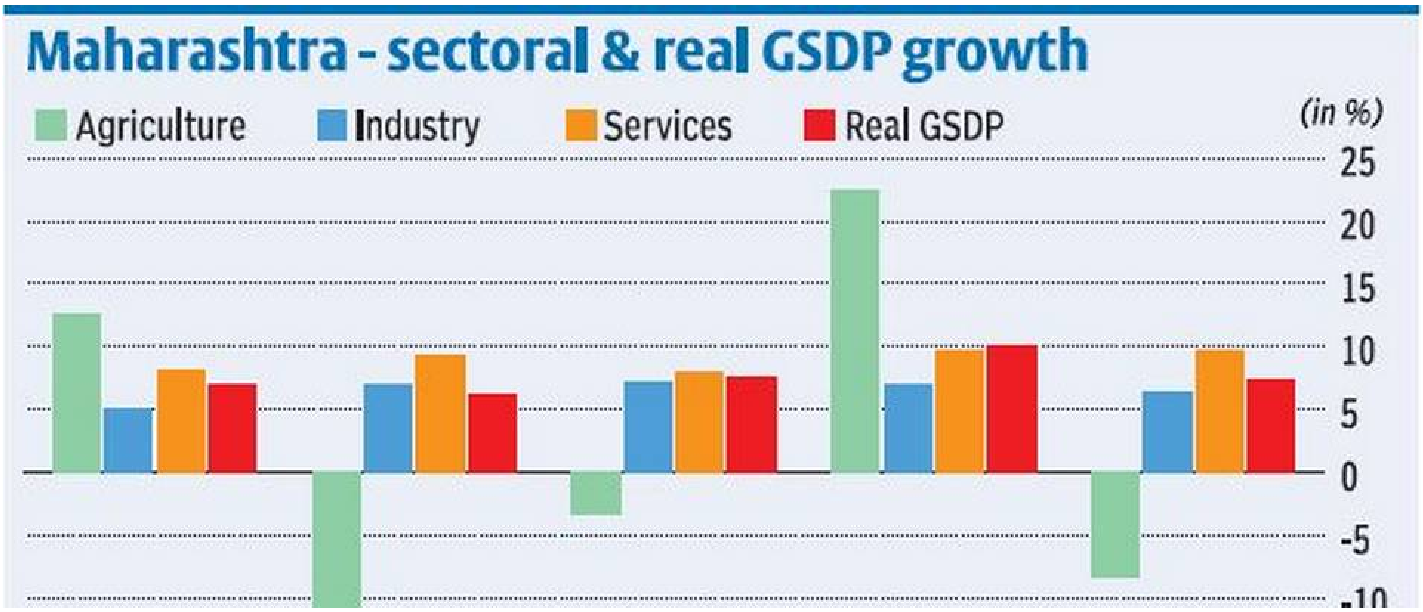
# Maharashtra: Lagging in social indicators

NANDINI VIJAYARAGHAVAN




## Sizeable salary, pension and interest expenses are limiting the State's ability to spend on social infrastructure

Maharashtra is India's most affluent State, both in terms of gross state domestic product (GSDP) and per capita income. Maharashtra's 2016-17 per capita income of ₹1,64,757 (at current prices) exceeds the country's per capita income of ₹1,03,870 by almost 60 per cent.

Maharashtra's size, vibrant business environment, and the advantages that arise from the State capital, Mumbai, also being the nation's financial capital, ought to translate into a strong fiscal profile.

But reality is sadly different. Maharashtra has generated a revenue deficit in eight years of the nine-year period 2009-10 to 2017-18 (RE); a trend that the Maharashtra Government's budget estimates (BE) indicate will be sustained in 2018-19.

Revenue deficit in rupee terms increased by 74 per cent to ₹14,843 crore in 2017-18 (RE) from ₹8,536 crore in 2016-17 and is projected to increase by another 4 per cent to ₹15,375 crores in 2018-19 (BE).

A major contributory factor is the one-time farm loan waiver under the Chhatrapati Shivaji Maharaj Shetkari Sanman Yojana 2017 of ₹16,703.59 crore in 2017-18 (RE) and an estimated ₹10,141.52 crore in 2018-19 (BE). The extent of the State's agrarian crisis is evident from the agricultural growth being negative in three of the last five years.

## Snapshot of finances

| | Revenue receipts (₹ cr) | Own tax revenues/ RR (%) | Revenue (Surplus) deficit/ GSDP (%) | Gross fiscal deficit/ GSDP (%) | Wages & salaries/ RR (%) | Pensions/ RR (%) | Interest payments/ RR (%) | Debt / GSDP (%) | Capital expenditure/ GSDP (%) |
|---|---|---|---|---|---|---|---|---|---|
| 2009-10 | 86,910 | 68.0 | -0.9 | -3.1 | 39.7 | 8.0 | 17.1 | 21.2 | 2.6 |
| 2010-11 | 1,05,868 | 70.9 | -0.1 | -1.8 | 39.4 | 9.3 | 14.8 | 19.4 | 2.3 |
| 2011-12 | 1,21,286 | 72.2 | -0.2 | -1.6 | 37.5 | 9.6 | 14.4 | 17.6 | 2.0 |
| 2012-13 | 1,42,947 | 72.4 | 0.3 | -0.9 | 37.3 | 9.4 | 13.3 | 16.9 | 1.7 |
| 2013-14 | 1,49,822 | 72.5 | -0.3 | -1.6 | 39.9 | 10.1 | 14.2 | 16.3 | 1.9 |
| 2014-15 | 1,65,415 | 71.9 | -0.7 | -1.8 | 37.6 | 10.5 | 14.5 | 16.5 | 1.2 |
| 2015-16 | 1,85,036 | 68.4 | -0.3 | -1.4 | 37.0 | 10.1 | 13.9 | 16.3 | 1.2 |
| 2016-17 | 2,04,693 | 66.7 | -0.4 | -1.7 | 35.2 | 10.6 | 13.9 | 16.2 | 1.4 |
| 2017-18* | 2,57,605 | 64.0 | -0.6 | -1.9 | 32.5 | 9.3 | 13.0 | 16.3 | 1.3 |
| 2018-19** | 2,85,968 | 65.8 | -0.5 | -1.8 | 35.9 | 9.6 | 12.0 | 16.5 | 1.3 |

