

CENTRE FOR DEVELOPMENT STUDIES

Working Paper No. 61

Inter - State Redistribution Through
Budgetary Transfers

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January 1978

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There can be no two opinions that since the Independence the access of the Central Government to the various sources of finance, tax and non-tax, including all borrowing, taken together has increased enormously, leaving the States far behind. But precisely for that reason the scope for the Centre to effect some redistribution in favour of the poorer of the States should have increased considerably. The question we are concerned with in this paper is whether, if at all, some redistribution was actually effected through the medium of Central budgetary transfers to the States.

However, a word of caution should be put in that, in the inter-regional flow of funds, Central budgetary transfers are only one of the media through which finances get canalised from one State to another. Nevertheless, as far as the Government sector is concerned Central budgetary transfers to the States assume importance not only because it is a major source of flow of funds to all the States but also because it can, if seriously desired, play an important corrective redistributive role, particularly

when the other media of inter-regional flow of funds, such as commercial bank credit and institutional finance, have been known to flow rather regressively.

I

Much of the recent discussion on Centre-State financial flows has centred on the statutory transfers effected under the periodic awards of the Finance Commissions. The statutory basis of the Finance Commissions and the quasi-judicial nature of their awards after public recording of evidences have understandably enhanced the interest of the public in their working. But the attention bestowed on statutory transfers has been somewhat disproportionate to their share in the aggregate budgetary transfers from the Centre to the States. As may be seen from Table 1, statutory transfers under the aegis of the Finance Commissions accounted for only less than two-fifths of the aggregate budgetary transfers during the entire Plan Era (i.e. from 1951-52 to 1956-77). Except during the Fourth and Fifth Plans, its share was in fact less than one-third and were less than plan transfers. During the Third and Fourth Plan periods and during the three years of Annual Plans, its share was less than that of discretionary transfers.

Transfers under the aegis of the Planning Commission, i.e. plan transfers, accounted for another 30% of the aggregate budgetary transfers when one considers the whole plan period

together. However, if one looks at the share of plan transfers during various plan periods separately, it can be seen that the share of plan transfers in the total budgetary transfers has declined drastically. The trough was reached during the Fourth Plan, 1969-74. Then, the share had declined to less than a quarter compared to over 60% during 1951-56. All through the period thereafter, i.e., from 1956 to 1974, while the share of plan transfers in the budgetary transfers was declining, that of discretionary, non-plan, non-statutory transfers was rising. Only in very recent years, 1974-77, has the trend been reversed somewhat. During these

Table No.1. Central Budgetary Transfers to States by Type and by Plan-periods, 1951 to 1977

Plan periods	Statutory Transfers	Plan Transfers	Discretionary Transfers	Total
First Plan (1951-56)	447 (31.2)	880 (61.5)	104 (7.3)	1431
Second Plan (1956-61)	876 (32.0)	1058 (38.7)	799 (29.3)	2733
Third Plan (1961-66)	1542 (27.4)	2515 (44.7)	1566 (27.9)	5623
Three Annual Plans (1966-69)	1745 (32.8)	1763 (33.1)	1815 (34.1)	5323
Fourth Plan (1969-74)	5317 (35.5)	3535 (23.6)	6106 (40.9)	14958
Fifth Plan (first three years) (1974-77)	5834 (50.9)	2880 (25.1)	2742 (24.0)	11456
Total (1951-77)	15761 (38.0)	12631 (30.4)	13132 (31.6)	41524

