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Development Trends in Selected Indian States – Issues of Governance and Management*

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The southern and western states in India are regarded as high growth and high growth potential areas. This paper examines the management of government finances and expenditure in the states of Andhra Pradesh, Gujarat, Maharashtra, Karnataka, Kerala and Tamil Nadu.

Table 1 indicates that Gujarat has grown the most in recent years, considerably above the national average.

Table 1: Gross state domestic product (current prices) (Rupees crore)

	2005-06	2006-07	2007-08 (E)	2008-09 (E)	Growth rate (%)
Andhra Pradesh	236,034	269,173	298,459	330,930	10.88
Gujarat	216,651	247,681	283,156	323,712	14.32
Karnataka	170,741	189,044	209,308	231,745	10.72
Kerala	118,998	132,739	146,952	162,687	10.71
Maharashtra	432,413	482,328	538,004	600,107	11.54
Tamil Nadu	223,528	246,266	274,378	308,136	9.08

Source: *National Income Statistics, CSO; Estimates by BIU*

In terms of per capita net state domestic product current prices, Tamil Nadu ranks 12th in the country (Rs. 29,958), behind Haryana, Maharashtra and Punjab, among major states. Among the southern states, Tamil Nadu is just behind Kerala, but higher than the other three states. The estimates of gross state domestic product (GSDP) growth as well as population growth reveal that Gujarat could lead in per capita net state domestic product over the next two years (see Table 2).

* In the tables in the paper, Rs. 1 crore is about US\$250 million.

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Table 2: Per capita net state domestic product (current prices) (Rupees)

	2005-06	2006-07	2007-08(E)	2008-09 (E)	Growth rate (%)
Andhra Pradesh	26,226	29,582	35,879	36,100	9.18
Gujarat	34,157	43,324	50,400	57,048	10.63
Karnataka	27,101	32,447	36,058	39,548	8.59
Kerala	30,668	33,609	42,961	47,372	8.06
Maharashtra	37,081	32,733	49,579	54,863	8.13
Tamil Nadu	29,958	35,668	40,127	43,595	7.62

Source: National Income Statistics, CSO; Estimates by BIU

An analysis of the budgets of these states for 2008-09 shows that Maharashtra and Andhra Pradesh have healthy revenue receipts, and are managing their revenue expenditures within the receipts. It may be recalled that, only a few years ago, these two states used to report massive revenue deficits. The lack of fiscal prudence and management is a function of governance. In Karnataka, ineffective and weak governments in the past five years have led the state into fiscal decline. In Kerala, the ruling coalitions have been unable to strategise a clear developmental path, and the budgets reflect these infirmities.

Table 3: Revenue receipts/expenditure and deficit position (budget estimates 2008-09) (Rupees crore)

State	Revenue receipts	Revenue expenditure	Revenue surplus(+)/deficit(-)
Andhra Pradesh	70,927	70,218	709
Gujarat	38,278	38,226	484
Karnataka	46,189	31,787	-2,973
Kerala	24,936	28,303	-3,367
Maharashtra	79,911	78,946	965
Tamil Nadu	51,506	51,422	84

Source: State Budget documents

A similar trend is evident in the case of interest payments as well, with high commitments in the case of Karnataka and Kerala. Interestingly, Table 4 also indicates the overhang of past borrowings in the Maharashtra case – there was a period when the state was even borrowing for salary payments. The high debt service burden is being slowly reduced through better management, but reflects the burden of poor governance on successor governments.

Table 4: Interest payments vis-à-vis revenue expenditure (2008-09 BE)

	Interest payment (2008-09 BE)	Interest payment as % of total revenue expenditure
Andhra Pradesh	8,985	12.80%
Gujarat	7,384	19.32%
Karnataka	5,278	16.60%
Kerala	5,144	18.17%
Maharashtra	12,389	15.69%
Tamil Nadu	5,957	10.82%

Source: State Budget documents

The fiscal indicators calculated in Table 5 indicate that the better governed states have had better performances. Tamil Nadu has been consistently a better fiscal performer among the

key states. Both in terms of gross fiscal deficit and revenue deficit as percentage of GSDP, its ratios are better than that of other states in Table 5. This has been possible as tax revenues, as a percentage of GSDP, have been high in Tamil Nadu.

However, both Andhra Pradesh and Karnataka have better development expenditure/GSDP ratios. In terms of social sector spending, there is little to choose between Andhra Pradesh, Karnataka and Tamil Nadu. However, Andhra Pradesh and Karnataka have better capital outlay ratios in relation to the respective GSDP.

