

## **The Rhetoric of Fiscal Performance: A Study of Odisha, India**

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*This paper re-examines the fiscal performance of Odisha using receipt and expenditure side indicators. Low dormant own tax capacity, inappropriate expenditure management and meager political competition within the state are important reasons for persistent weak fiscal performance. The incomprehensiveness and operational issues of tax, prioritization for larger size of federal transfers and moderate political competition within the state pushed towards low tax capacity. Lack of strategic prioritization and operational inefficiency of public expenditure have led to inappropriate expenditure management. The state has to (i) administer its tax efficiently; (ii) manage public expenditure economically, efficiently and effectively through increasing the elasticity of developmental expenditures of GSDP and GSDP of own tax; and (iii) strategically prioritize the expenditure through decreasing the elasticity of own tax of non-developmental expenditure. The Centre may introduce an independent, impartial and semi-judicial body to equitably distribute central transfer across the state which, in turn, help the fiscal improvement of states.*

### **Introduction**

Odisha has been facing severe fiscal stress since 1984-1985 (Figure A1). Although it exhibits revenue surplus after 2005-2006, it may be largely due to increase in the share of federal transfer, reduction in its socio-economic expenditure of the state or both.<sup>1</sup> Even though there is an established theoretical relationship between fiscal performance and economic growth, empirically it is weak between these two<sup>2</sup> (Psarianos 2002). Empirical analysis reconfirms the weak relationship between fiscal performance and economic growth in Odisha (Table A2). This urges for an enquiry into reasons behind persistence fiscal stress among Indian states. A series of fiscal corrective measures enacted by the central government have failed to address the fiscal stress of states due to the mischievous use of fiscal measures by states to maximize their benefits. In this context, the present paper

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