Notes to Table No.1

1. Data for the First Plan under all heads, is from the Report of the Finance Commission (1973) P.6.
2. For statutory transfers, during the Second and Third Plans and for Annual Plans see Report of the Finance Commission (1969) Pages 210 and 211. For the Fourth and Fifth Plans data are taken from the annual studies of State finances published in the Reserve Bank Bulletins. Figures are of actuals except for 1975-76 when they are of Revised Estimates and 1976-77 when they are of Budget Estimates.
3. Data on Plan transfers for State Plans except First, Fourth and Fifth Plans are taken from 'Distribution of Central Assistance for the Fourth Plan' a paper submitted to the National Development Council and quoted by B.S.Grewal in Centre State Financial Relations in India: Punjabi University, P.235.
4. The discretionary non-plan, non-statutory transfers have been worked out by ourselves. Aggregate budgetary transfers are first computed by totalling tax shares, grants and loans. Statutory transfers and plan transfers (for State Plans) are then deducted from the aggregate transfers to arrive at non-plan, non-statutory transfers. For data on tax shares, source is the same as under 2 above. For grants and loans source is the RBI studies. Figures for the years 1956-57 are assumed to be the same as for 1957-58, as the data relating to loans and grants for post-reorganization States are not available for 1956-57. Thus, discretionary transfers estimated by us as above, include Central assistance given for Central Plan Schemes and Centrally Sponsored Schemes.
5. Central transfers to Union Territories are excluded.

three years of the Fifth Plan, not only has the share of the statutory transfers forged ahead but also the share of plan transfers has improved a little, both at the expense, quite naturally, of discretionary transfers. Still, statutory transfers alone have not accounted for more than half of the total budgetary transfers. It should be clear therefore that in any study of the redistributory role of the Central budgetary transfers to the States, centring attention on statutory transfers alone will not suffice.^{1/}

II

In order to study the redistributory role of the aggregate budgetary transfers, it is necessary to have a Statewise breakdown of the per capita transfers for the period under review. Table 2 gives this breakdown for the two decades, beginning however with 1956-57. Satisfactory, comparable Statewise breakdown of the budgetary transfers for the period 1951-56 was not possible to make principally because of the re-organisation of States in 1956-57; hence the exclusion of the years, 1951-52 to 55-56, the first five years of Plan Era. For the period, 1956-57 to 1976-77, the table gives separately the transfers, in absolute amounts as well as in percentages, under the three major categories identified above, namely, statutory transfers, plan transfers and discretionary transfers which together add up to gross per capita transfers. These figures are gross in

Table 2: Category-wise Central Budgetary Transfers to States, 1956-77

States	Rupees per capita				% Deviation from Average			
	Statutory	Plan	Discretionary	Total	Statutory	Plan	Discretionary	Total
Punjab	241	278	316	835	82.5	118.8	127.4	107.9
Uttar Pradesh	232	291	327	850	79.5	124.4	131.8	109.8
Maharashtra	284	172	264	720	97.3	73.5	106.5	93.0
Gujarat	288	231	250	789	98.6	98.7	100.8	99.4
West Bengal	318	186	306	810	108.9	79.5	123.4	104.7
Gr. A	<u>289</u>	<u>206</u>	<u>281</u>	<u>776</u>	<u>99.0</u>	<u>88</u>	<u>113.3</u>	<u>100.3</u>
Tamil Nadu	261	213	191	665	89.4	91.0	77.0	85.9
Kerala	382	291	248	921	130.8	124.4	100.0	119.0
Orissa	461	308	314	1083	157.9	131.6	126.6	139.9
Assam	495	400	519	1414	169.5	170.9	209.3	182.7
Karnataka	291	249	262	802	99.7	106.4	105.6	103.6
Andhra Pradesh	303	237	281	821	103.8	101.3	113.3	106.1
Gr. B	<u>337</u>	<u>262</u>	<u>274</u>	<u>873</u>	<u>115.4</u>	<u>112.0</u>	<u>110.5</u>	<u>112.8</u>
Uttar Pradesh	252	216	163	631	86.3	92.3	65.7	81.5
Rajasthan	340	318	483	1141	116.4	135.9	194.7	147.4
Madhya Pradesh	246	250	180	676	84.2	106.8	72.6	87.3
Bihar	249	207	210	666	85.3	88.5	84.7	86.0
Gr. C	<u>262</u>	<u>232</u>	<u>216</u>	<u>710</u>	<u>89.7</u>	<u>99.1</u>	<u>87.1</u>	<u>91.7</u>
All States	<u>292</u>	<u>234</u>	<u>248</u>	<u>774</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