Table 5: Key fiscal indicators (2008-09 BE)

	GFD/ GSDP	RD/ GSDP	OTR/ GSDP	*DEV/ GSDP	*SSE/ GSDP	CO/ GSDP
Andhra Pradesh	(2.92)	0.21	11.44	15.3	8.0	5.39
Gujarat	(0.15)	0.15	9.17	10.3	5.3	3.47
Karnataka	(2.31)	(1.22)	12.89	15.1	8.0	4.17
Kerala	4.26	(2.07)	9.70	10.4	7.2	0.96
Maharashtra	(2.19)	0.16	10.14	9.8	6.0	2.41
Tamil Nadu	(2.98)	0.03	10.10	12.7	7.8	3.01

GFD-Gross Fiscal Deficit	DEV-Development Expenditure
RD-Revenue Deficit	SSE-Social Sector Expenditure
OTR-Own Tax Revenue	CO-Capital Outlay

Source: State finances; a study of budgets of 2007-08; RBI*

* Since estimates for all the states are not available for 2008-09, comparison has been made using 2007-08 figures.

The pattern of growth strategies can be seen in the estimates of capital expenditure as well. Karnataka and Kerala have low growth (though in the case of Kerala, RE 2006-07 is an aberration due to a lumpy project commitment). Interestingly, fiscal prudence in Maharashtra is keeping capital expenditure growth low. There is focus in that state on more public-private partnership projects even for infrastructure, thus moving capital expenditure away from government budgets.

Table 6: Capital outlay (Rupees crore)

	2005-06 (Accounts)	2006-07 (RE)	2007-08 (BE)	Growth rate (06-07 over 05-06)	Growth rate (07-08 over 06-07)
Andhra Pradesh	9,904	12,912	17,852	30.37%	38.26%
Gujarat	9,990	9,502	11,229	-4.88%	18.18%
Karnataka	8,900	9,330	10,169	4.83%	8.99%
Kerala	903	1,499	1,562	66.00%	4.20%
Maharashtra	11,591	13,406	14,471	15.66%	7.94%
Tamil Nadu	6,604	8,327	9,876	26.09%	18.60%

Source: State finances; a study of budgets of 2007-08; RBI

It is interesting to look at the focus on the social sectors in these states. All these states have spent more than 10 percent of their outlay on education, with Kerala consistently allocating

15 percent to 19 percent. It is possible to argue that, in Karnataka, Kerala and Maharashtra, there is continuing attention and investment in education of a high order, whereas in the other three states, though there has been attention to education, there have been years where investments have lagged the previous years.

Table 7: Education share in total disbursement (Percent)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 (RE)	2007-08 (BE)	Average
Andhra Pradesh	13.3	12.5	11.7	11.6	9.8	11.1	11.7	10.4	11.51
Gujarat	13.6	12.7	13.5	11.2	11.5	12.6	12.2	12.2	12.44
Karnataka	17.7	16.0	14.8	12.9	12.7	14.0	13.5	14.5	14.51
Kerala	20.0	19.0	17.6	15.7	16.2	16.6	17.2	18.1	17.55
Maharashtra	22.3	22.1	18.9	15.5	14.0	15.7	16.2	15.0	17.46
Tamil Nadu	18.0	17.3	13.8	12.6	11.2	13.6	13.2	15.1	14.35

Source: State finances; a study of budgets of 2007-08; RBI

The Indian National Planning Commission, and indeed the Common Minimum Programme of the United Progressive Alliance (UPA) have focused on providing three percent of all public expenditure for health. The selected states have been doing this on a regular basis.

Three points are of note. First, Kerala and Tamil Nadu have been consistently high spenders and, surprisingly, allocations in Gujarat have been among the lowest in this set, as a percentage. Perhaps a per capita analysis might lead to a different picture, as population densities in Gujarat and Kerala are very different. A second point is that, in spite of four years of the UPA government and the announced emphasis on public health, there is little evidence of any sharp increases in public health expenditures. Thirdly, as the fiscal situation in the states improves, there is evidence of greater attention to public health (and to education). This is a commentary to the fact that, when finances are stressed, allocations to these two sectors are under pressure. In an ideal situation of good governance, these two sectors should be the last to face the expenditure axe, but this does not seem to have been the case.

Table 8: Public health and family welfare expenditure as percentage of aggregate disbursement (Percent)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 (RE)	2007-08 (BE)	Average
Andhra Pradesh	4.7	4.4	4	3.7	3.2	3.4	3.4	3.3	3.76
Gujarat	3.4	2.8	3.2	2.7	2.8	3.1	2.9	3.1	3.00
Karnataka	5.1	4.9	4.2	3.4	3	3.3	3.6	3.9	3.93
Kerala	5.3	5.8	4.8	4.3	4.5	4.7	4.9	4.6	4.86
Maharashtra	3.9	4.3	3.7	3.2	2.7	3.2	3.3	3.3	3.45
Tamil Nadu	4.9	4.9	4.1	3.8	3.2	4.2	3.7	4.2	4.13

Source: State finances; a study of budgets of 2007-08; RBI

Tables 9 and 10 make interesting reading, and give an indication of the mindsets of the governments in power in the individual states. The government in Gujarat, for the last 10 years, has prided itself in being market-oriented, with consumers having to bear the costs of

services. Electricity for agriculture and the price of products in the public distribution system reflect a philosophy of providing infrastructure and amenities at reasonable cost, and with little subsidy. The benefits have been in the form of a phenomenal growth and per capita incomes that the citizens of the state have benefited from.

