APPENDIX 7

DETERMINATION OF MINIMUM LEVELS OF PLAN REVENUE EXPENDITURE OF THE STATES

B7.1 The terms of reference require the Commission to make a normative assessment of revenue receipts and revenue expenditure of the Centre and the States without distinguishing between the Plan and non-Plan components of expenditure. However, the assessment of the States' revenue component of Plan expenditures necessitates the determination of their Plan size. Plan size and its composition would have to be determined in an inter-sectoral consistency framework taking into account the targetted rates of growth, which can only be done by the Planning Commission. At the same time, given that the standards of social and economic services in the States are generally low and vary rather widely, it is essential that we should determine certain minimum levels of Plan revenue expenditure in the States to enable them to augment the standards of these services and reduce inter-State disparities.

B7.2 It may be noted that the normative projection has been made only in respect of the 14 major States while in respect of the Special Category States, we have largely gone by their actuals and have made projections on that basis. The Plan size and Plan assistance for the latter category are determined more liberally. Therefore, our exercise of determining the minimum levels of Plan revenue expenditure is confined to the 14 major States.

B7.3 As stated in Appendix 5, for determining the normative expenditure on administrative services we have taken the cost of providing an average standard of services and, therefore, the provision for improvement in the standards of these services in the below-average States is implicit in the projection. However, in the case of social and economic services, the justifiable cost of providing only the existing standards of services is taken account of and no provision is made for improving the standards in the below-average States.

B7.4 An analysis of the normative non-Plan expenditures on social and economic services brings out the existence of significant inter-State differences. The four poorest States of Bihar, Uttar Pradesh, Madhya Pradesh and Rajasthan have per capita normative expenditures much below the average for the major States. At the same time, even the per capita normative expenditures in the more developed States, although higher than the average, are inadequate to satisfactorily fulfil the Constitutional obligations and require to be augmented further. In fact, many States have not been able to achieve the levels as stated in the national policy pronouncements. Therefore, we have to bear two important issues in mind while determining the minimum levels of Plan revenue expenditure of the States, namely, (i) improvements in the standards of services should be attempted in all the States so as to enable them to achieve the stated national objectives, and (ii) inter-State differences in the standards of these services should be reduced to the extent possible during the five-year report period.

B7.5 The starting point for determining the minimum levels of revenue Plan expenditure, therefore, is the standard of social and economic services already achieved in the different States. The standards of the services can be broadly represented by per capita revenue expenditures on the existing services estimated at justifiable costs. As our normative analysis is done for 1986-87, standards of services attained upto the end of the Sixth Plan period are taken account of. The projected expenditures in 1994-95 on these services, therefore, can be taken to represent the cost of maintaining the services achieved upto the end of the Sixth Plan period, but not those generated during the Seventh Plan. Although, it would have been preferable to take into account the normative expenditure required to maintain the standards of services provided upto the Seventh Plan period, there is no objective or scientific method of normatively determining the committed expenditures on the Seventh Plan schemes. Improvement in the standards of services and the reduction in inter-State disparities in them envisaged by us are, therefore, attempted on the basis of the standards achieved upto the end of the Sixth Plan period as the starting point. The additional expenditure incurred to enhance these service levels and reduce disparities in them during the Seventh Plan is lumped together with the minimum Plan revenue expenditure determined by us during the Eighth Plan.

B7.6 We have, therefore, taken per capita normative non-Plan expenditures on social and economic services in 1994-95, projected on the basis of the cost functions, to represent the standards of services achieved in the States. Minimum per capita Plan expenditures are then determined so that all the States are enabled to improve the standards of these services at rates inversely related to their existing levels. Thus, the State with the lowest per capita normative expenditure on social and economic services in 1994-95 would have the highest per capita Plan revenue expenditure and vice versa.

B7.7 In order to determine the shares of the different States, their per capita Plan revenue expenditures are estimated to range from a minimum of Rs. 325, for the State with the highest per capita expenditure (Gujarat), to a maximum of Rs. 425, for the State with the lowest per capita expenditure (Bihar). The difference in per capita non-Plan expenditures on social and economic services in 1994-95 between each State and the State with the highest per capita expenditures was first worked out. These differences were expressed as a ratio of the maximum difference obtained and then multiplied by hundred. The values obtained represent the additional amount of per capita expenditure required to supplement the minimum amount specified, i.e., Rs. 325. Thus, in the case of Gujarat, given that the difference is zero, the Plan revenue expenditure is taken at Rs. 325, whereas in the case of Bihar as the difference is the maximum, we have taken the maximum (Rs. 425) Plan revenue expenditure1.

B7.8 Per capita Plan revenue expenditure thus determined is multiplied by the population of the concerned State to get total Plan revenue expenditure. The relative share of individual States is computed on the basis of their shares in total Plan revenue expenditure. These are presented in Table B.7.1.

Notes

1. This can be explained by the formula :

$$\text{Scale} = 325 + \frac{(Xh - Xi)}{(X_h - X_l)} \times 100, \text{ where}$$

X_i is the per capita normative non-Plan revenue expenditure on social and economic services in the ith State, X_h is the highest per capita normative non-Plan expenditure on social and economic services in a State (Gujarat) and X_l is the lowest per capita normative non-Plan revenue expenditure in a State (Bihar).

TABLE B.7.1

Determination Of Development Expenditure For 1994-95

State	Per Capita Normative Expenditure For Social And Economic Services In 1994-95 (Rupees)	Graduation Scale For The Range Rs. 325 to Rs. 425 * (Rupees)	Per Cent Distribution ** (%)
1 Andhra Pradesh	274.88	387.84	8.363
2 Bihar	190.89	425.00	12.614
3 Gujarat	416.93	325.00	4.448
4 Haryana	290.97	380.72	2.111
5 Karnataka	333.89	361.73	5.516
6 Kerala	413.21	326.65	3.280
7 Madhya Pradesh	236.44	404.85	8.822
8 Maharashtra	353.86	352.90	8.889
9 Orissa	296.09	378.46	4.005
10 Punjab	352.32	353.58	2.315
11 Rajasthan	248.78	399.39	6.182
12 Tamil Nadu	410.67	327.77	6.135
13 Uttar Pradesh	222.74	410.91	19.160
14 West Bengal	319.20	368.23	8.160
Major States	291.62	380.43	100.000

Note : -

* *Computed on the basis of the formula:*

$$\text{Scale} = 325 + \frac{(Xh - Xi)}{(X_h - X_l)} \times 100 \text{ where}$$

Xh represents the highest per capita normative expenditure for social and economic services in a State (Gujarat: Rs. 416.93);
Xl represents the lowest per capita normative expenditure for social and economic services in a State (Bihar: Rs. 190.89); and
Xi represents the per capita normative expenditure for social and economic services in ith State.

Computed on the basis of the formula :

$$\text{Share} = \frac{(Ei * Pi)}{\text{Sum } (Ei*Pi)} \times 100, \text{ where}$$

Ei represents the per capita developmental expenditure in the ith State, and
Pi represents the population in the ith State in 1994-95.*