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Fiscal Health of Indian States: A Comparative Analysis of Expenditure Priorities and Public Welfare

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Abstract: This study examines the fiscal health and expenditure priorities of selected Indian states and analyzes their relationship with public welfare outcomes. In India's federal financial system, state governments play a crucial role in implementing welfare programs, infrastructure development, education, healthcare services, and social protection schemes. The study aims to evaluate how variations in revenue capacity, fiscal deficit, debt burden, and expenditure composition influence developmental outcomes across states. A comparative analysis was conducted using secondary data collected from official sources such as Reserve Bank of India reports, State Finance Accounts, and government statistical publications for the financial year 2023–2024.

The research employs percentage analysis, correlation analysis, Chi-square test, ANOVA, and Z-score standardization methods to assess fiscal performance and welfare outcomes. Composite indices were constructed to rank states based on fiscal health and welfare indicators including literacy rate, life expectancy, poverty rate, and infant mortality rate. The findings reveal significant inter-state disparities in fiscal management and welfare performance. While capital expenditure shows a positive association with economic growth, higher revenue capacity and fiscal strength do not necessarily guarantee improved welfare outcomes. Statistical tests indicate that differences in fiscal categories and revenue capacity groups are not significant at the 5 percent level, suggesting that governance efficiency and policy implementation also play a vital role in determining welfare performance.

Key Words: Fiscal Deficit, Revenue capacity, expenditure composition and welfare outcomes

I. INTRODUCTION

Public expenditure serves as a crucial instrument for socio-economic development, particularly in key sectors such as education, public health, social welfare, and infrastructure. Governments utilize public spending to improve human capital, reduce inequality, and create the necessary economic and social conditions for sustainable development. Investments in education enhance literacy and skill development, while health expenditure improves life expectancy and reduces infant mortality. Similarly, spending on infrastructure such as roads, transport systems, and public utilities promotes economic activity and regional connectivity. However, the effectiveness of public expenditure depends not only on the amount spent but also on how efficiently resources are allocated and implemented. In many cases, higher levels of government spending do not automatically translate into improved welfare outcomes due to factors such as inefficient administration, misallocation of resources, or lack of proper monitoring and evaluation mechanisms. Consequently, some states demonstrate strong fiscal discipline and targeted expenditure strategies that lead to better development indicators, whereas others struggle with persistent fiscal deficits, increasing debt burdens, and inefficient use of public funds.

In recent years, increasing fiscal pressures and expanding welfare commitments have made efficient fiscal management more important than ever for state governments. Rapid population growth, rising urbanization, and growing expectations for improved public services have significantly increased the demand for government expenditure. At the same time, states face challenges such as limited revenue generation capacity, economic shocks, and fluctuating central transfers, which create financial constraints. Policy priorities have also evolved, requiring greater spending on social protection, healthcare infrastructure, education reforms, and poverty alleviation programs. These factors have contributed to widening disparities in fiscal capacity and development performance across states. Some states have successfully strengthened their revenue base and maintained fiscal discipline, while others remain heavily dependent on borrowing and central transfers. As states increasingly shoulder responsibility for delivering inclusive growth and ensuring social protection, evaluating their fiscal health becomes essential for understanding governance effectiveness and long-term

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financial sustainability. A comparative assessment of state finances can therefore provide valuable insights for policymakers, administrators, and researchers in identifying successful fiscal practices, improving resource allocation, and promoting balanced regional development across the country.

This study aims to analyze the fiscal health of selected Indian states by examining their expenditure priorities and evaluating how these financial decisions influence public welfare outcomes. The research focuses on key fiscal indicators such as revenue capacity, fiscal deficit, outstanding debt levels, capital expenditure, and social sector spending. These fiscal measures are analyzed alongside important welfare indicators including literacy rate, life expectancy, poverty rate, and infant mortality rate in order to understand the broader developmental impact of government spending. By integrating fiscal indicators with social development measures, the study seeks to identify patterns that distinguish states with effective fiscal strategies from those facing fiscal challenges. The objective of the study is not only to compare fiscal performance among states but also to determine whether public expenditure aligns with developmental needs and contributes to measurable improvements in public welfare. Through this comparative analysis, the research aims to provide insights into how fiscal management practices can influence development outcomes and support more effective policy formulation in the future.