- Notes: 1. Sources of data are as Table 1.
2. Data for States, which were reorganised again after 1956-57, have been computed by dividing the composite States' figures by the reorganised States' population.
3. For arriving at the per capita figures, 1951 population has been used for the Second Plan, 1961 population for the Third and the three Annual Plans, and 1971 population for the Fourth & Fifth Plans.
4. No correction has been made for changes in prices between Plan periods.

two ways. Firstly, in so far as some transfers are made in the form of loans, they involve repayment at some future date. In that sense the difference between gross and net per capita total transfers represents, in the case of each State, the repayment of Central loans by the concerned State during the period. Of course, the repayment obligation arises only when a transfer is made in the form of a loan; so it arises for plan and discretionary transfers and not for statutory transfers, no part of which takes the form of loans. Secondly, they are gross in the sense that we do not take into the contribution of each State to the Centre's resources which are then re-transferred to the States. While in theory netting in this sense is probably far more important than netting in the first sense, it is also far more difficult. There are several problems. It is true that under the present scheme of dispensation 30% of incometax revenue is distributed among the States and it is possible to know the contribution of each State to the Centre's revenue on this account. But it is less easy to identify the contribution of each State to excise revenue. More important however is the question not only about the roles assigned to income tax and excise in the transfers to the States but also about the respective roles of tax revenues on the one hand and other sources of Central finance in this regard. Our present exercise circumvents all these questions.

States have been ranked, in Table 2 and all subsequent tables, according to their per capita domestic product (SDP) in 1967-70 and then classified into groups according to the distance of their per capita income from the all-India average.^{2/} All States with per capita income above the national average by more than 10% are included in Group A. States whose per capita incomes are within 10% of the national average, on either side, are included in Group B. States in Group C have per capita income below the national average by more than 10%. In none of these three categories are included the six special category States, which, for various reasons, got dispensations on the basis of extra-ordinary criteria.^{3/} Except for Jammu & Kashmir, all these States are relatively new States. At least three of them were Union Territories till 1971. We have excluded these six States altogether from practically all our discussion of inter-State distribution of Central budgetary transfers.

The per capital Central budgetary transfers to the six Special category States, as a group, works out as Rs.2674 during the period 1956-57 to 1976-77, which is more than thrice the corresponding average of Rs.815 for all the States including these six States taken together.

It can be seen from Table 2 that as between the 15 group A, B and C States, per capita Central budgetary transfers received by the last four low income States, was below the average for all the 15 States taken together. (We refer hereafter to this average as all-States' average.) It can be seen further that

the per capita receipts of Group C was below the all-States' average with respect to each of the three types of budgetary transfers. However, the bulk of the total shortfall of the group from the all-States' average was accounted for by statutory and discretionary transfers, 47% and 50% respectively, so that 97% of the absolute gap in the per capita budgetary transfers to this group was thus accounted for. Plan transfers to this group came the closest to the all-States' average for this type of transfers to the States.

Among the low income States, however, Rajasthan received budgetary transfers at a per capita level much above the all-States' average. And precisely for that reason the group per capita receipt of budgetary transfers is somewhat misleading. Thus, while the group's shortfall works out to only 8 per cent of aggregate per capita transfers, the shortfall for the three States, other than Rajasthan, in Group C, ranges between 13 per cent and 18 per cent.

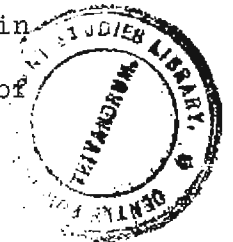
Middle income, i.e. Group B, States, taken together received the highest quantum of per capita budgetary transfers, 13% above the average for all the 15 States. Once again, the statutory transfers accounted for 45 per cent of the absolute excess of the per capita receipts of this group over the all-States' average. Taken separately, the range of deviation is rather wide among the States in this group. While Assam's per capita budgetary transfer receipts were 83% above the all-States' average.

