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An In-Depth Examination of Fiscal Resource Allocation Disparities: A Comparative Study of Resource Allocations by Finance Commissions to Gujarat and Maharashtra

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Abstract

High-quality state development relies on resolving crucial issues including how to best allocate resources to maximise input and output efficiency. Both Maharashtra and Gujarat have seen significant economic expansion in recent years. In particular, agricultural have contributed significantly to the worldwide sustainable development of agriculture thanks to their unique disciplinary qualities and great professional benefits. In contrast, there is less scholarly investigation into how well agricultural resources are allocated. To address this knowledge gap, we used econometric principles to conduct a study that focused on the efficient allocation of financial resources and used high-level agriculture as the research object. In many countries, input redundancy and resource waste occurred because marginal inputs surpassed marginal outputs. This research also demonstrates that the total factor productivity of resource allocation is declining because of the regression of capital input technology in high-level agriculture.

Keywords – Resource allocation, disparities, finance commission, Gujarat, Maharashtra

Introduction

Inequalities or imbalances in the distribution of financial resources, mainly government cash, across various areas, sectors, or groups within a nation are referred to as fiscal resource allocation discrepancies. In public policy and economics, these inequalities are often a focus of attention and study because of the potential for profound social, economic, and political consequences. Some important features of the uneven distribution of fiscal resources are as follows: Disparities in geography refer to the uneven distribution of wealth across various areas of the world. For instance, the government's resources may be distributed inequitably, with certain regions receiving a larger amount than others. This may lead to unequal growth in the economy, public services, and infrastructure.

Education, healthcare, infrastructure, and defence are just some of the economic sectors that may suffer from unequal allocations of fiscal resources. Some areas of the economy may get a larger share of the budget than others, which might have an effect on the quality and availability of those areas' services. Disparities in income and socioeconomic status have been linked to differences in the distribution of resources. Economic inequality may be perpetuated if those with lower incomes or other disadvantages get less aid. These inequalities may be exacerbated or alleviated depending on government policy and financial choices.

Variations in Allocation Based on Demographics Gender, Race/Ethnicity, and Age may all have a role in how government funds are distributed. Disparities in access and results may arise when certain groups get disproportionately more or less financing for particular programmes or services. The impact of policy decisions on existing inequalities may be better understood by dissecting the role of government spending patterns. Some initiatives may be intended to reduce inequality while others may accidentally exacerbate the problem. In order to make educated modifications, it is crucial to comprehend the effects of policy choices.

In order to evaluate inequities in fiscal resource distribution, it is necessary to gather and analyse information on governmental budgets, income streams, and spending habits. Disparities are routinely discovered and evaluated using quantitative analysis and econometric tools. Questions of justice and equality in resource distribution are at the heart of this debate. A reasonable and equitable distribution of resources, especially to the most vulnerable members of society, may be achieved via the employment of progressive taxes, targeted expenditure, and social safety nets. In order to reduce inequalities, it is crucial to ensure that the process of allocating government funds is open and accountable decision-makers are held responsible for their actions. Corruption may be avoided, and resources can be distributed more fairly and responsibly, with more transparency.

Assuring that the public's preferences and requirements are taken into account in policy making may be achieved via public participation in the budgeting process and choices about resource allocation. Sound economic research, legislative changes, and social activism are frequently needed to address inequalities in the distribution of monetary resources. In order to ensure that public resources are used effectively and fairly for the benefit of all members of society, it is crucial to first identify discrepancies and then enact measures to decrease them.

Literature Review

Oates, Wallace E. (1977), in his book "The Political Economy of Fiscal Federalism," outlined the implications of this essential premise for the effective operation of a multilevel public sector, providing information that may be used to the examination of the government's budget strategy. He cautions that fiscal programmes like revenue sharing may be complicated and that economic rationality may conflict with social goals. He argues that public policy, regardless of its objectives, must come to grips with underlying systemic tendencies.

Ashutosh, D. Renuka, V. and Raghunandan, TR (2007), on the other hand, zeroed attention on the most pressing problems with the current method of allocating government funds. They claim that the federal government is avoiding their jurisdiction by sending Centrally Sponsored Scheme (CSS) funds straight to districts, rather than distributing them via the states. Therefore, it is recommended that they be reconciled in a mutually agreeable manner. In it, they try to come up with an all-encompassing approach for fixing the many difficulties that plague the accounting process.

CSS transfer to PRIs in Madhya Pradesh states was figured out by Bhujanga, R C, Gupta, M, and Jena, P R in 2007. There are two varieties of CSS: those that go through State budgets and those that don't. Their research pinpoints many significant CSS that affect PRIs. They discovered that in Madhya Pradesh and other big states, the rate of CSS release is inversely proportional to gross state product per resident. There is a large disparity in the per capita outputs throughout the poorer states, where per capita GSDP falls within a small range.

