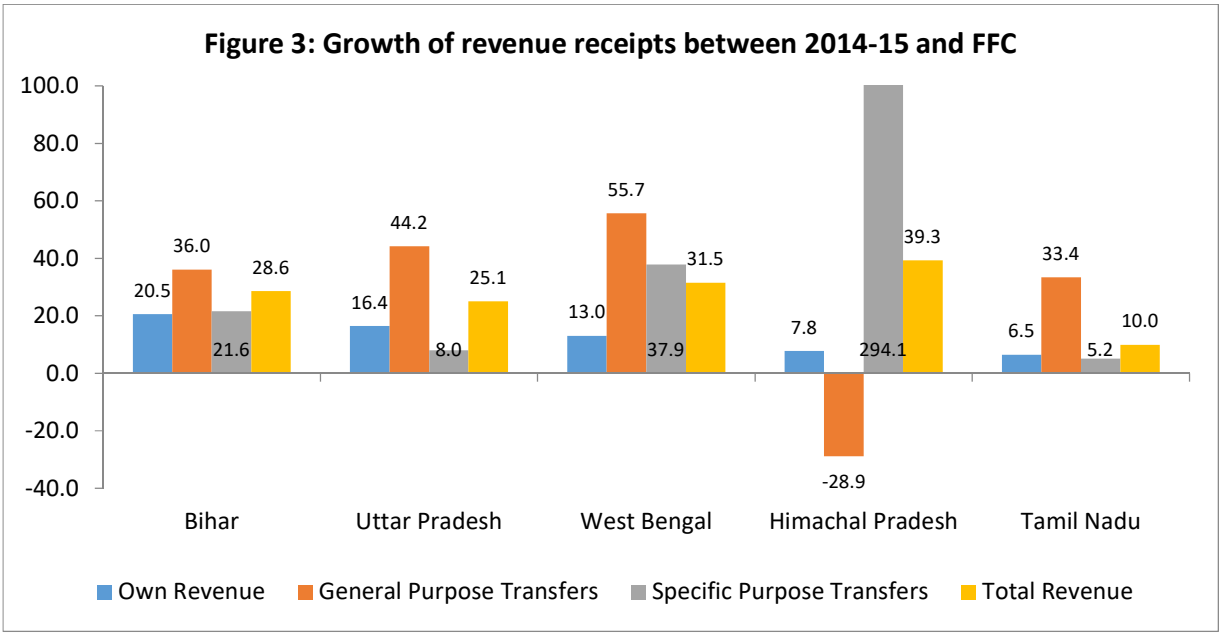
Source: Author's calculation based on Finance Accounts of selected states and years

The first point to note is that the share of own revenues in total revenue for TN is far higher than the other study states. So clearly, TN ranks first as far as fiscal autonomy is concerned. Except for Bihar, states' own revenue is the single largest contributor to total revenue. However this share has declined for all states, including TN, between the two periods. The share of Central taxes and duties in total revenues has increased for all states. This implies an unambiguous increase in the share of untied funds. The highest increase in this respect has happened for WB and UP. On the other hand, the share of plan grants in total revenues has declined for all states between the TFC and the FFC period. The

highest decline in this respect is observed for HP where the share of plan grants in total revenue declined by almost 19 percentage points.

3.1.2. Impact of the FFC on fiscal autonomy and flexibility of states

In order to understand the impact of FFC on fiscal autonomy of states we have reclassified Central transfers into general purpose and specific purpose, the idea being that a higher share of the former relative to the latter offers more flexibility and autonomy to states on their spending decisions. For total untied funds available at the states disposal, we need to add states own revenue to the general purpose transfers.