The high income States, as a group, received budgetary transfers at a per capita level which was slightly above the all-States' average. When one disaggregates these transfers by type, however, one finds that while the statutory transfer receipts of these States were close to the all-States' per capita level, plan transfers were 12% below the all-States' average and discretionary transfers were 13% above the all-States' average. Taken separately, the only State which fell distinctly below the all-States' average was Maharashtra, though interestingly, Maharashtra did reasonably well with respect to statutory and discretionary transfers; in fact it was its shortfall on account of plan transfers, far in excess of overall shortfall, that wiped off its gains under statutory and discretionary transfers.

Viewed somewhat differently, though only 6 States fell short of the average per capita transfer receipts of the 15 States taken together, of these 6 States, while, Maharashtra and Gujarat belonged to the top and Tamil Nadu to the middle income groups, the remaining three belonged to the low income group.

Let us examine the case of these low-income States a little more closely. Bihar, the State with lowest per capita income, had the second largest shortfall in per capita budgetary transfer receipts with statutory transfers contributing 40 per cent and discretionary transfers another 35 per cent of the shortfall. Uttar Pradesh had the largest shortfall, 59 per cent

of which has accounted for by discretionary transfers and the balance of which was shared by statutory and plan transfers in the ratio of 2:1. As for Madhya Pradesh, its short fall on account of discretionary transfers (69%) and statutory transfers (47%) was made up partly by plan transfers which exceeded the average per capita level for all the 15 States taken together. It should thus be obvious that no one category of budgetary transfers can be entirely blamed for less than average transfers to the three low-income States. Each of the three categories is responsible for the short fall. In this context it is appropriate to note once again that going by Group C's shortfall in total per capita budgetary transfers and its distribution over the three categories is misleading, in that it would almost exonerate plan transfers from the charge of making regressive transfers. On closer examination, however, it turns out that even plan transfers have not tended to be as equitable, or as less inequitable, as the comparison of Group C's figures with corresponding all-States' averages would suggest.



III

However, before reaching any conclusion about the relative redistributive role of the different types of budgetary transfers, let us look also at the inter-temporal trend to ask in each case if the tendency has been towards greater or less regressivity.

To start with statutory transfers, as can be seen from Table 3, the relative share of Group C improved somewhat over time though the trough was reached during the three years of

Table 3: Plan-wise Budgetary Transfers to States, 1956 - 1977

States	Rupees Per Capita						% Deviations from Average					
	Plan periods						Plan periods					
	II	III	Annual	IV	V	Total	II	III	Annual	IV	V	Total
Punjab	24	33	31	82	71	241	100	94.3	79.5	87.2	71	82.5
Haryana	24	33	33	72	70	232	100	94.3	84.6	76.6	70	79.5
Maharashtra	22	34	40	99	89	284	91.7	97.1	102.6	105.3	89	97.3
Gujarat	29	50	36	86	87	288	120.8	142.9	92.3	91.5	87	98.6
West Bengal	35	33	34	101	115	318	145.8	94.3	87.2	107.4	115	108.9
GROUP A	28	37	36	94	94	289	116.7	105.7	92.3	100	94	99.0
Tamil Nadu	20	32	37	89	83	261	83.3	91.4	94.9	94.7	83	89.4
Bihar	23	45	67	109	138	382	95.8	128.6	171.8	116.0	138	130.2
Orissa	28	64	80	133	156	461	116.7	182.9	205.1	141.5	156	157.9
Assam	44	58	76	135	182	495	183.3	164.7	194.9	143.6	182	169.5
Karnataka	31	41	55	84	80	291	129.2	117.1	141.0	89.4	80	99.7
Andhra Pradesh	24	39	39	95	106	303	100	111.4	100	101.1	106	103.8
GROUP B	26	43	53	102	113	337	108.3	122.9	135.9	108.5	113	115.4
Uttar Pradesh	19	24	31	86	92	252	79.2	68.6	79.5	91.5	92	86.3
Rajasthan	24	40	39	102	135	340	100	114.3	100	108.5	135	116.4
Madhya Pradesh	22	32	30	83	79	246	91.7	91.4	76.9	88.3	79	84.2
Bihar	20	27	26	88	88	249	83.3	77.1	66.7	93.6	88	85.3
GROUP C	21	29	30	88	94	262	87.5	82.9	76.9	93.6	94	89.7
All States	24	35	39	94	100	292	100	100	100	100	100	100

