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5.1 Introduction

According to Indian constitution, the state governments receive share of taxes, grants and loans from central government. These three components are helpful in reducing 'resource gap' of the states revenue over expenditure. They are also helpful in reducing vertical and horizontal imbalance and regional disparity. The devolution of total central transfers is channelised through Finance Commission, Planning Commission and Union Ministry.

Under Article 280 of Indian constitution the President of India appoints the Finance Commission after every five years or earlier. Finance Commission deals with distribution of shared taxes and grants-in-aid under Article 275 to the states.

Planning Commission is a permanent body, assumed important as a major institution in the devolution process of fiscal transfers to states in India. The plan assistance to states is given under two heads - 1) Plan Assistance under State Plan Schemes and 2) Plan Assistance under Central and Centrally Sponsored Schemes.

Under Article 282 of the constitution, Union Government can recommend grants to the states for any general purpose. Union Ministry can transfer loans and grants to states for meeting their non-plan expenditure.

According to Indian constitution the state governments receive their shares in central taxes i. e. income tax, union excise duties. Shared taxes are a prominent tool of federal fiscal transfers to states in India. Major taxes, which are high yielding, elastic are assigned to the centre, whereas the tax resources of states are inelastic and fall short of their requirements. So the sharing is an important component to reduce fiscal imbalance of the states. Grants and loans from central governments also helpful components in reducing resource gap, fiscal imbalance of state governments.

5.2 Conclusions

1. The continuous growth in shared tax transfers excepting some years during the period under study because of changing the criteria by Finance Commission. Recently the backward states are getting more shares of income tax and excise duties as compared to the first six Finance Commission. Because first six Finance Commission have given more weightage to the population of states for devolution of central tax revenue.

   The union excise duties were important component of fiscal transfers through shared taxes. During the period 1990-91 to 1999-00 amount transfers through union excise duties were more as compared to income tax. Shared taxes from centre to states are very important for reducing resource gap and fiscal imbalance.

2. Since shared taxes could not ensure financial balance between the centre and states, the Indian constitution provided another channel of transfers in the form of grants to states, which shows increasing trend during the period into consideration.

   The grants transfers under state plan schemes were very important components in total grant transfers. On an average 44.31 percent amount was transferred from centre to states under this heads in total grants transfers. The grant from central government to states was an important component after shared taxes in total transfers. Having average of 33.83 percent shared in total fiscal transfers grants helped the states during the period under consideration.

3. Loan transfers under the head plan loan were major component into total loan transfers. And amount transfers under this head continuously increased except some years with 68.10 percent average transfers through plan loan in total loan transfers during the period under study.

   Transfers through non-plan loan were continuously increased upto 1998-99 and thereafter they were highly reduced because system changes in accounting of non-plan loans. Averagely 31.90 percent amount was transferred under this head in total loan transfers during the period into consideration.

4. Component wise percentage share of fiscal transfers centre to states in which relative share of fiscal transfers through shared taxes was calculated higher in comparing with other heads, grants and loans. Relative proportion of shared taxes changed from 34.85 percent to 48.85 percent. The percentage share of grants-in-aid from centre to states fluctuated from 23.03 percent to 46.34 percent. The share of loan transfers changed between 5.95 percent and 38.93 percent. This indicates more fluctuation in its relative share during the period.

5. Continuous growth in total fiscal transfers except one year, but the reverse flows of resources to centre in the way of interest payments and repayment of central loans also increased. So growth rate of net transfers calculated less than gross transfers.

6. States total expenditure was higher than own revenue on revenue account. So resource gap between states total expenditure on revenue account and states own revenue on revenue account remained higher than 45 percent during the period under study.

State government in India was depending upon central transfers on revenue account for reducing their resource gap. This dependency increased during the period under study.

7. Shared taxes was an important component in states total tax revenue. The share of shared taxes in total tax revenue on an average 31.17 percent. This means states total tax revenue was collected mainly from shared tax revenue. Therefore, states dependency on shared taxes was high in the period under study.

8. Growth in both total non tax revenue and grants from centre was nearly the same. So compound growth rates were also calculated nearly the same during the period. The average shared of central grants in states total non-tax revenue was 54.96 percent, means more than 54 percent of states total non-tax revenue was collected through central grants during the period.

   This means states total non-tax revenue mainly depend on grants from centre to states through various heads. Therefore, this significantly affected the states total non-tax revenue during the period into consideration.

9. The growth in shared taxes and grants indicates increasing trends with some fluctuations. The extent of revenue expenditure financed by these transfers has also ranged

from 28.64 percent to 40.37 percent. In addition, these transfers financed more than 33.87 percent of the total revenue account expenditure of states during the period into consideration.