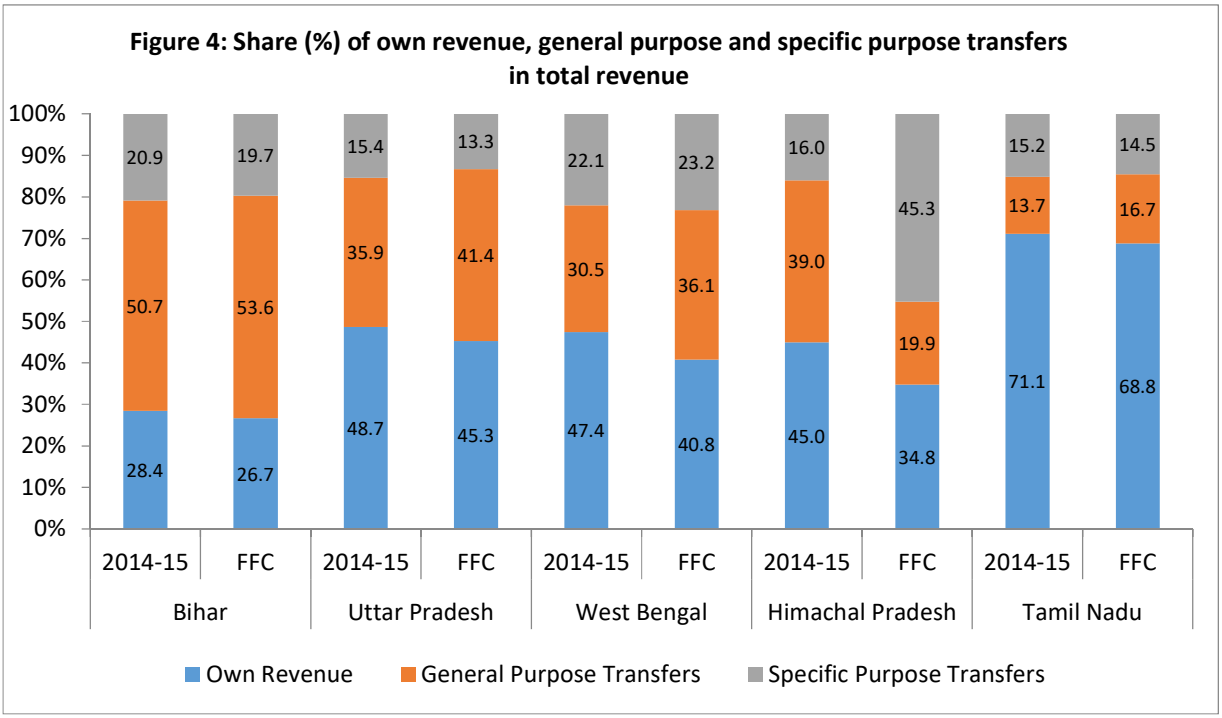
Source: Author's calculation based on Finance Accounts of selected states and years

Figure 3 shows the growth rate of these components as well as of total revenue for the five states between 2014-15 and the FFC years (average). It can be seen that the component with the highest growth rate is general purpose transfers[4] for four out of five states, the highest increase happening for WB. HP surprisingly shows a contraction in general purpose transfers in absolute terms. It has been

[4] General purpose transfers are made of states share of Central taxes and duties and block grants under plan grants. All other components of grant-in-aid from the Centre have been considered as specific purpose transfers.

more than compensated through almost a 300 percent increase in specific purpose transfers. So while resources may not have been an issue for HP, it surely had to compromise on fiscal autonomy in the post FFC years.

What has been the outcome of these growth differentials on the composition of state revenues? Figure 4 gives the percentage composition of total revenues across own revenue, general purpose transfers and specific purpose transfers.



Source: Author's calculation based on Finance Accounts of selected states and years

Except HP, the share of general purpose transfers has increased for all states by more than at least 3 percentage points. WB is the only state, other than HP, where the share of specific purpose transfers also increased although by just a percentage point. The total share of untied funds, comprising general purpose transfers and own revenue, is close to 80% for all states. However, this share has declined only for WB between TFC and FFC. At 87%, UP currently has the highest share of untied resources in total revenue and UP has also seen the highest increase in this share between the two periods. So technically UP is supposed to be the most fiscally autonomous state among the selected five while

HP with an untied resource share of just 55% is the most fiscally dependent state. The case of HP is anticipated as it is one of the special category states that receive preferential treatment in the form of central assistance.