Notes: As in Tables I & II

Annual Plans; however in none of the time-periods identified by us did the group's share of the statutory transfers reach the all-States' average. Within this group, again, while Rajasthan's statutory transfer receipts had all along either equalled the all-States' average or exceeded it, the receipts of the other three States had been significantly below the all-States' average. Taking the States separately, however, while Uttar Pradesh and Bihar, seem to be doing better during 1969-77 than 1956-68, Madhya Pradesh's position seems to have changed quite the other way round.

What was the position of the States in the other two groups, through time, during the same period? Group A started off with a significant margin of 17% above average and ended with a shortfall of the same order viz., 6%, as did Group C. On the other hand, Group B did extremely well during the period of Annual Plans with a high margin of 36% above average and received transfers distinctly above average (with excess ranging from 8 to 23%) in the rest of the period under review. Again, it is important to bring out that within Group A, three of the five States did better than average during some part of the total period under review; Gujarat during the Second and Third Plan periods, Maharashtra during the period of the Annual Plans and Fourth Plan and West Bengal during the Second, Fourth and Fifth Plan periods. Within Group B, of the six States while Tamil Nadu's statutory transfer receipts had been below average all

through, Karnataka's receipts fell below average beginning with the Fourth Plan and though Kerala started with below average receipts it soon (i.e. from Third Plan period) got distinctly above average receipts. Statutory receipts of Orissa and Assam were significantly above average throughout while Andhra Pradesh's receipts remained near the average (its best period was during the Third Plan when its receipt on this account was 11% above average). Thus, if a generalisation were to be attempted, while the relative position of low income States can be said to have shown a tendency to improve somewhat with the passage of time, and the position of high income States has suffered a slight set back, the middle income States have maintained their above-average position with regard to statutory transfer receipts from the Centre.^{5/}

As for plan transfers, as can be seen from Table 4, that while Group A's per capita receipt was below average all along except in the Second Plan period, it is interesting to note that Punjab and Haryana did extremely well with their receipts distinctly above average all along, barring the most recent years, 1974-77. In fact only Maharashtra's and West Bengal's receipts on this account were significantly below average throughout the entire period under review. Gujarat did better than the Group as a whole and its per capita receipts were above the all-States' averages during the Second Plan and the most recent years i.e. 1974-77.

Table 4: Plan-wise Central Plan Transfers to States, 1956-1977

States	Rupees Per Capita						% Deviations from Average					
	Plan periods						Plan periods					
	II	III	Annual	IV	V	Total	II	III	Annual	IV	V	Total
Punjab	51	62	45	72	48	278	175.9	108.8	112.5	120	100	118.8
Haryana	51	62	58	76	44	291	175.9	108.8	145	126.7	91.7	124.4
Maharashtra	23	42	28	47	32	172	79.3	73.7	70	78.3	66.7	73.5
Gujarat	31	54	36	58	52	231	106.9	94.7	90	96.7	108.3	98.5
West Bengal	28	45	32	48	33	186	96.6	78.9	80	80	68.8	77.5
GROUP A	31	49	34	54	38	206	106.9	86	85	90	79.2	88.0
Tamil Nadu	32	55	35	48	43	213	110.3	96.5	87.5	80	89.6	91.0
Kerala	28	72	52	80	59	291	96.6	126.3	130	133.3	122.9	124.4
Orissa	45	78	45	71	69	308	155.2	136.8	112.5	118.3	143.9	131.6
Assam	35	86	72	119	88	400	120.7	150.9	180	198.3	183.3	170.9
Karnataka	35	66	45	57	46	240	120.7	115.8	112.5	95	95.8	104.4
Andhra Pradesh	31	61	44	53	48	237	106.9	107.0	110	88.3	100	101.3
GROUP B	23	66	45	64	54	262	113.8	115.8	118.5	106.7	112.5	112.0
Uttar Pradesh	19	48	33	58	56	216	65.5	54.2	87.5	96.7	116.7	88.3
Rajasthan	37	80	58	83	60	318	127.6	140.4	145	138.3	125	135.9
Madhya Pradesh	37	68	43	61	41	270	127.6	119.3	107.5	101.7	85.4	106.8
Bihar	22	47	33	58	47	207	75.9	82.5	82.5	96.7	97.9	78.5
GROUP C	25	55	39	62	51	232	86.2	96.5	97.5	103.3	106.3	98.1
All States	29	57	40	60	48	234	100	100	100	100	100	100