Thimmaiah (2002) wrote a paper titled "Finance Commission: Decline of a Constitutional Institution" in which he analysed the Commission's mandate. Among the concerns he brought up were (i) the wording of the terms of reference and the hidden or clear objectives of the text, (ii) the lack of transparency around the terms of reference, and (iii) the lack of funding for the project.

Terms of Reference developed under "any other matters," (iii) terms of reference with specified binding points.The Reserve Bank of India (RBI) published a paper in 2011 titled Finance commissions in India: a review, in which they addressed the changes made to the Finance Commission of India's terms of purpose. Finance commissions' mandates have been known to grow over time to include new and pressing topics, as mentioned in the article.

In their report titled "Finance commissions in India: an assessment," RBI (2011) sheds light on the different criteria employed from the first Finance Commission to the Thirteenth Finance Commission. According to the research, the primary goals of the FC transfers have been to encourage fiscal efficiency among the States and to rectify differences in revenue capacity and cost disability variables that are intrinsic to State economies.In his paper "Issues before 12th Finance Commission: Review of Vertical and Horizontal System of Tax Sharing," Gurumurthi (2003) identified problems with both vertical devolution and horizontal redistribution among the states.

Grant distribution was addressed in a working paper by Mohan and Shyjan (2009) titled "Tax Devolution and Grant Distribution to States in India Analysis and Roadmap for Alternatives." They said that the normative criteria are used to determine who gets a statutory grant, and that the discrepancy between the predicted and actual amounts of money coming in from sources other than the Plan is far larger than originally thought.Centre-State financial interactions as they have developed over the years have failed to lessen the vertical imbalance, according to Chakraborty P. (1998), who attempted to assess the relative significance of the different components of resource transfers from the Centre to the states.

Objectives of the study

The fiscal history of India and the part played by several finance commissioners will be dissected in this article.

- The study's goals are to get insight into the Central government's horizontal and vertical devolution of funds to the states.
- To analyse how the 12th, 13th, and 14th Finance Commissions allocated resources to Gujarat in terms of Tax Sharing and Grants-in-aid.

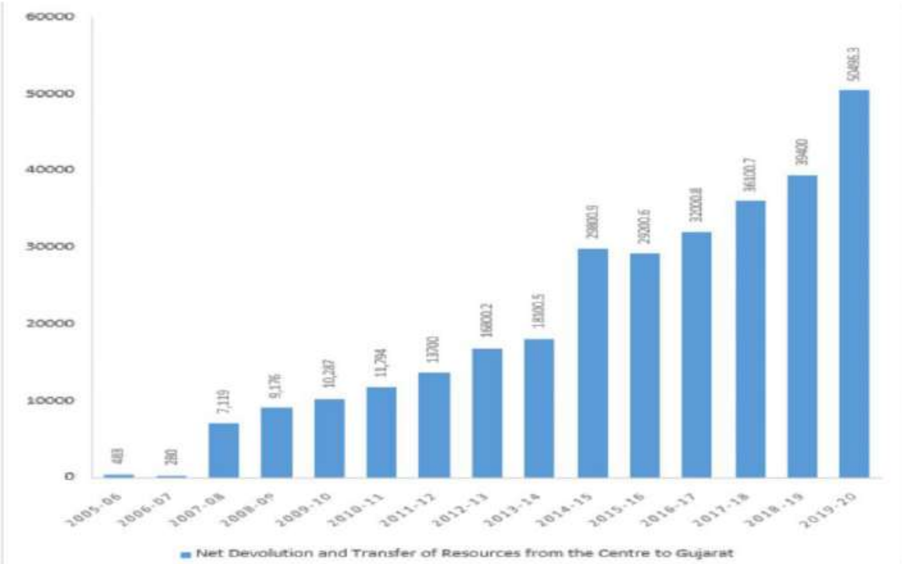
Research Methodology

This research examines Centre-State financial interactions on a national scale, focusing on the allocation of resources to Gujarat and Maharashtra by several finance commissioners. All of the information used in this research comes from secondary sources. Information has been compiled from a wide range of secondary resources, such as the Central and State Governments' Report on Finance and Revenue Accounts, the Reserve Bank of India's Reports on the Study of State Finances: A Study of Budgets, the Handbook of Statistics on the Indian Economy, the Indian Public Finance Statistics, the Comptroller and Auditor General's reports, the Ministry of Finance's reports, the Central Statistical Organization's reports, the Census of India's reports, magazines, journals, books, The obtained data have been analysed and conclusions and recommendations have been made.

Discussion

Since the previous several decades, the welfare state of Gujarat has prioritised the growth of its social and economic infrastructure. Government spending has been shown to have direct effects on people's wages, job prospects, and societal progress, according to the public expenditure hypothesis. Increases in output, employment, and per capita income are all positive outcomes of increased consumer demand. While the nation has yet to reap the long-term benefits of one of the most important and greatest tax reforms — the introduction of Goods and Service Tax — it has already felt some short-term effects, which are being analysed on the basis of statistics from the last year.