II. REVIEW OF LITERATURE

A. LITERATURE REVIEW

Rangarajan & Srivastava (2008) examined the fiscal consolidation process undertaken by Indian states following the implementation of the Fiscal Responsibility and Budget Management (FRBM) Acts. The study analyzed trends in revenue deficit, fiscal deficit, primary deficit, and debt-to-GSDP ratios across major states. It found that states adhering to fiscal rules experienced improvement in revenue balance and reduction in deficit levels.

Reserve Bank of India (2023) – State Finances report provides a comprehensive assessment of fiscal performance of Indian states with focus on revenue mobilization, capital expenditure, fiscal deficit trends, and debt sustainability. It highlights the increasing role of capital expenditure in promoting growth and infrastructure development.

NITI Aayog (2022) The Multidimensional Poverty Index (MPI) report assessed poverty beyond income measures by incorporating indicators such as education, health, nutrition, and living standards. The study revealed substantial variation in welfare outcomes across Indian states. It found that states with higher social sector investment showed better poverty reduction outcomes.

Comptroller and Auditor General report provides audited financial analysis of states, covering revenue receipts, revenue expenditure, fiscal deficit, and outstanding liabilities. It highlights variations in fiscal discipline and revenue capacity across states. The report notes that persistent revenue deficits constrain capital expenditure. Based on audited finance accounts, the analysis emphasizes transparency and accountability in fiscal management.

Rao & Singh (2015) analyzed the impact of state-level public expenditure on human development indicators such as literacy rate, life expectancy, and poverty reduction. Using panel data regression analysis, the study found a statistically significant positive relationship between social sector expenditure and development outcomes. The research highlighted that allocation efficiency matters as much as expenditure volume. States prioritizing health and education achieved stronger welfare performance. The study provides empirical evidence supporting the link between fiscal policy and welfare outcomes.

Mohanty (2019) examined fiscal deficit trends and their implications for debt sustainability among Indian states. The study applied econometric techniques to evaluate long-term fiscal stress. It found that high revenue deficits accelerate debt accumulation and reduce fiscal flexibility. The research emphasized the importance of revenue enhancement and expenditure rationalization. The findings reinforce the relevance of analyzing debt-to-GSDP ratios in fiscal health assessment.

Chakraborty (2010) studied the impact of central tax devolution and grants-in-aid on state fiscal capacity. The study found that states heavily dependent on transfers exhibit limited fiscal autonomy. Using comparative fiscal data, it highlighted disparities in revenue-generating ability. The research emphasized the need for balanced fiscal federalism. This study is relevant in examining revenue structure components in your project.

World Bank (2018) World Bank analyzed how public expenditure affects education and healthcare outcomes across regions. It concluded that targeted social spending improves literacy rates and reduces infant mortality. The study used

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cross-country statistical modeling and efficiency analysis. It emphasized governance quality and accountability mechanisms. This supports examining social sector expenditure effectiveness.

Dreze & Sen (2013) explored socio-economic disparities across Indian states and emphasized the role of public action in development. They argued that states investing in health and education achieved better human development results. The study used comparative statistical analysis and policy evaluation. It highlighted governance quality and public accountability as key factors influencing welfare outcomes.

Finance Commission report(2015) evaluated fiscal capacity, debt sustainability, and inter-state resource distribution. It recommended strengthening fiscal discipline and prioritizing capital expenditure. The report applied macroeconomic projections and fiscal ratio analysis. It provides a policy framework for evaluating fiscal health indicators.

B. RESEARCH GAP

The review of existing literature reveals that several studies have examined fiscal consolidation, debt sustainability, public expenditure trends, and welfare outcomes in Indian states. Reports by institutions such as the RBI, CAG, NITI Aayog, and the Finance Commission primarily focus on fiscal indicators such as revenue deficit, fiscal deficit, debt-to-GSDP ratio, and capital expenditure trends. Similarly, academic studies have explored the impact of social sector spending on poverty reduction, literacy rate, and human development indicators.

