

**BRIDGING REGIONAL GAPS THROUGH FISCAL FEDERALISM:
AN ANALYSIS OF CONVERGENCE IN INDIAN STATES**

LIZ ANN LUCKOSE

A project report submitted

in partial fulfillment of the requirement for the award of the degree of

**MASTER OF ARTS
IN
GENERAL ECONOMICS**



May 2025

MADRAS SCHOOL OF ECONOMICS

Chennai- 600025

ABSTRACT

India's federal framework reveals a pronounced mismatch between the states' control over revenue collection and their expenditure responsibilities. Amongst other factors these imbalances also contribute significantly to the stark disparities in economic development across states. Despite the measures implemented by the federal structure in order to mitigate these disparities through, we see a lack of convergence in the regional growth and expenditure levels. Using an extensive dataset covering the period 1990–2019, this study seeks to evaluate how the key dimensions of fiscal decentralisation influence regional disparities among Indian states in terms of per capita GSDP, public expenditure and public service provision. Employing both unconditional and conditional β -convergence models within a panel data framework, the analysis uncovers an absence of unconditional convergence in per capita GSDP and public expenditure. While conditional convergence is observed, the role of fiscal decentralisation in facilitating this process remains limited. These findings underscore the insufficiency of current decentralisation arrangements in mitigating regional inequality. The study calls for a more nuanced and adaptive fiscal strategy that compensates for structural disadvantages and ensures the alignment of fiscal transfers with both regional and sectoral imperatives to foster equitable growth and convergence.

Keywords: Fiscal decentralization, Regional disparity, Public Expenditure, Finance Commission

JEL Codes: D33, H71, H73, H77