10. Recently state governments were non depending on central transfers on capital account, because states own receipts were more than states expenditure on capital account. The dependency on central government of state governments is increasing on revenue account. They use their capital receipts to reduce the resource gap on revenue account.

11. Fiscal imbalance of the majority of the states has resulted in their indebtedness. The state governments are facing serious problem of their loans and interest payments, inspite of transfers of resources from the centre to the states.

12. Continuous growth in capital expenditure of state governments except some years, because development capital outlays were must to sustain development of the states. States have spent more amounts on infrastructure development and other developmental programmes.

    Loans from centre also increased upto 1998-99 and their share also remained higher in states total capital expenditure. This means they were very helpful for reducing a resource gap of state governments during the period.

13. Fiscal transfers from centre to states increased significantly. They played an important role in revenue mobilization of the state. State have been faced the problem of a resource gap. Resource gap increased so dependency of states also increased on central transfers during the study period.

14. Fiscal transfers on both revenue account and capital account was an important sources of income in aggregate expenditure of state governments. More than 38 percent aggregate expenditure was spent by state through fiscal transfers. Means total fiscal transfers from centre to states have been increasing fiscal dependency of state expenditure on both capital account and revenue account during the period under study.

15. Repayment of central loans, interest payments on central loans and total debt servicing burden were increased. It is due to the share of net fiscal transfers through central government, both on revenue account and capital account were reduced during the period under study.

The benefit to states arising from consolidation, reschedulement and interest rate reduction of central loans to states increased the fiscal dependency of states on centre. And also increased states spending part of its revenue receipts on interest payments on central loans during the study period.

Central loans to states put the interest payment burden on the state finances and also increased revenue expenditure of states which became a cause of increasing problem of states indebtedness.

16. Capital receipts rapidly increased, growth calculated more than 42 fold, but repayment of central loans also increased and their average share was calculated to 11.43 percent in total capital receipts. So more than 11 percent amount of total capital receipts was not used in for development purpose during the study period.

17. The growth in development expenditure on capital account remained meager at only 8 times. Even though its proportion to total capital disbursements was significant for the states to divert a considerable share of their total debt, repayment of central loans and advances by states etc. The repayment of central loans increased and resulted in increasing the burden of central loans. Net transfers from the centre to states on capital account reduced during the study period.

18. The data shows continuous growth in gross fiscal transfer from centre to states on revenue account. However, interest payment on central loans from state governments also increased. Their cause are net central transfers on this account were increased, but growth calculated was less than growth in gross central transfers on this account.

Therefore, we found increasing burden on revenue account during the study period.

19. The high dependency of states on central loans in the capital receipts mobilization, which increased the non-development expenditure in the form of repayment of central loans. Gross central transfers on capital account increased upto 1998-99. Therefore, the net central transfers on this account also increased. After 1999-00, gross central transfers on this account declined, but repayment of central loans not decreased. Therefore, the net central transfers on capital account decreased rapidly during this period. This caused in increasing burden on the capital account of states during the period under study.

20. The data shows the continuous growth in transfers through non-liability components and total fiscal transfers from centre to states. Transfers through liability components also increased upto the year 1998-99. This means the state governments were more dependent on both the revenue and capital account. Therefore, the burden of centre increased on both the capital and revenue account during the period into consideration.

5.3 Suggestions

The present study under the title "Review of Fiscal Transfers to States in India 1991-2003" has attempted to analyse thoroughly various aspects and dimensions of fiscal transfers from the union government of India to state governments. As a result, many suggestions emerge out directed towards tackling problems involved in centre-state fiscal transfers and the problem of fiscal imbalance of states in India. The major suggestions of the study consist of:

1. Due efforts should be made by the Finance Commission to get a definite share of tax revenue to each state because of their financial weakness in comparing with the financial position of states. But the differentiated treatment should be given to both the backward as well as developed states in India.

2. It is the urgent need of the hour to change the nature of financial assistance from the centre to states under the head plus assistance. It is of vital importance to decrease the loan assistance and increase the grant assistance.

3. Burden of interest payments and servicing of debts is a major fiscal problem before the states in India. All the agencies devolving fiscal transfers should take due precaution of extending soft loans to states as well as helping the states in curtailing this type of liability.

4. Rapidly rising revenue expenditure is a major difficulty before the states of our country in tackling their fiscal stress. They should find out such areas in revenue expenditure which are unnecessary, less necessary and avoidable. This will facilitate in arresting rapidly growing revenue expenditure of the states.

5. The states in India should find out new avenues of augmenting revenue resources. This is essential for the fiscal autonomy and reducing dependent of the states on the union government.

6. Besides devolving revenue proceeds from the centre to states, the Finance Commission should identify and suggest such services of revenue consisting of tax and non tax, to assign to the state from the central government, which will meet the need for revenue on the one hand and attempts to maintain parity in the revenue position of both the centre and the states in India.