However, most studies analyse either fiscal health indicators or welfare outcomes independently rather than integrating both dimensions in a comparative framework. There is limited research that simultaneously examines fiscal deficit, debt levels, revenue structure, and expenditure composition alongside measurable welfare indicators such as literacy rate, life expectancy, poverty rate, and infant mortality rate across selected states. Furthermore, few studies provide a focused inter-state comparative analysis using recent audited financial data to evaluate whether expenditure priorities translate into tangible welfare improvements.

Therefore, the present study attempts to bridge this gap by combining fiscal health analysis with welfare outcome assessment for selected Indian states, using updated financial and socio-economic indicators. By integrating fiscal performance and development outcomes within a single analytical framework, the study aims to provide a more comprehensive understanding of the relationship between state finances and public welfare.

III. RESEARCH METHODOLOGY

A. Research Design.

Descriptive research is used to present the fiscal position of Indian states through indicators such as revenue, expenditure, deficits, and debt. Analytical research is employed to examine relationships between expenditure priorities and public welfare outcomes using statistical tools like ratio analysis, percentage analysis, and correlation. The study is comparative in nature, focusing on inter-state differences in fiscal health and welfare spending.

B. Area of Study

The area of the study covers **selected Indian states** across different regions of the country. The research focuses on the **state-level public finance system**, specifically analyzing government revenue, expenditure patterns, fiscal deficits, debt position, and social sector spending. The study also considers welfare outcomes such as literacy, health indicators, and human development across the selected states.

C. Sample Design

The study follows a **purposive sampling method**. A sample of **16 Indian states** has been selected based on:

- Economic size and contribution to national GSDP
- Regional representation
- Availability of consistent fiscal data
- Variation in income levels and fiscal performance

  The selected sample includes both high-income and low-income states to enable meaningful comparison of fiscal health and expenditure priorities

D. Hypotheses of the study

CORE HYPOTHESES

H_{01} (Null Hypothesis)

There is no significant difference in the fiscal health of Indian states as measured by fiscal deficit, debt levels, and expenditure composition.

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H_{11} (Alternative Hypothesis)
There is a significant difference in the fiscal health of Indian states based on fiscal deficit, debt levels, and expenditure composition.

EXPENDITURE PRIORITIES & WELFARE
H_{02}
There is no significant relationship between social sector expenditure (health, education, welfare) and public welfare outcomes across Indian states.
H_{12}
There is a significant relationship between social sector expenditure and public welfare outcomes across Indian states.

REVENUE STRUCTRE AND FISCAL STABILITY
H_{03} (Null Hypothesis)
There is no significant relationship between a state's own tax revenue capacity and its fiscal deficit levels.
H_{13} (Alternative Hypothesis)
There is a significant relationship between a state's own tax revenue capacity and its fiscal deficit levels.

CAPITAL EXPENDITURE AND WELFARE OUTCOMES
H_{04} (Null Hypothesis)
There is no significant relationship between capital expenditure and improvement in public welfare indicators across selected states.
H_{14} (Alternative Hypothesis)
There is a significant relationship between capital expenditure and public welfare outcomes across selected states.

IV. RESULTS AND ANALYSIS

A. PERCENTAGE ANALYSIS
Comparative Analysis of Revenue and Capital Expenditure Structure

Table 1
Expenditure Composition of Selected States (₹ Crore)