Notes: As in Tables I & II



Group B's receipts on Plan account were above average throughout with margins exceeding 12% except in the Fourth Plan period when it was down to 7%. Within the group, however, while receipts of Tamil Nadu and Karnataka fell below the average with the passage of time, sooner for Tamil Nadu than for Karnataka, and Andhra Pradesh's receipts managed to be close to the average except for the Fourth Plan period, Kerala, Orissa and Assam had significantly large margins above average, with Assam's receipts reaching almost twice the average during the Fourth Plan period.

For Group C as a whole, the position improved with the passage of time, so that in recent years its receipts on plan account were somewhat above average. But taking the States separately, Bihar's receipts were still below average all along and Uttar Pradesh's receipts crossed the barrier of the average only during 1974-77. Madhya Pradesh, whose receipts were on par with Rajasthan's in the Second Plan period, has been getting less so that during 1974-77 its receipts were 15% below average while Rajasthan's receipts improved in the mid-period and were almost as high in relative terms, in 1974-77.

When we come to discretionary, non-plan, non-statutory transfers and study the trends in Group receipts, we note from Table 5 that while group A (and within it Punjab, Haryana and West Bengal) did distinctly better than average except for the Annual Plan period, Group C's receipts were below average except for

Table 5: Plan-wise Discretionary Transfers to States, 1956-77

State	Rupees per Capita						" Deviations from Average					
	Plan periods						Plan periods					
	I	II	Annual	IV	V	Total	II	III	Annual	IV	V	Total
Punjab	18	50	66	99	63	316	21.8	172.4	161.0	91.7	172.9	127.4
Haryana	18	50	10	172	77	327	31.8	172.4	24.4	159.3	160.4	131.9
Maharashtra	20	38	34	125	47	264	90.9	131.0	82.9	115.7	97.9	105.5
Gujarat	12	39	41	100	58	250	54.5	134.5	100	92.6	120.8	100.3
West Bengal	38	42	30	124	72	306	172.7	144.8	73.2	114.3	150	123.4
GROUP A	<u>23</u>	<u>42</u>	<u>34</u>	<u>120</u>	<u>62</u>	<u>281</u>	<u>104.5</u>	<u>144.8</u>	<u>82.9</u>	<u>111.1</u>	<u>129.2</u>	<u>113.3</u>
Tamil Nadu	12	34	33	82	30	191	54.5	117.2	80.5	75.9	62.5	77.0
Kerala	25	46	24	117	36	243	113.6	158.6	58.5	108.3	75	100
Orissa	35	40	52	137	50	314	159.1	137.9	126.3	126.9	104.2	123.6
Assam	28	97	93	238	63	519	127.3	334.5	226.8	220.4	131.3	109.3
Karnataka	7	23	46	140	46	262	31.8	79.3	112.2	129.6	95.3	103.6
Andhra Pradesh	20	45	58	124	34	281	90.9	155.2	141.5	114.8	70.3	113.3
GROUP B	<u>19</u>	<u>41</u>	<u>47</u>	<u>127</u>	<u>40</u>	<u>274</u>	<u>86.4</u>	<u>141.4</u>	<u>114.6</u>	<u>117.6</u>	<u>83.3</u>	<u>110.5</u>
Uttar Pradesh	13	17	25	59	49	163	59.1	58.6	61.0	54.6	102.1	65.7
Rajasthan	30	53	89	270	41	483	136.4	182.8	217.1	250.0	85.4	194.3
Madhya Pradesh	23	30	38	47	42	180	104.5	103.4	92.7	43.5	87.5	72.6
Bihar	36	28	46	63	37	210	153.6	96.5	112.2	58.3	77.1	64.7
GROUP C	<u>23</u>	<u>26</u>	<u>40</u>	<u>83</u>	<u>41</u>	<u>216</u>	<u>104.5</u>	<u>89.7</u>	<u>97.6</u>	<u>76.9</u>	<u>91.7</u>	<u>81.1</u>
All States	<u>22</u>	<u>29</u>	<u>41</u>	<u>108</u>	<u>48</u>	<u>248</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>	<u>100</u>