3.2. Comparative Fiscal profile - Expenditure

The key objective of this analysis is to understand how the five states make their allocation (and expenditure) decisions in the wake of a restructuring in their revenue profiles. The last section has demonstrated that the FFC has brought in a change in the composition of revenue in the states. Now we attempt to understand whether the expenditure decisions post-FFC reveal preferences for certain sectors vis-à-vis others. Our main interest is to understand the impact of these changes on social sector spending in general, and health spending in particular. Table 3 presents a comparative picture of expenditure by these five states in the two periods. The key points that emerge are as follows:

Table 4: Comparative profile of key expenditure indicators

	Bihar		**UP**		**WB**		**HP**		**TN**	
	2014-15	**FFC (Avg)**	**2014-15**	**FFC (Avg)**	**2014-15**	**FFC (Avg)**	**2014-15**	**FFC (Avg)**	**2014-15**	**FFC (Avg)**
TE per capita	9272	11483	11064	14613	15783	16626	44230	46271	22869	27172
TE as % of GSDP	27.6	29.1	23.3	27.1	17.2	15.7	29.9	27.6	14.7	15.3
RE as % of TE	76.6	74.8	72.6	70.5	71.1	81.3	63.8	72.6	81.8	78.0
ES Expenditure as % of TE	31.2	34.8	30.7	31.6	17.8	21.3	22.8	29.7	26.9	31.0
SS Expenditure per capita	3269	3995	3494	4706	4808	6077	11381	13690	8070	8856
SS as % of TE	35.3	34.8	31.6	32.2	30.5	36.5	25.7	29.6	35.3	32.6
HFW Expenditure per capita	353	484	562	670	691	861	1854	2258	1085	1224
HFW as % of SS Expenditure	10.8	12.1	16.1	14.2	14.4	14.2	16.3	16.5	13.4	13.8
HFW Expenditure as % of GSDP	1.1	1.2	1.2	1.2	0.8	0.8	1.3	1.3	0.7	0.7

Note: TE-Total expenditure, RE – Revenue expenditure, ES – Economic services, SS – Social services, HFW – Health & family welfare

Source: Author's calculation based on Finance Accounts of selected states and years

