CHAPTER 2
REVIEW OF LITERATURE

Before embarking upon a research project it is absolutely essential to review the literature on the similar subject. Keeping this objective in mind an effort has been made here to review some of the existing literature on states level fiscal reforms and related areas.

Aggarwal, Manoj Kumar (2005) in his paper discusses about the budgetary constraints faced by the state of Uttar Pradesh and endeavors to establish a relationship between budgetary constraints and poor economic growth. He also analysis the pattern of expenditure, resource mobilization and indebtness of state and also suggest some policy conclusions to over come fiscal indiscipline in the state.

World Bank (2005) in its report studies about the progress and prospects of state level fiscal reforms in India. It discusses about the major fiscal reform agenda, which forms the major issue of state level reforms in India. The report suggests that a joint Central and state government reform programme is needed for the development and reform programme of states to succeed.

Monthly Commentary on Indian Economic Condition (2005) points out the underlying position of finances of Central government. As great deal of task is ahead in the form of containing fiscal deficit and revenue deficit. The Central government has started pinning hopes on the mobilization of funds through sale of its holdings in public sector undertakings. What in more disturbing is the fact that states government finances are in complete disarray. Unlike the Centre, states are trying to meet the fiscal deficit with the help of special schemes and reduce dependence on the Centre. The share of states in the net proceeds of union taxes and duties is progressively being enhanced .In spite of all this there is no much realization on the part of the states to clear up their finance sheets.

Agarwal, Manoj Kumar (2004) has analyzed the pattern of investments in Uttar Pradesh that has been the major source of concern from the viewpoint of exploiting the resources for rapid economic development. He concluded that private and
institutional investment in Uttar Pradesh are not at desired level as reflected through low credit deposit ratio of the commercial banks.

Naresh, Gautam (2004) in his paper attempt to made bird’s eye view of the fiscal health of all-states and Uttar Pradesh in particular, facing crisis. The agenda for the fiscal reforms are also mentioned, followed by various corrective measures taken by the government of Uttar Pradesh.

Rajaraman, Indira (2004) in her paper identifies those elements in the configuration of fiscal parameters confronting the country that given cause for concern and examines whether that fiscal reform measures taken address these adequately. The underlying structural cause of fiscal stress since the states of reform in FY92 is the uncompensated loss of trade tax revenues. He also analysis the two major fiscal reform initiated in FY00 is small savings re-rounded into manly created National Small savings fund and Fiscal Responsibility legislation enacted by the Centre and for state governments so far.


Kurian, N.J. (2003) in his work pointed to some expend success has been achieved at the Centre but there has been steep deterioration in the finances of the states. Any decline in the Union government and the associated fall in devolution to the states will have further deletions effect on regional imbalances of the country.

Anand, Mukesh, Bagchi. Amaresh, Sen, K. Tapas (Jan. 2002) in their article has discussed about the causes of fiscal indiscipline at the state level. Weaknesses of the system of inter-governmental fiscal relations have been cited as prime caused leading to fiscal indiscipline among states, which call for corrective measures.

Bagchi, Amaresh (2002) have observed even after a decade of correction the consolidated fiscal deficit (FD) of the government (Centre plus states) stood at about the same level at the close of decade as it is in the beginning10% of GDP. The crises
in state finances have their origin in some deep-seated weakness of the fiscal system that call for structural reform. The weakness is in revenue system, budgeting system and system of inter government financial relations. If fiscal deficit is to bring down the weakness of the fiscal system noted above need to address frontally.

**Bhargava, P.K. (2002)** discussed about the state level fiscal reforms. The state should play complementary and supplementary role and performance to the efforts of the Centre to play and improve the fiscal situation. It is high time that agriculture income tax should be included in the constitution to raise the revenue of the states.

**Chelliah, J. Raja, Rao, Kavita R. (Jan 2002)** discusses about the rational ways of increasing the tax revenue of Central and state governments in India. According to them no serious effort has been made to modernize tax administration. The administration of all the states is manual based. A reform and modernization of the administration of the major taxes through computerization and strong deterrent action against tax evaders and corrupt taxmen are two important steps to be taken to increase revenues.