Notes: AC in tables I & II

the Second Plan period and Group B's receipt were distinctly above average for the period 1961-74. Much more recently, i.e. during 1974-77, while Group A's receipts were 20% above average, Group B's receipts were 17% below average and Group C's receipts were 8% below average. Also variations between States, and those between sub-periods for each State, can be seen to have been much larger for discretionary transfers than for the other two types of transfers.

So what is the sort of picture that emerges from the foregoing? Though there are wide variations within the three groups, formed out of the 15 States, it would still appear that while as far as statutory transfers are concerned the redistributive change over time is biased in favour of middle income States, whatever redistributive change is occurring with respect to plan transfers its bias is in favour of low income States and the change, if any, in discretionary transfers favours the high income States. Table 6, giving the changes in the States' per capita budgetary transfer receipts over the period under review, brings this out. However it can be seen also that individual States in different groups fare differently and sometimes quite out of line with the group to which they belong in terms of per capita income. Rajasthan in Group C and Tamil Nadu in Group B are stark examples of this.

Table 6: Plan-wise aggregate Budgetary Transfers to States 1956-77

States	Rupees per capita						% Deviations from Average					
	Plan. periods						Plan periods					
	II	III	Annual Plans	IV	V	Total	II	III	Annual Plans	IV	V	Total
Punjab	93	145	142	253	202	835	124.0	119.8	118.3	96.6	103.1	107.9
Haryana	93	145	101	320	191	850	124.0	119.8	84.2	122.1	97.4	109.2
Maharashtra	65	114	102	271	168	720	86.7	94.2	85.0	103.4	85.7	93.0
Gujarat	72	143	113	244	197	769	96.0	118.2	94.2	93.1	100.5	99.4
West Bengal	101	120	96	273	220	810	134.7	99.2	80.0	104.2	112.2	104.7
GROUP A	<u>82</u>	<u>128</u>	<u>104</u>	<u>268</u>	<u>194</u>	<u>776</u>	<u>109.3</u>	<u>105.8</u>	<u>86.7</u>	<u>102.3</u>	<u>99.0</u>	<u>100.3</u>
Tamil Nadu	64	121	105	219	156	665	85.3	100.0	87.5	83.6	79.6	85.9
Kerala	76	163	143	306	233	921	101.3	134.7	119.2	116.8	118.9	119.0
Orissa	108	182	177	341	275	1083	144.0	150.4	147.5	130.2	140.3	139.9
Assam	107	241	241	492	333	1414	142.7	199.2	200.8	187.8	169.9	182.7
Karnataka	73	130	146	281	172	802	97.3	107.4	121.7	107.3	87.8	103.6
Andhra Pradesh	75	145	141	272	188	821	100.0	119.8	117.5	103.8	95.9	106.1
GROUP B	<u>78</u>	<u>150</u>	<u>145</u>	<u>293</u>	<u>207</u>	<u>873</u>	<u>104.0</u>	<u>123.9</u>	<u>120.8</u>	<u>111.8</u>	<u>105.6</u>	<u>112.8</u>
Uttar Pradesh	51	89	91	203	197	631	68.0	73.6	75.8	77.5	100.5	81.5
Rajasthan		173	186	455	236	1141	121.3	143.0	155.0	173.7	120.4	147.4
Madhya Pradesh	82	130	111	191	162	676	109.3	107.4	92.5	72.9	82.7	87.3
Bihar	78	102	105	209	172	666	104.0	84.3	87.5	79.8	87.8	86.0
GROUP C	<u>69</u>	<u>110</u>	<u>109</u>	<u>233</u>	<u>189</u>	<u>710</u>	<u>92.0</u>	<u>90.9</u>	<u>90.8</u>	<u>88.9</u>	<u>96.4</u>	<u>91.7</u>
All States	<u>75</u>	<u>121</u>	<u>120</u>	<u>262</u>	<u>196</u>	<u>774</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>