STATES	TOTAL EXPENDITURE (₹ Cr)	REVENUE EXPENDITURE (₹ Cr)	CAPITAL EXPENDITURE (₹ Cr)	REVENUE EXPENDITURE (%)	CAPITAL EXPENDITURE (%)
DELHI	78,800	56,983	21,816	72.31	27.69
UTTAR PRADESH	5,48,358	4,29,787	1,10,555	78.38	20.16
HARYANA	1,95,490	1,18,951	14,442	60.85	7.39
PUNJAB	1,22,346	1,17,407	4,743	95.96	3.88
MAHARASHTRA	5,62,714	4,44,350	72,573	78.97	12.90
GUJARAT	2,73,767	1,89,285	55,679	69.14	20.34
RAJASTHAN	2,69,275	2,42,231	27,044	89.96	10.04
GOA	26,560	19,946	4,679	75.10	17.62
WEST BENGAL	3,09,162	2,43,561	34,026	78.78	11.01
ODISHA	2,09,443	1,57,761	51,682	75.32	24.68
JHARKHAND	1,16,418	84,676	26,742	72.73	22.97
BIHAR	2,52,082	1,90,514	59,432	75.58	23.58
TAMIL NADU	4,12,281	3,73,203	39,078	90.52	9.48
KARNATAKA	3,21,660	2,42,614	52,120	75.43	16.20
TELANGANA	2,95,721	2,32,614	63,107	78.66	21.34
ANDHRA PRADESH	3,67,432	1,73,766	1,93,665	47.29	52.71

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INTERPRETATION:

The percentage analysis of expenditure composition reveals significant inter-state variation in fiscal priorities. While most states allocate approximately 75–80% of their total expenditure toward revenue commitments, states such as Punjab, Rajasthan, and Tamil Nadu exceed 90%, indicating high structural rigidity. Conversely, Andhra Pradesh allocates 52.71% toward capital expenditure, reflecting an investment-driven fiscal approach. The analysis demonstrates that the majority of selected states remain revenue-heavy, limiting their long-term infrastructure expansion potential. These differences confirm the presence of substantial variation in fiscal health and expenditure composition across states.

Table 2
Debt Sustainability Indicator – Debt to GSDP Ratio

STATES	GSDP (₹ Crore)	OUTSTANDING DEBT (₹ Crore)	DEBT–GSDP RATIO (%)
DELHI	11,07,000	48,000	4.3
UTTAR PRADESH	25,48,000	7,97,000	31.3
HARYANA	11,20,000	3,03,000	27.1
PUNJAB	7,36,000	3,46,185	47.0
MAHARASHTRA	40,55,000	6,18,113	15.2
GUJARAT	25,63,000	3,74,980	14.6
RAJASTHAN	15,28,000	5,59,767	36.6
GOA	1,06,000	33,573	31.7
WEST BENGAL	17,01,000	6,47,852	38.1
ODISHA	6,99,000	1,40,000	20.0
JHARKHAND	4,61,000	1,80,000	39.0
BIHAR	8,54,000	2,80,083	32.8
TAMIL NADU	27,22,000	7,60,000	27.9
KARNATAKA	23,50,000	6,33,531	27.0
TELANGANA	15,02,000	3,50,000	23.3
ANDHRA PRADESH	14,49,500	4,91,734	33.9

Low Stress	**< 3%**	**< 25%**	**Strong fiscal health**
Moderate Stress	3–4%	25–35%	Manageable pressure
High Stress	> 4%	> 35%	Fiscal vulnerability

Interpretation:

The combined fiscal stress analysis reveals significant inter-state variation in both short-term borrowing pressure and long-term debt sustainability. States such as Gujarat and Delhi demonstrate strong fiscal health, characterized by low fiscal deficits and minimal debt burdens. Conversely, Punjab and Rajasthan exhibit high fiscal stress, with elevated debt-to-GSDP ratios exceeding 35% and fiscal deficits above prudential limits. The majority of states fall within the moderate stress category, indicating manageable but persistent fiscal pressure. The findings confirm substantial variation in fiscal sustainability across selected states, thereby supporting the hypothesis of differential fiscal health.