**Dev S. Mahendra and Jos. Mooij (2002)** has considered about social sector expenditure in the last decade of century. They have focused on overall levels of allocation expenditure on health and education and interstate disparities. They have analyzed the composition of expenditure of Centre and state governments in 1990's compared it to 1980's, examined the trends in the social sector expenditure in the Central and state budgets for 1990-91 to 2000-01 and concluded that the share of social sector for the Centre and states together in total expenditure has increased since 1980's while both revenue and capital expenditure on social sector as a proportion of GSDP or aggregate expenditure has come down.

**George, K.K. (2002)** in his article discusses about the major issues in the state level fiscal reforms. According to him fiscal deficit will lead to instability in future budgets depending upon how productive investments are made and how effective is government in mobilizing tax and non-tax revenues. The distinction made between using borrowings to finance revenue deficit and not capital outlay is based on assumption that capital expenditure is more productive rather than examining the
purpose, the distinction of developmental and non-developmental expenditure plan and non-plan expenditure. These issues are not highlighted in current discussions on fiscal deficit in India.

Gurumurthi, S (2002) in his work has studies the schemes formulated by the Tenth and the Eleventh Finance Commission for debt relief to states, which are not sufficient. It is necessary that the issue of debt should be addressed more seriously while drafting the terms of reference of Twelfth Finance Commission. The Twelfth Finance Commission may also have to think of certain drastic measures to arrest the rising level of debt.

Karnik, Ajit (2002) in his work has discussed about, the fiscal Responsibility and Budget Management Bill which was introduced in Lok Sabha in December 2000. A Fiscal Responsibility Bill of the kind introduced currently is meant to offer a credible commitment that the government is serious about fiscal consolidation. By trying its own hands the government signals that it is serious about reducing deficits. The government seems to be completely diluting the provisions of the bill so as to render its completely ineffective.

Lahiri, Ashok and Kannam, R. (Jan. 2002) in their article analyses India’s fiscal deficit and its sustainability. There is increasing trend in fiscal deficit of states and their deficit is used for financing more and more current expenditure rather than capital expenditure. They also provided the international comparison to the debt of Central and state governments and found out that debt of India is considerably lower than the other countries. With integration of the country much attention needs to pay to the quality of fiscal consolidation as to it speed.

Naik, S.D. (2002) in his article says that almost all states experienced fiscal deterioration since 1997-98 because of their inability to contain the growth of revenue expenditure and reluctance to raise additional tax and non-tax revenues. Launching the economy on the higher growth path would depend to a larger extent on the state level fiscal reforms, which cannot be delayed any longer.
Premchand, A and Chattopadhyay, Suman (Jan. 2002) in their article recognizes the importance of expenditure management in fiscal adjustment and also discusses the major expenditure policies undertaken during the introduction of the economic reforms in India. During the period 1980-81 to 2001 the revenue expenditure is increasing while capital expenditure is decreasing which shows that there is no fiscal adjustment at state level.

Prabhu, K. Seeta (2002) discusses about like need for rapid improvement in social sector. With the Central government, state governments have to play important role in designing, monitoring and implementing social sector programmes. The fund required for social sectors can be obtained from charging user fees through disinvestments of non-strategic sectors like hotels, trading companies, consumer goods companies and through introduction of social insurance and charging taxes.

Purohit, C. Mahesh (March 2002) in his article discusses about the structure and administration of VAT in Canada. Canada is an example of a federal country where better harmonization of VAT between federal VAT and state sales tax VAT have been achieved.

Srivastava D.K. (2002) in his article analyzed about the deteriorating fiscal situation of states in India. The main culprit for the rising deficits is the rising subsidies, poor performance of public sector undertakings, accumulation of debt inadequate revenue transfers system and inadequate state budgets. The states should draw up implementation and monitoring framework where by they can evaluate programmes and identify constraints. For state level fiscal reforms Center should also has to play a pivotal role.

EPW Research Foundation (2001) published a topic “Finances of State Government in India” in April 2000. The article consists of 13 sets of statistical tables, which seeks to portray the budgetary operations of the Government of India during the post reform decade of the 1945. While energy attempt has been made to present a consistent set of time series for the decade. The new system of accounting of loans to states and union territories from out of net small saving collection from April 1999, the implementation of the 11th Finance Commission’s interim report to enhanced
devolution of taxes and grants to states from 2000-01 and payment of sizeable arrears during 1998-99 and 1999-2000 of precious years on account of the revision of the fifth pay commission have resulted in created quite significant kinds in the time series of may hands of expenditures and receipts including the Center’s gross fiscal deficit.