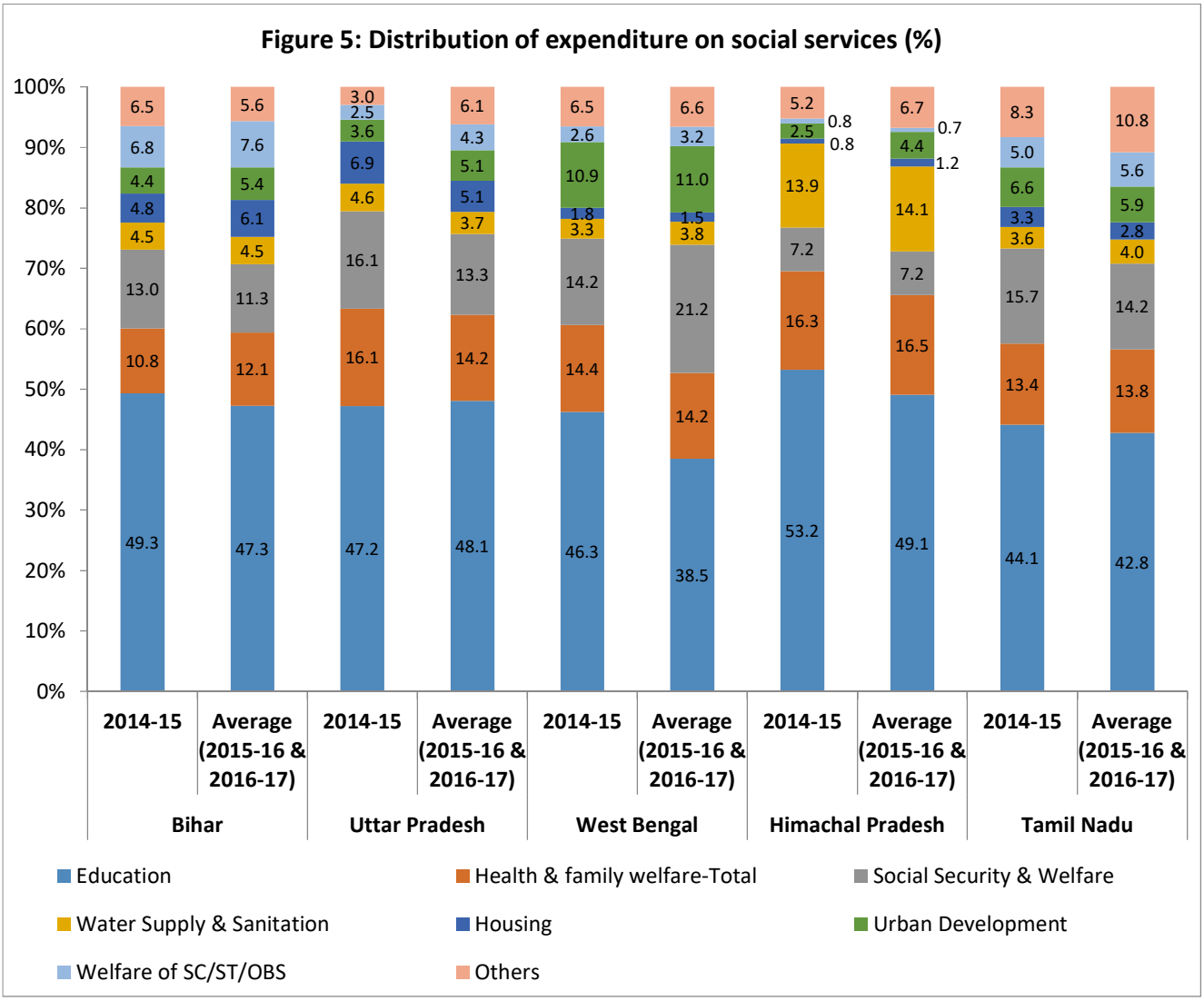
- Highest per capita spending is incurred by HP, which is 160% higher than the next highest expenditure incurred by TN. HP spends around INR 46,000 on each of its resident. The corresponding number for Bihar, the lowest per capita spender, is just around INR 11,500. However, expenditure as a share of GSDP has come down by two percentage points for HP in the FFC period compared to the last year of the TFC period. WB is the other state whose share of total spending in GSDP has declined.
- Revenue expenditure comprised close to 3/4ths of total expenditure, the remaining being capital expenditure. The share of capital expenditure in total expenditure increased for Bihar, UP and TN between the two periods. Capital expenditure is often considered as an indicator of quality of public spending as it creates new assets with inter-temporal implications for service delivery as well as public finances.
- Total spending is broadly classified into general, economic and social services with the last two together known as development expenditure. Except WB, all other states incurred close to a third of their total expenditure on economic services. The share of economic services increased for all states between the two periods.
- Expenditure on social services is of key interest in this analysis. Here again huge disparities exist. While Bihar spends just about INR 4,000 per capita on social services, expenditure by HP is more than three times, at INR 13,690. A part of this difference could be attributed to the cost-disability aspect of hilly states. However, the next biggest social sector spender, TN, also spends more than double per capita compared to Bihar.
- WB has the highest share of social sector in total expenditure followed by Bihar, UP, TN and HP, in that order. So clearly, poorer states are doing better in terms of prioritization of social sector, compared to the more apparently advanced counterparts like TN and HP. However, spending levels remain very low in nominal terms.
- Except TN and Bihar, share of social services in total expenditure increased between the two periods. The highest increase happened in the case of WB where the share increased by a phenomenal 6 percentage points.
- Per capita expenditure on health and family welfare (HFW) follows a pattern similar to that of social services. However, the huge inequality in the levels of HFW spending is important to bear in mind. Even if one leaves out HP because of its special category

status, the next best i.e., TN's per capita health spending is almost 142% more than that of WB, which comes next.

