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Tax efficiency in selected Indian states

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[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

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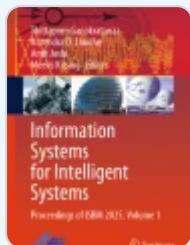
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Author information

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

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

Baldev Raj

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