Godbole, Mahdev (2001) has criticized the reports of successive Finance Commission, which have become ritual and have hardly to say or contribute about the fiscal position of Centre and states, which are deteriorating overtime. What is needed a strategy to bring in fiscal reforms in number of areas in a given time frame. Many finance commission repeating the same set of recommendations will not lead as anywhere.

Kumar, Sandeep (2001) in his work focused that state should reduce the dependence on Centre. Fiscal discipline should be the prime concern of all the states in general and backward states in particular. Sources of additional revenue mobilization, measure of fiscal discipline for different states have already been recommended by different committees on tax and fiscal reform, what is needed a strong will at least a suitable medium term policy.

Purohit, C. Mahesh (2001) in his article suggests the importance of replacing the sales tax with value added tax (VAT). Estimates presented in paper suggested that the state VAT would not only give more revenues to development states but would also benefit others.

Rakshit, Mihir (2001) in his work discusses about the major provisions and objectives of Fiscal Responsibility and Budget Management Bill. He discusses how far these provisions likely to help or hinder in promoting the primary objectives i.e. inter generational equity, macroeconomic stabilization and growth.

Shankar, Kripa (2001) in his work discusses the overall budgetary position of the U.P. government and the pattern of government expenditure makes it clear that the state is headed in the direction of bankruptcy.
Ahluwalia, S. Montek (2000) discusses the economic performance of states in post reform period. Liberalization has relaxed the degree of control exercised by the Centre in many areas leaving much greater scope for the state level initiatives. State level performance and policies therefore deserve much closer attention than they receive. The states are facing financial crisis due to large volume of subsidies, losses of state electricity boards and complicated tax system. Unless state finances can be put in order there is little change of the poorer states being alike to undertake the substantial infrastructure facing needed to raise their rates of growth.

Gill, Sucha Singh (2000) in his article studies the finances of Punjab government. The financial crisis that the state is facing is now beginning to affect the institutional structure of governance. It is lack of political will and indecisiveness on the part of the government that the state of Punjab and its people are suffering.

Lahiri, K. Ashok (2000) discusses budget constraints on states relative deficits of Centre and states, issue of expenditure prioritization and sales tax issues. The Centre needs to provide a leadership role in the era of competitive politics and collation governments.

Mahanti, K. Tushar (2000) has discussed that fiscal deficits have soared high. The Union government insists that the ballooning of the states non-development expenditure is the culprit while the states blame for Centre for attitude and unwillingness of to share the revenues more liberally.

Mohan, Rakesh (2000) in his work says that the key problem facing the country is the rising fiscal deficit of both Centre and state governments. This has accrued because of the factors beyond the control of government as those of Kargil work, Orissa cyclone and lower customs and excise revenues along with very low proceeds from disinvestments.

Naresh, Gautam (2000) in his article presents the aggregate picture of some of trends of state finances relating to pre and post reform period. States own imprudent policies and macro economic instability originating from the Central government budgetary operations have contributed to RD and FD, which can be removed by following
reform measures in direction of expenditure management, resource mobilization and public sector reforms. The paper also studies the fiscal situation of Punjab and Tamil Nadu with forecasted future.

Pant, K.C. (2000) in his speech discusses about the major area of state level reforms is state finances, which have shown deterioration the last few years. The emphasis on the state level fiscal reforms needs to be seen as a part of the larger shift in the perception of the role of government in economic and social development.

Rao, M. Govinda (2000) in his work criticizes the Central government and is of the opinion that if the Central government thinks that by simply giving a directive to the Eleventh Finance Commission to design a transfer system linking transfers to revenue deficits it can solve the problem. It is grossly mistaken there are some systematic problems affecting the state finances and the most critical requirement is that the Centre should first set its own house in order and reduce its revenue deficit.

Sethuraman, S. (2000) in his work discusses about the state finances as projected by the commissions and warns that “if reckless borrowing is not kept in check some states may be forced to declare financial emergency in the Tenth plan”. The present system of plan assistance under the Gadgil formula might undergo a change if the inter state disparities in social development have to be tackled.