- Share of HFW in social services expenditure ranges from 12% in Bihar to 17% in HP. While HP has the lowest share of social services expenditure in total expenditure, it has the highest HFW share in social services. This implies that comparing across states, HP has been able to prioritise its health sector within the social sector. However the true extent of prioritisation in a state over time would emerge only when one considers all other components of social services.
- Surprisingly, TN (0.7%) spends the least on HFW as a share of GSDP. The best performer in this respect is HP (1.3%) followed by Bihar (1.2%), UP (1.2%) and WB (0.8%).

3.3 Distribution of expenditure on social services

As mentioned earlier, our prime objective is to analyse trends in social sector, particularly health sector. In what follows we identify key components of social sector as revealed by their shares in total social sector expenditure, and analyse their change over the two periods for all five states. Figure 5 presents bar diagrams depicting the distribution of social sector expenditure.



Note: Others include nutrition, sports & youth services, art & culture, relief on account of natural calamities, information & broadcasting and labour welfare.

Source: Author's calculation based on Finance Accounts of selected states and years

Irrespective of the state, education has by far the largest share of total social sector spending, HP being in the lead with almost half of the social services budget being spent on this sector. But in all the states, except UP, the share of education has come down in the FFC period. The largest decline is observed for West Bengal (8 percentage points).

Health and family welfare commands the next biggest share for a majority of these five states. In UP, the state with one of the poorest health outcomes, the share of health spending in social sector spending has declined during the FFC period by close to 2 percentage points. However Bihar - the

other poor performer - has managed to increase its share of health spending. The other three states largely maintained their shares when compared to 2014-15.

The next largest component in 4 out of 5 states was social security and welfare. Except WB, all other states saw a decline in its share. Biggest decline was registered in UP. WB saw an increase in the share of social security and welfare by 7 percentage points indicating a reallocation of priorities, from education to social security.

The state of HP had a disproportionately high share of social sector spending on water supply and sanitation – almost three times the second largest which was Bihar. This again could be associated with the cost disability aspect of a hilly state in provision of basic infrastructure. WB on the other hand had a relatively high share of urban development in social sector spending, when compared with other states. Most extensive reprioritization across sectors in terms of changing shares of social sector spending was noticeable in the state of UP, where the sectoral shares changed for all sectors. The least reprioritization was noted in the case of HP where there was no change in the share of 5 out of the 8 sectors. Within the social sectors, education witnessed the most significant changes with its share declining in 4 out of 5 states.