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B. CORRELATION ANALYSIS

Table 3
Education Expenditure Priority and Literacy Rate

State	X (Edu %)	Y (Literacy)	$X-\bar{X}$	$Y-\bar{Y}$	$(X-\bar{X})(Y-\bar{Y})$	$(X-\bar{X})^2$	$(Y-\bar{Y})^2$
Delhi	20.94	86.34	5.91	12.13	71.67	34.93	147.14
Uttar Pradesh	14.22	67.68	-0.81	-6.53	5.29	0.66	42.64
Haryana	11.25	75.55	-3.78	1.34	-5.07	14.29	1.80
Punjab	13.90	75.84	-1.13	1.63	-1.84	1.28	2.66
Maharashtra	16.35	82.34	1.32	8.13	10.73	1.74	66.10
Gujarat	14.98	78.03	-0.05	3.82	-0.19	0.00	14.60
Rajasthan	13.37	66.11	-1.66	-8.10	13.45	2.76	65.61
Goa	13.18	88.70	-1.85	14.49	-26.81	3.42	210.00
West Bengal	20.05	76.26	5.02	2.05	10.29	25.20	4.20
Odisha	15.76	72.87	0.73	-1.34	-0.98	0.53	1.80
Jharkhand	18.04	66.41	3.01	-7.80	-23.48	9.06	60.84
Bihar	16.66	61.80	1.63	-12.41	-20.23	2.66	154.00
Tamil Nadu	16.49	80.09	1.46	5.88	8.58	2.13	34.57
Karnataka	16.79	75.36	1.76	1.15	2.02	3.10	1.32
Telangana	9.81	66.54	-5.22	-7.67	40.03	27.25	58.82
Andhra Pradesh	8.71	67.41	-6.32	-6.80	42.98	39.94	46.24

FINAL RESULT:
The correlation coefficient between Education Expenditure priority % and Literacy Rate is:
(r) = 0.32 (Moderate Positive Relationship)

Interpretation:
The correlation between Education Expenditure as a percentage of total expenditure and Literacy Rate is 0.32, indicating a moderate positive relationship. This suggests that states prioritizing education within their budget structure tend to achieve better literacy outcomes. Unlike absolute expenditure figures, proportionate allocation reflects fiscal commitment and provides a more accurate measure of policy focus. The result implies that budgetary prioritization plays a meaningful role in influencing educational performance

C. Z Score Standardisation Method (Composite Index Method)

Table 4

State	Z Capital	Z Own Revenue	Z Fiscal Deficit	Z Debt	Composite Score	Rank
Delhi	0.64	1.38	1.59	1.48	4.18	1
Gujarat	0.08	0.63	1.87	-0.39	2.19	2
Maharashtra	-0.36	1.46	-0.13	0.64	1.61	3
Goa	-0.09	1.09	1.21	-0.81	1.40	4

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Andhra Pradesh	2.43	-0.22	-0.40	-0.83	0.98	5
Telangana	0.14	1.18	-0.91	0.44	0.85	6
Karnataka	-0.18	0.87	0.06	-0.12	0.63	7
Odisha	0.34	-0.22	-0.70	0.87	0.29	8
Haryana	-0.69	0.33	-0.06	0.40	-0.02	9
Tamil Nadu	-0.57	0.72	-0.40	0.14	-0.11	10
Jharkhand	0.26	0.58	-0.91	-0.38	-0.45	11
Uttar Pradesh	-0.19	-0.96	-0.06	0.60	-0.61	12
Bihar	0.30	-2.07	0.14	0.27	-1.36	13
Rajasthan	-0.46	-0.36	-1.05	0.24	-1.63	14
West Bengal	-0.42	-0.95	-0.91	0.46	-1.82	15
Punjab	-0.71	0.12	-1.40	-2.64	-4.63	16

Interpretation:
The Fiscal Health Composite Index, constructed using the Z-score standardization method, reveals substantial variation in fiscal performance among the selected states. By integrating capital expenditure, fiscal deficit, debt–GSDP ratio, and own revenue capacity into a single standardized score, the index provides a comprehensive measure of fiscal sustainability and financial discipline. States such as Delhi, Gujarat, and Maharashtra rank higher due to stronger revenue autonomy, lower debt burden, controlled fiscal deficits, and relatively higher capital investment orientation. These states demonstrate better fiscal balance and long-term financial sustainability. In contrast, states like Punjab, Bihar, and Rajasthan rank lower primarily due to high debt levels, larger fiscal imbalances, and weaker revenue capacity. Such fiscal stress may limit their ability to undertake developmental expenditure without increasing borrowing dependence.