The picture in Andhra Pradesh, Maharashtra and Tamil Nadu is different. The state governments need to protect election promises of subsidies and social welfare grants and the sharp increases in expenditure in the last three to four years is palpable. These are clearly crowding out other commitments in these states, as the percentage of amounts spent on the social sectors increases. Karnataka is a picture of politics, where, suddenly in 2007-08, there is a sharp increase in expenditure in the social sectors, as the government teetered into uncertainties and collapse.

Table 9: Expenditure on social welfare (Rupees crore)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 (RE)	2007-08 (BE)	Average
Andhra Pradesh	10,006	10,876	11,179	13,367	13,821	14,900	21,119	28,247	15.98%
Gujarat	9,681	9,029	8,177	8,992	10,127	10,995	13,055	13,378	4.73%
Karnataka	7,541	7,642	7,570	8,315	9,764	11,675	15,479	19,225	14.30%
Kerala	5,242	4,932	6,338	5,924	7,344	7,524	9,768	10,472	10.39%
Maharashtra	15,429	15,452	15,704	18,877	20,433	24,268	29,928	31,307	10.64%
Tamil Nadu	9,618	9,190	9,662	11,586	13,617	14,297	18,778	21,221	11.97%

Source: State finances; a study of budgets of 2007-08; RBI

Table 10: Social expenditure to total expenditure (Percent)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07 (RE)	2007-08 (BE)	Average
Andhra Pradesh	35.6	35	32.5	33.3	29.3	30.8	34.8	36.1	33.43
Gujarat	35.6	35.2	30.4	27.3	29	32.1	33.6	32.1	31.91
Karnataka	38.3	34.8	31.4	28.4	28.5	33.4	34.9	39.1	33.60
Kerala	39.9	37.6	37.4	30	36.2	35.6	34	34.1	35.60
Maharashtra	36.6	36.4	33.3	30.9	28.1	35.3	38.2	37.9	34.59
Tamil Nadu	39.4	37	32	34.3	32.6	36.9	35.3	37.9	35.68

Source: State finances; a study of budgets of 2007-08; RBI

It is possible to draw some broad conclusions from Tables 9 and 10. Along with Haryana and Punjab, these are among the more progressive of the larger states of India. They are characterised by high growth rates of GSDP, and this is reflected in the steady increases in per capita incomes. The last three years have witnessed a steady attempt to increase state revenues, and to keep revenue expenditures within revenue receipts, an attempt at which most of these states have been successful. This has, in part, been possible through increases in revenue receipts, buoyed by the value-added tax introduced in 2005. Interest payments, as a percentage of expenditure, have fallen, and the state finances are on a sounder footing.

Within the environment of the overall improvements in the macro economy, the individual states have pursued somewhat different paths. These have been determined more by local

political considerations of the governments in power in the state rather than by any perceived long term strategy. Certain long term investment trends, especially in Kerala in respect of education and health, continue to be maintained but there are variations seen in the other states. The pattern in Gujarat appears to have stabilised towards a market-oriented liberal environment with the state taking the responsibility of providing public goods at a reasonable price in an efficient manner. The political compulsions of governance are considerably more apparent in Tamil Nadu, Andhra and Karnataka, where exiting governments are replacements of earlier political entities in power – the need to do something different is apparent in the patterns of expenditure. Typically, this is visible in additional allocations for social welfare. Outside of the presentation in the tables, this has also been visible in the large announcements for subsidies for food grains in public distribution systems, freebies like television sets for all, and, in many ways, an attempt to ingratiate, through free gifts, the populace. Capital expenditure and plan expenditure have suffered, and it is possible to argue that the long-term investment gets crowded out through these ad hoc welfare measures.

It is difficult to argue, in the long term, which of these would have sustainable effects. Conventional arguments would say that a liberal market-oriented environment, coupled with investments in education and health, would lead to a long-term sustainable pattern of growth of per capita incomes, while grants and subsidies do not create wealth or employment. If this argument holds true, then, among these Indian states, perhaps Gujarat, Kerala, and even Maharashtra, appear to be on a more sustainable growth path than Tamil Nadu, Andhra Pradesh and Karnataka.

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