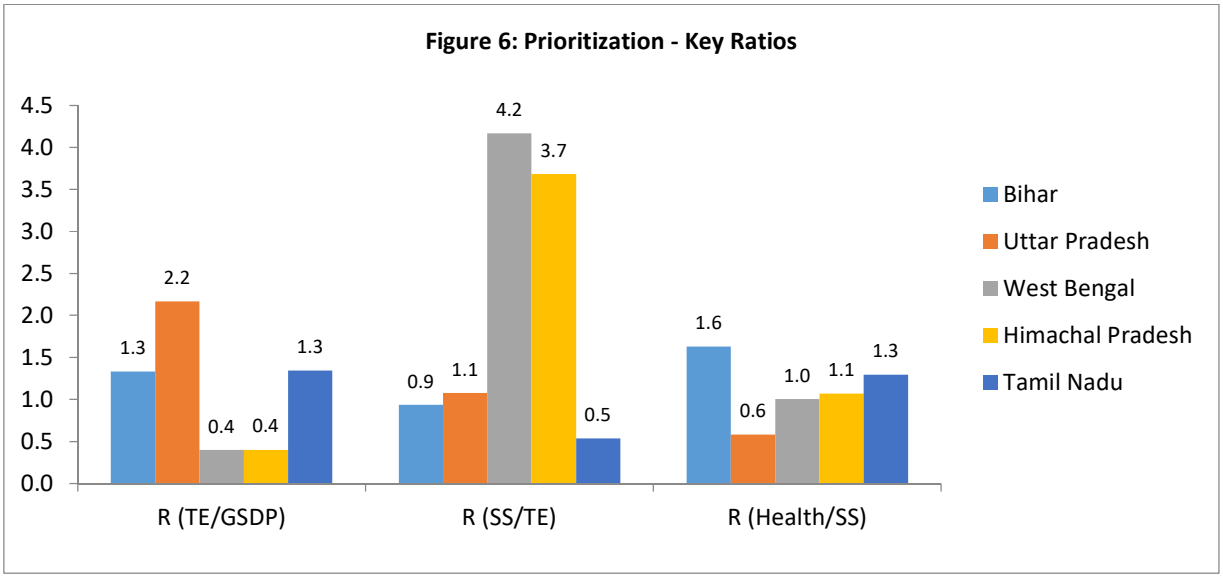
3.4 Impact of FFC on total expenditure and social sector expenditure

As seen from Table 4, total expenditure as a proportion of GSDP has increased for 3 states except WB and HP, in the FFC period compared to 2014-15. WB (along with TN) has the lowest share of public expenditure in GSDP and, therefore, a further reduction is alarming. However WB and HP were also the only two states in which capital expenditure (as share of GSDP) increased between the time points indicating valuable addition to the existing capital stock. To understand whether the social sector in general and the health sector in particular has been prioritized by these states in the FFC period vis-à-vis 2014-15, we compute three simple ratios as follows:

a) $R_{TE/GSDP}$ = Growth of Total Expenditure between 2014-15 and FFC / Growth of GSDP between 2014-15 and FFC.
b) $R_{SS/TE}$ = Growth of expenditure on Social Services between 2014-15 and FFC / Growth of Total Expenditure between 2014-15 and FFC.

c) $R_{Health/SS}$ = Growth of expenditure on Health & Family welfare between 2014-15 and FFC / Growth of expenditure on Social Services between 2014-15 and FFC.

If $R_{TE/GSDP}$ >= 1, total expenditure has kept pace with or exceeded that of GSDP. If $R_{SS/TE}$ > 1, social sector has been prioritized. If $R_{SS/TE}$ < 1, social sector has not been prioritized. If $R_{Health/SS}$ > 1, health sector has been prioritized within the social sector. If $R_{Health/SS}$ < 1, health sector has not been prioritized.



Source: Author's calculation based on Finance Accounts of selected states and years

Figure 5 plots these key ratios for the five states. The R (TE/GSDP) ratio bars indicate that between 2014-15 and the FFC period, public spending in UP, Bihar and TN grew at a rate higher than that of GSDP. In UP, rate of growth of public spending was double that of GSDP. But in the states of WB and HP growth of public spending was just about 40% of the growth in GSDP between the two periods. Such a trend if observed over a long term would point to a shrinking role of the government in provision of services - general, economic or social.

In order to understand whether the social sector particularly has been prioritized, out of competing claims on states resources, we observe the R (SS/TE) ratio. Except for Bihar and TN, the other three states seem to have prioritized their social sectors over other sectors. WB with a R (SS/TE) value of 4.2 and HP with 3.7 display remarkable levels of social sector prioritization. The case of TN is

unusual, where the growth of social sector spending has been just half of the growth of total spending, which according to our definition means a de- prioritization of social sector between the two periods. Looking at the R (TE/GSDP) and R (SS/TE) together, it is interesting to note that both in WB and HP, though government spending has not kept pace with GSDP, there has been a clear prioritization of the social sector within.