Singh, Ajit Kumar (2000) observes that in Uttar Pradesh where fiscal profligacy is driving the state into a debt trap. The state governments borrow to meet current expenditure. There is little it can spare for development expenditure as recent budget shows.

Srinavasan, V.K. (2000) criticized the recommendations given by the Eleventh Finance Commission. The 11th Finance Commission appears to have evolved the formula that favors certain states. The high-income states and middle-income states with sole exception of West Bengal, which seems to have received higher share in tax and total transfer devolution.
Howes, Stephen, Ashok, K. Lahiri and Nicholas (2000) in their article discusses about the states level reforms in India. They also enumerate the causes that lead to the spread of state level reforms in India. According to them India cannot succeed with reformed and revived state governments.

Ambirajan, S. (1999) examines the nature, causes and consequences of growth of subsidies in general and particularly of state of Tamil Nadu. Subsidies in Tamil Nadu are wasteful, corrupt, and regressive and counter productive. The remedy of the problem of subsidies lies in a comprehensive package of reforms involving improvement in the institutional structures and market organization.

Bajaj, J.K. (1999) studied the impact of pay revision on the finances of the government of U.P, Madhya Pradesh and Maharashtra. According to one estimate if the salaries of the employees of the state governments are revised to the level of the Central government employees the revenue expenditure of the state governments will increase by Rs 20,000 to 30,000 crore a year which would create major imbalanced in their resources. He also examined the steps taken by the state governments for expenditure management and wage revision.

Chakraborty, Pinaki (1999) has studied about the recent trends of state government finances. He is commenting on the article written by N.J. Kurian (1999) “State Government Finances”- A survey of recent trends. Kurian observed that horizontal allocation of tax transfer is egalitarian. Pinaki invalidates the Kurian argument and says that horizontal allocation of tax transfer became more in equitable during the 1990’s reflected in declining share of tax transfer to the low-income category of states.

Kurian, N.J. (1999) in his paper attempts to bring out the deteriorating trend in state finances in recent years. “Failure to contain wasteful expenditure and reluctance to raise additional resources” on the part of the states are the main problems afflicting most of the state finances. Tax wars among the states government to attract private investment in the wake of economic reforms as well as competitive populism and the pay revision of employees led to starvation of funds of states. Unless drastic measures are resorted to without delay finances of states will collapse.
Rajaraman, Indira, Hiranya Mukhopadhyaya and H.K. Amarnath (1999) in their article discusses about the fiscal situation of Punjab. According to them in Punjab in the last ten years has been disrupted by terrorism, which led to fiscal imbalance in the state. They also studied the trends in the revenue and expenditure of the Punjab during the period 1985-97. The estimated buoyancy of taxes was close to one, interest payments have raised sharply which adds further to the pressure of fiscal accommodation on non-interest expenditure. Lastly, they also constructed a baseline scenario to show the fiscal path of the state in absence of any corrective action on revenue and expenditure fronts.

Srivastava, D.K. Saumen Chattopadhyay and Pratap Ranja Jena. (1999) in their article studies about the fiscal situation of the state Kerela during the period 1985-86 to 1996-97. According to them the basic fiscal problem of Kerela is a high debt GSDP ratio that has arisen because of the persistent is of high fiscal deficit to finance government revenue expenditure. They also calculated the buoyancy of various taxes and found that four major taxes i.e. sales tax, stamp duties and registration fees, state excise duties and motor vehicle tax show the buoyancy more than 1 during the period 1991-92 to 1996-97. The overall buoyancy for all taxes was 1.32 during 1991-92 to 1996-97. Trends in expenditure were also analyzed and they found that the growth rate of general services has been highest and lowest for social services.

Chakraborty, Pinaki (1998) analyzed how the relative importance of various components of resource transfers from the Centre to the states for e.g. tax sharing grants and loans has changed over a half a century. The conclusion is that Centre state financial relations have failed to reduce the vertical imbalance.

Rao, M. Govinda (1998) in this article argued about the Constitutional Amendment Bill, which will be introduced to give effect to the Tenth Finance Commissions on the alternative tax devolution scheme. Although the initiative is in the right direction it does not go far enough. So reforms in tax devolution should be addressed in conjunction with evolving rational co-ordination of domestic trade taxes to bring out a structural reform of the fiscal system in Indian federalism.
Sarma, J.V.M. and Gautam Naresh (1998) in their article studies about the state finances of Tamil Nadu between the period 1980-99, which appears to be a well managed state but there is need for selective fiscal correction.

