

States on reform path, need to explore non-tax revenue: Report

Reforms are being undertaken in areas like power, urban development, taxation, governance

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-Subir Gokarn, Former RBI Deputy Governor

New Delhi: Most of the states are on reform path but they need to consolidate their fiscal position and generate more non-tax revenues, says a report.



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Former RBI Deputy Governor Subir Gokarn, who released the Handbook, said states have the resources but are not fully capable of utilising them.

"States do have resources but they lack institutional means to utilise that. Some states appear to be at the top on almost indicators, while some are at bottom...We have to enhance capacity of states," Gokarn said.

According to the report, some states have shown better progress in socially sensitive indicators but their ability to put in place adequate infrastructure for these services will be vital to ensure well-being of citizens. Further, it said that the Centre needs to encourage more decentralisation and devolve power to states and local bodies.

As per the report, NCT of Delhi ranks highest (97 per cent) in terms of urbanisation followed by Goa (62 per cent), Kerala and Tamil Nadu (48 per cent each). The bottom three, are Himachal Pradesh (10 per cent), Bihar (11 per cent) and Assam (14 per cent).

On per capita income, the top three states are Goa, Delhi and Haryana, while those at the bottom are Bihar and Uttar Pradesh. Gokarn, currently the Director of Research at Brookings India, said the Goods and Services Tax (GST) will help create a unified national market and overcome the barrier for movement of goods across states.

India is "politically integrated but not economically" as movement of goods from one state to another is "often more difficult" than across international boundaries.

"So, GST will help us overcome this structural barrier. A combination of direct tax dynamics and transition towards GST will give us an increased efficiency," he added.

"The expected demographic dividend may not be realised unless the government, both at Centre and states, are reformed," the Handbook said.

It said Bihar and Madhya Pradesh -- both historically lagging in terms of development and forming part of the acronym BIMARU -- achieved a double-digit growth of 17.06 per cent and 16.86 per cent in the previous fiscal, respectively.

"These states can catch up with other rich states in terms of industrialisation if they sustain growth levels in future," it added. As per the indicators, the top five high growth economies are Bihar, Goa, Madhya Pradesh, Gujarat and Meghalaya.

According to the State Finances Handbook 2015 released by Brickwork Ratings, most states are undertaking reforms, especially in areas like power, urban development, taxation as well as governance.

"A major challenge for the state governments would be to make credible progress towards fiscal consolidation amidst macroeconomic turmoil," said the Handbook. "States need to explore sources to boost non-tax revenues and review their policies towards user charges," it said.

States that reform power sector, improve health and education, become investor friendly and reduce corruption will do well in the coming years, the study pointed out.