Notes: As in Tables I and II

With the current weightage of almost 75% for statutory and discretionary budgetary transfers, it is only to be expected that, unless, some thing radical is done either to alter the observed biases of all these transfers or to reduce the weightage of types with regressive bias in favour of high and middle income States, the overall bias against low income States will continue.^{5/}

Concluding Remarks

A conclusion like the one we have arrived at only raises further questions. Why have the three types of Central budgetary transfers developed the distinct distributive biases that we have observed? Has it anything to do with the fact that, while the instruments relied on for statutory transfers were tax sharing and grants, both of which do not carry any repayment liability, those relied on for plan and discretionary transfers were grants and loans?^{6/} But why then, it might be asked, was the distributive bias of the discretionary transfers different than that of the plan transfers? Evidently one has to go behind the instruments used for effecting the various budgetary transfers. Suffice it to say for our present purposes that these and other questions, which our present paper might provoke, deserve to be probed seriously if the overall regressive bias of the Central budgetary transfers has to be arrested and set right. One thing is clear however even without such a probe that

any attempt at persevering with the existing pattern of transfers will only further accentuate, rather than rectify inter-State disparities. But can the dispensers of Central transfers afford to behave like the proverbial three monkeys?

Notes & References

1. See I.S.Gulati, Sixth Finance Commission's Award, An Appraisal in Retrospect, EPW, Annual Number, 1977 p.287 to296. An attempt was made there to study the inter-State distribution of only the statutory transfers from the Centre to States for the period 1969 to 1979; the figures for the latter half of the decade were naturally taken from the Award of the Sixth Finance Commission. The important point made in the text is that such an exercise is bound to be very partial in its conclusions.
2. Per capita income estimates used by us are those for 1967-68 to 1969-70, using abstract all-India prices prepared by the Central Statistical Organization for the Sixth Finance Commission. See Table No.3, P 163 of Report of the Finance Commission, 1973.
3. The six special category States are Jammu & Kashmir, Himachal Pradesh, Tripura, Manipur, Meghalaya and Nagaland. As the Sixth Finance Commission brings out, quite a few of these States "are very small in terms of area and population and have virtually no base of their own" so that "almost all their requirements, which are not inconsiderable, have to be met in entirely through Central devolution". That is why these six States with only 2.26% of population account for 9.57% of the devolution recommended by the Commission. See Report (op.cit.) P.80.
4. Even the figure of Rs.2674 is an underestimate because devolution to some of these States during the period when they were Union Territories could not be included.
5. This, more or less, confirms the conclusion of the earlier study referred to above. See I.S.Gulati, op.cit.
6. Of course, one could draw a distinction between grants and grants (as is done in the earlier study on statutory transfers) and even loans and loans to study the distinct distributive bias of each. It is only on the strength of such detailed analysis that it will be possible to locate the factors lying behind the distributive role which each type of budgetary transfers has been observed to play in the two decades or so of planning under review.

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