SPRINGER NATURE Link

Log in

Tax efficiency in selected Indian states

Conference paper

pp 91–104 | Cite this conference paper



Advances in Public Economics

Raghbendra Jha, M. S. Mohanty, Somnath Chatterjee & Puneet Chitkara

Part of the book series: Studies in Empirical Economics ((STUDEMP))

140 Accesses **8** Citations **3** Altmetric

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 responsi-bility of the authors alone. The complete data set as well as details of all transformations effected in this paper can be ob-tained from the corresponding author Raghbendra Jha.

This is a preview of subscription content, log in via an institution to check access.

Access this chapter

Log in via an institution →

Institutional subscriptions →

Preview

Unable to display preview. Download preview PDF.

Explore related subjects

Discover the latest articles, books and news in related subjects, suggested using machine learning.

Public Finance | Local or State-level Administration | Fiscal Policy | Federalism

Fiscal Law | Taxation Policy | Tax Compliance and Evasion Mechanisms

Fiscal Law | Taxation Policy | Tax Compliance and Evasion Mechanisms

References

Battese GE, Coelli TJ (1992) Frontier production functions, technical efficiency and panel data with applications to paddy farmers in India. Journal of Productivity Analysis 3:153–169

Battese GE, Coelli TJ (1995) A model for technical inefficiency effects in a stochastic frontier production function for panel data. Empirical Economics 20:325–332

Battese GE, Malik S, Broca SE (1995) Functional forms of stochastic frontier production functions and models for technical efficiency effects: A comparative study for wheat farmers in Pakistan. Mimeo, Department of Economics, University of New England

Boadway RW (1997) Public economics and the theory of public policy. Canadian Journal of Economics 30:753–772

Boadway RW, Horiba I, Jha R (1998) The provision of public services by government funded decentralized agencies. Public Choice (forthcoming)

Boyle GA, McCarthy TE (1997) A simple measure ofßconvergence. Oxford Bulletin of Economics and Statistics 59:257–264

Buiter WE, Patel U (1992) Debt, deficits and inflation: An application to the public finances of India. Journal of Public Economics 47:171–205

Buiter WE, Patel U (1997) Solvency and fiscal correction in India: An analytical discussion. In: Mundle S (ed.) Public finance: Policy issues for India, Oxford

University Press, New Delhi, pp. 30–75

Coelli TJ (1994) A guide to FRONTIER Version 4.1: A computer program for stochastic frontier production and cost function estimation. mimeo, Department of Economics, University of New England

CMIE various publications, Bombay

CSO various publications, New Delhi

Cornwell C, Schmidt P, Sickles RE (1990) Production frontiers with cross-sectional and time-series variation in efficiency levels. Journal of Econometrics 46:185–200

Davidson R, MacKinnon JG (1993) Estimation and inference in econometrics. Oxford University Press, New York

Government of India (1994) Report of the tenth finance commission

Huang CJ, Liu JT (1994) Estimation of a non-neutral stochastic frontier production function. Journal of Productivity Analysis 5:171–180

Jha R, Singh SP (1994) Intertemporal and cross-section variations in technical efficiency in the Indian railways. International Journal of Transport Economics 21:57–73

Jha R (1998) Modern public economics. Routledge, London and New York

King DE (1984) Fiscal tiers: The economics of multi-layer government. Allen and Unwin, London National Sample Survey, Government of India, various

publications

Reserve Bank of India, various publications

Seigel SG (1956) Nonparametric statistics for the behavioral sciences. McGraw-Hill Book Company, New York

Shome P (1997) Economic liberalization, fiscal performance, and tax reform: Indian experience and cross-country comparisons. In: Mundle S (ed.) Public finance: Policy issues for India. Oxford University Press, New Delhi, pp. 76–103

Vaillancourt F (1992) Sub-national tax harmonization in Australia and comparison with Canada and the United States. Australian Tax Forum 9:51–64

Vaillaincourt F, Rao MG (1994) Interstate tax disharmony in India: A comparative perspective. Publius, The Journal of Federalism 24:99–114

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

School of Business and Economics, Wilfrid Laurier University, Waterloo, Ontario, N2L 3C5, Canada
Baldev Raj

Rights and permissions

Reprints and permissions

Copyright information

© 2000 Springer-Verlag Berlin Heidelberg

About this paper

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

.RIS .ENW .BIB

DOI	Publisher Name	Print ISBN
https://doi.org/10.1007/978-3-642-57654-6_5	Physica, Heidelberg	978-3-642-63324-9
Online ISBN	eBook Packages	
978-3-642-57654-6	Springer Book Archive	

Key words

Moral hazard and grant design tax efficiency

Publish with us

Policies and ethics

Search

Search by keyword or author

Navigation

Find a journal

Publish with us

Track your research