Finally we turn to health spending. R (Health/SS) values are used to understand prioritization of health within social sector spending. We see that except UP, all other states have a value of R (Health/SS) greater than or equal to one. However the values are not very significantly above one except for Bihar and to a little extent TN. This goes to show that Bihar, TN and HP have all prioritized their health sector in the FFC period, albeit not to a very significant extent. Uttar Pradesh, the state with poor health indicators has de-prioritized its health sector vis-à-vis other components of social sector.

4. Conclusions

The revenue and expenditure profiles of five states were analysed keeping in mind the changes in fiscal architecture, post-FFC. A central question that this work tried to answer is whether the new fiscal architecture and the resultant changes in state finances have brought about a change in terms of prioritization of the social sector in general, and health sector in particular.

HP, Bihar and UP were the three states that showed a higher growth of total revenue in the current period compared to the TFC period. The share of Central taxes and duties in total revenues has increased for all states.

The share of general purpose transfers has increased for all states by more than at least 3 percentage points except HP. With the highest share (87%) of untied resources in its total revenue budget, UP appears to be the most fiscally autonomous state among the selected five, while HP with an untied resource share of just 55% is the most fiscally dependent state.

The highest per capita total spending is incurred by HP, which is 160% more than the next highest expenditure incurred by TN.

The most striking results are with respect to social sector spending.

Huge disparities in social sector spending exist – with for example, HP spending more than three times Bihar on social services. However, poorer states are doing better in terms of prioritization of social sector, compared to the more accomplished counterparts like TN and HP, though spending levels are too low in nominal terms. Except TN and Bihar, share of social services in total expenditure increased between the two periods for the states.

The disparity in levels of health spending (HFW) are remarkable. Even if one leaves out HP because of its special category status, the next best i.e., TN's per capita health spending is almost 142% more than that of WB.

The most extensive reprioritization across sectors in terms of changing shares of social sector spending was noticeable in the state of UP, where the shares changed for all sectors between the two periods. On the other hand, the least reprioritization was noted in the case of HP with no change in the share of 5 out of the 8 sectors. Within the sectors, education witnessed the most significant changes with its share declining in 4 out of 5 states.

Between 2014-15 and the FFC period, public spending in UP, Bihar and TN grew at a rate higher than that of GSDP. This implies greater public provisioning of services – general, economic or social, especially if the trends persist in the long run.

Except for Bihar and TN, all other states have prioritized their social sectors over other sectors with WB and HP displaying remarkable levels of prioritization. Bihar, TN and HP have all prioritized their health sector within the social sector in the FFC period, albeit not to a very significant extent. Uttar Pradesh, the state with some of the poorest health indicators, has de-prioritized its health sector vis-à-vis other components of social sector.

This, somewhat mixed picture, indicates that there may be state level compulsions and prioritisation in how and why states allocate the way they do. But it is probably safe to conclude that adoption of the FFC recommendations have not led to a categorical de-prioritisation of the social sector.

This study has certain limitations. Ideally one should compare the TFC period average for the entire period i.e., 2010-11 to 2014-15 with that of the average for the FFC period (2015-16 to 2019-20) for a more robust analysis. However, since we are working with 'actuals' rather than 'budget' estimates, this can only happen with additional years of data, since actuals arrive with a two year lag. Also, revenue and expenditure of the state governments prior to 2014-15 are likely to be an underestimate

since certain funds from the Union to states bypassed the state treasury and went directly to the implementing agencies. Therefore 2014-15 becomes the sole representative year of the TFC period. An associated word of caution about this approach is that since inter-governmental transfers do not necessarily flow evenly across years, one single year may not be representative of the entire 5 year period (TFC period), thereby somewhat violating the requirement of a stable base for a robust comparative analysis.

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