V. FINDINGS AND CONCLUSION

A. SUMMARY OF FINDINGS

The percentage analysis indicates that most Indian states allocate more than 70 percent of their total expenditure to revenue expenditure, showing a revenue-dominated spending pattern focused mainly on recurring obligations such as salaries, pensions, subsidies, and administrative costs rather than asset creation. Only a few states allocate more than 20 percent to capital expenditure, suggesting a limited emphasis on long-term developmental investments like infrastructure and public utilities. Among the states analyzed, Andhra Pradesh records the highest share of capital expenditure, reflecting a stronger focus on infrastructure development and long-term growth, while Punjab shows one of the highest proportions of revenue expenditure, indicating heavy recurring fiscal commitments. The analysis of own tax revenue also shows that states with higher own tax revenue shares possess relatively stronger revenue generation capacity, although higher revenue capacity does not necessarily result in lower fiscal deficits due to expenditure commitments and debt obligations.

The correlation analysis reveals a moderate positive relationship between education expenditure and literacy rate, indicating that states spending more on education generally tend to have better literacy outcomes. This suggests that public investment in education contributes to human capital development and improved social indicators. However, the moderate strength of the relationship also implies that literacy levels are influenced by additional factors such as socio-economic conditions, quality of educational institutions, and effective policy implementation.

The Z-Score Composition Index was used to construct a Fiscal Health Composite Index in order to compare the fiscal performance of states. Based on this index, Delhi ranked highest due to its strong revenue capacity and relatively controlled debt levels. Gujarat and Maharashtra also emerged among the fiscally stronger states, supported by their diversified revenue sources and stronger economic bases. In contrast, Punjab ranked among the lowest in fiscal health because of its higher debt burden, fiscal imbalance, and heavy dependence on revenue expenditure. The findings

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highlight significant differences in fiscal capacity and expenditure priorities across states, emphasizing the need for stronger fiscal discipline and greater focus on capital expenditure for sustainable economic growth.

B. CONCLUSION

The findings of the study reveal significant variation in fiscal structure and expenditure composition across states. Most states allocate a dominant share of their total expenditure towards revenue expenditure, indicating a revenue-heavy spending pattern. While such expenditure is necessary for administrative functioning and welfare delivery, excessive dependence on revenue expenditure may restrict long-term developmental investment. Capital expenditure, which contributes to infrastructure development and economic expansion, varies considerably among states. The analysis shows that states with relatively higher capital expenditure tend to demonstrate better economic growth performance, highlighting the importance of investment-oriented fiscal policy.

However, the inferential statistical tests provide an important insight. The Chi-square test and ANOVA results indicate that fiscal strength does not automatically guarantee superior welfare performance. Similarly, ANOVA testing revenue capacity and fiscal deficit levels suggests that higher own tax revenue does not necessarily result in lower fiscal deficits. These findings imply that fiscal stability and welfare improvement are influenced not only by revenue generation and expenditure levels but also by governance quality, policy efficiency, institutional capacity, and implementation effectiveness.

Overall, the study concludes that while fiscal discipline and balanced expenditure allocation are essential for sustainable development, financial strength alone is insufficient to ensure improved welfare outcomes. A comprehensive approach that integrates prudent fiscal management, efficient resource utilization, transparent governance, and effective policy implementation is necessary to achieve long-term economic stability and social development across Indian states.

C. LIMITATIONS OF THE STUDY

The study is confined to **16 selected Indian states**. While the sample represents different regions and economic conditions, the findings may not be fully generalizable to all Indian states and Union Territories. The study relies entirely on secondary data collected from government publications, budget documents, and official reports. Any limitations or inconsistencies in these sources may affect the accuracy of the analysis. The analysis is limited primarily to the financial year **2023–2024**, which may not reflect long-term fiscal trends or structural changes in state finances.

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