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Tax efficiency in selected Indian states

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Advances in Public Economics

[Raghbendra Jha](#), [M. S. Mohanty](#), [Somnath Chatterjee](#) & [Puneet Chitkara](#)

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This paper attempts to measure pure tax efficiency of fifteen major Indian states (Andhra Pradesh, Assam, Bihar, Haryana, Gujarat, Karnataka, Kerala, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan, Tamilnadu, Uttar Pradesh and West Bengal) for the period 1980-81 to 1992-93 in a manner that allows this efficiency to vary both across time as well as across states. It is discovered that there is a moral hazard problem in the design of central grants in that higher grants by the central government to the state governments reduce efficiency of tax collection by these states. The less poor states are more efficient in tax collection. The rankings of states by tax efficiency for the various years do not converge. An index of aggregate tax efficiency is calculated and it appears that this index has been stagnating. It is argued that the weight placed on tax effort in

the formula determining central grants to state governments should be increased to improve tax efficiency of state governments.

Article Footnote

We would like to thank three anonymous referees of this journal for helpful comments and the editor, Baldev Raj, for encouragement. The research reported in this paper was funded by the Reserve Bank of India. R. Bird, C. Heady, C. Rangarajan, S. S. Tarapore, and A. Vasudevan gave helpful comments on an earlier version of the paper, which came out as DRG Study No. II of the Reserve Bank of India. We also thank participants in an ESRC development economics workshop in LSE and in the 1996 IIPF Congress in Kyoto for helpful comments and George Battese, for making available to us the program used to run the panel data estimation reported in this paper. All opinions expressed in this paper as well as any remaining errors are the responsibility of the authors alone. The complete data set as well as details of all transformations effected in this paper can be obtained from the corresponding author Raghendra Jha.

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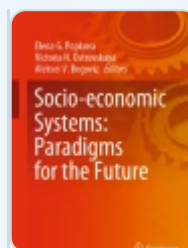
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Author information

Authors and Affiliations

**Indira Gandhi Institute of Development Research, General Vaidya Marg,
Goregaon (East), Bombay, 400 065, India**

Raghbendra Jha & Puneet Chitkara

**Development Research Group, Reserve Bank of India, Central Office,
Bombay, 400 023, India**

M. S. Mohanty & Somnath Chatterjee

Editor information

Editors and Affiliations

**Department of Economics, Queen's University, Kingston, Ontario, K7L
3N6, Canada**

Robin Boadway

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Cite this paper

Jha, R., Mohanty, M.S., Chatterjee, S., Chitkara, P. (2000). Tax efficiency in selected Indian states. In: Boadway, R., Raj, B. (eds) *Advances in Public Economics. Studies in Empirical Economics*. Physica, Heidelberg. https://doi.org/10.1007/978-3-642-57654-6_5

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