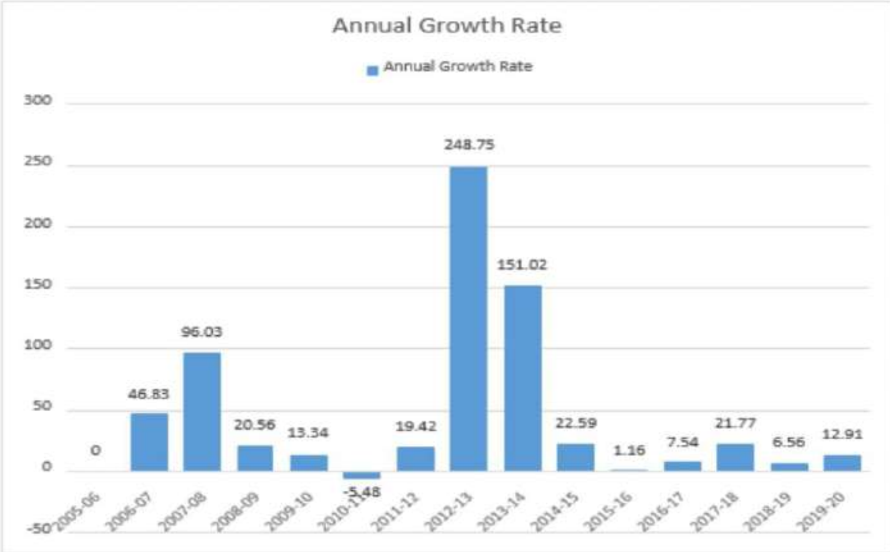
During the time periods covered by the past three finance commissioners, the proportion of net devolution and transfer of resources from the Centre to Gujarat was about the same.



The average yearly increase in federal funds allocated to Maharashtra during the 12th and 14th Finance Commissions. The following chart shows that during the 13th FC, Maharashtra was given the largest share of the available funding. The 12th and 13th FC periods had a 248.75% growth rate, however the 14th FC period saw a decrease in gross devolution and transfer. Gross devolution and transfer of resources grew by 9.9% on average during the 14th FC, slower than the 35.3% and 87.6% seen during the 12th and 13th FCs, respectively.

Annual Growth Rate of Gross Devolution and Transfer of Resources from the Centre to Maharashtra from 2005-2020

Centre to Maharashtra from 2005-2020



The outcome of the examination is detailed below. Based on the data, it is clear that the Central Government has been far less generous to Gujarat than it has been to Maharashtra during the years covered by the 12th to 14th Finance Commission.

Total Central Government Funds Devolved to Gujarat and Maharashtra from 2005-06 to 2019-20, as Determined by the 12th and 14th Finance Commissions

Gujarat		*Maharashtra*	
Mean	3.72	Mean	5.09
Standard Error	0.42	Standard Error	0.64
Standard Deviation	1.63	Standard Deviation	2.49

t-Test: Two-Sample Assuming Equal Variances

	Gujarat	*Maharashtra*
Mean	3.72	5.09
Variance	2.65	6.22
Observations	15.00	15.00
Pooled Variance	4.43	
Hypothesized Mean Difference	0.00	
df	28.00	
t Stat	-1.78	
P(T<=t) one-tail	0.04	
t Critical one-tail	1.70	
P(T<=t) two-tail	0.09	
t Critical two-tail	2.05	

It was expected that the gross devolution and transfer of resources from the central to Maharashtra would be higher than the gross devolution and transfer of resources to Gujarat (M= 3.72, SD = 1.63, n = 15). T(28) = -1.78, p=0.04 (1 tail), indicating a statistically significant difference. Therefore, at the 5% significance level, we find that the alternative hypothesis is more likely to be correct than the null.

Conclusion

Like many other states, Gujarat has increasingly relied on tax revenue to fund government operations. It has been determined that Non-Tax Revenue is not a viable option. This is shown in the smaller ratios of NTR to GSDP and ONTR to GSDP, as well as the smaller percentage of NTR in total Revenue Receipts. The dividends and earnings sub-segment's long-term growth trend has been very unfavourable. There has been an upward trend in the categories of interest income (11.53%), general services (5.51%), and economic services (7.79%). This indicates that the quality of government investments is low and that circumstances at state-run PSUs are worsening. State Own Non-Tax Revenue and Central Government Grants make up the state's Non-Tax Revenue. Throughout the time frame of our analysis, the contributions from both have been relatively constant. The sum is not subject to regulation by the state. As a result, the fact that this depends on the state is cause for concern. For steady economic expansion, the state should put greater emphasis on sources of income outside of taxes.

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