Source: http://niti.gov.in/state-statistics, Maharashtra Budget in Brief 2015-16 to 2018-19 & author's calculations
Revenue deficit = Revenue Receipts Less Revenue expenditure
Gross fiscal deficit = Aggregate disbursements (net of debt repayments) Less Revenue Receipts, Non-debt Capital Receipts and Recovery of Loans & Advances *RE **BE

Maharashtra's 2018-19 BE also indicates that salaries and pensions will treble and quadruple, respectively, since a decade ago. Salaries (32.5 per cent of revenue receipts) and pensions (9.3 per cent) accounted for 41.9 per cent of revenue receipts in 2017-18 (RE) and are projected to increase to 45.5 per cent in 2018-19 (BE).

The Fourteenth Finance Commission (FFC) recommends a 3 per cent ceiling on States' fiscal deficit. States whose debt-to-GSDP ratio is lesser than 25 per cent and whose interest payments lesser than 10 per cent of revenue receipts (RR) have the flexibility to rack up an additional 0.25 percentage point fiscal deficit each, thereby increasing the effective fiscal deficit ceiling for the more prudent States to 3.5 per cent.

Maharashtra's debt-to-GSDP ratio of 16.3 per cent in 2017-18 (BE) is well below the FFC recommendation of 25 per cent.

Though the State's interest expenses, as a proportion of revenue receipts, have declined to 13 per cent in 2017-18 (BE) from 17.1 per cent in 2009-10 and is projected to decline further to 12 per cent in 2018-19, it is above the FFC stipulated ceiling of 10 per cent.

Hence, the State has the flexibility to report a maximum fiscal deficit of 3.25 per cent, which it thankfully has not exercised. The 2017-18 (RE) fiscal deficit was 1.9 per cent.

Maharashtra's sizeable salary and pension expenditures in conjunction with significant interest expenses is limiting the State's ability to incur development and capital expenditure.

# Social spending

PRS Legislative Research's 'Maharashtra Budget Analysis 2018-19' benchmarked the State's social spending with that of 18 other States. PRS's analysis indicates that Maharashtra's spending on health as a percentage of total budget was 4 per cent in 2017-18 (RE); 80 basis points below the 19 States' average of 4.8 per cent.

Maharashtra's agriculture spending, at a surprisingly meagre 5 per cent in a year when the State faced an agrarian crisis, also lagged the 19-State average of 6.4 per cent. The State's education spending at 18 per cent of total budget and rural development at 6 per cent compared favourably with the other States' average of 16.1 per cent and 5.6 per cent, respectively.

Maharashtra's expenditure on salaries, pension and interest crowding out development expenditure has resulted in its social development lagging that of peer States. And, surprisingly, in some parameters like sex ratio and primary school enrolment ratio, the State's figures are below the all-India average.

Equally worrisome is Maharashtra incurring an extremely low level of capital expenditure; just 1.3 per cent of GSDP in 2017-18 (RE). The State's capex-to-GSDP ratio lags those of Andhra Pradesh, Telengana, Karnataka, Gujarat and Tamil Nadu.

The State's inability to rein in its expenditure on salaries, pensions and interest have translated into diminished focus on building human and physical infrastructure. In the World Bank's 'ease of doing' business ranking of 17 Indian cities, Mumbai stands at 10. Ludhiana, Hyderabad and Bhubaneshwar are the top three.

In 2016, the Department of Industrial Policy & Promotion (DIPP) assessed the implementation of business reforms in States.

The States were categorised as ‘leaders’, ‘aspiring leaders’, ‘acceleration required’ and ‘jump-start required’ based on their success in reform implementation. Though Maharashtra was categorised as a leader, its ranking slipped from eighth in 2015 to tenth in 2016.

The State scored 100 per cent in access to information and utility connections and above 90 per cent on single-window systems (96.43 per cent), labour registration (96.77 per cent), environmental registration (96.49 per cent), commercial taxes (95.92 per cent) and inspections reforms (91.86 per cent).

DIPP identified land and property registration (80 per cent), construction permits (82.76 per cent) and enforcing contracts (77.78 per cent) as parameters requiring improvement.

Maharashtra has compromised on social development and infrastructure building to achieve a fiscal profile that is stronger than those of comparable general category States.

These factors coupled with water scarcity and the consequent agrarian crisis pose long-term challenges to its growth. While it is imperative for States to incur expenditure in a cost-effective manner, it is evident that even the supposedly more developed general category States are struggling to balance their revenue budgets. Achieving fiscal neutrality is a distant dream. This leads us to the question of revenue adequacy.

Though shareable taxes and grants-in-aid from the Centre to the States have increased to 46.4 per cent of revenue receipts in 2016-17 (BE) from 41.7 per cent in 2007-08, the quantum of devolutions is clearly inadequate for States to achieve fiscally viable growth.

Both the Central and State governments ought to improve their tax collection efficiency and the quantum of Central devolutions to States must increase significantly for the latter to achieve sustainable development.

The writer is an independent analyst and co-author of ‘The Singapore Blue Chips’.

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