Godbole, Mahadev (1997) in his work has studied the state of Maharashtra and Jammu & Kashmir where subsidies are eating deeply plan resources and are undermining development. There is no political will to address the problem. The only possible way out is for all the states and the Centre to act together.

Guhan, S. (1997) in his work discusses the current regime of Centre state fiscal transfers, which have no rational direction. The Center Finance Commission alternative scheme of tax devolution can be used as a starting point for putting through a process of rationalization, Centre state transfer in an ordered manner.

Gurumurthi, S. (1997) in his work studies the origin of sales taxation in the state in its historical perspective. Both Central and state government have embarked on a massive attempt to reform commodity taxation regime in India with Maharashtra and Tamil Nadu being the first state to introduce VAT.

Rao, M. Govinda and Sarma J.V.M (1997) in his work attempts to set out a strategy and stages of reforms based on experience of East Asian Countries like Thailand towards evolving a value added tax which is less discretionary and more acceptable to trades. During the period of study (1980-1999) there was significant rise in the revenue expenditure particularly subsidies and interest payments.

Srinivasan, G. (1997) in his work discusses about subsides which are provided by the Central and state governments. Referring to states, it is said that out of total subsidies merit plus non merit subsides for the 15 states in 1993-94, merit goods subsidies account for less than a one third indicating the dominance of non merit subsidies at state level too. The ratio of non-tax revenues and Central transfers has been stagnant. Fiscal balance for the most part of the study is period was negative and declining and signs of improvement in recent years have not proved to be long lasting.
Gurumurthi, S. (1993) in this paper reviews the experience of 80 years of tax revenue sharing in India under the recommendations of Nine Finance Commissions and proceeds to examine whether the basic system of tax sharing should continue in its present form or whether an alternative system can be devised. The alternative system that he has suggested that devolution to the states should be fixed at a particular percentage of the Centre tax revenue instead if varying percentage of a certain selected taxes. The proposed system is superior to the present system because it makes taxes more buoyant and proves advantages to both the Centre and the states besides bringing about some equity in Central tax structure.

Chelliah, Raja. J. (1992) in his paper suggested that the need for making the system of indirect taxation broadly neutral in relation to production and consumption, widening of tax base and make a beginning with the taxation of services. This committee is of the view that the agricultural income in access of say Rs. 25,000 accruing to the non-agriculturalists should be brought under the tax net to promote equity and reduce scope for tax evasion. The committee recommended that the Central government should obtained the cooperation and consent of the state government for in acting a provision which would enable it (Central Government) to bring under the preview of the central income tax.

Bajaj, J.L. and O.P. Aggarwal (1992) in there article studies the state finances in Uttar Pradesh during the period 1965-90. They examined the structure and growth of receipts of the state government from tax revenue; non-tax revenue and Central assistance from plan expenditure. Then the level and pattern of government expenditure and trends overtone are analysed. They also computed the buoyancy and elasticity coefficients of various states taxes level in U.P for the period 19 81-89. The estimates indicate that state excise and electricity duties have shown the highest responsiveness to the increase in NSDP in this period (1.5 and 1.52 respectively). Excepting land revenue and entertainment tax all taxes had greater than unitary buoyancy. Tax revenues have shown relative buoyancy while non-tax revenue has remained sluggish. Among the major reasons for this are significant indirect subsidies including those, which are reflected in low recovery rates on investments.
Rao, Govinda (1992) in his paper seeks to examine the present state of public finance at the state level with a view of tracing the emerging trends in the medium as well as long term. The major objective of the paper is to identify the major problem areas and indicate policy changes to tackle them. The precarious fiscal position in states calls for bold and decisive policy measures which include reduction in employment, levy of appropriate user charge on services, phase of non merit subsidies, privatization of state electricity boards, rationalization of tax system by introduction of VAT and determine the shares of states in aggregate Central taxes rather than percentage share of two taxes.

Rao and Mundle (1992) have analyzed the subsidies at the state level. For the fourteen major states the study covers budgetary subsidies in major functional categories at two points of time in 1977-78 and 1987-88. The level of subsidies grew phenomenally over the decade between 1977-78 and 1987-88, with the growth of recovers lagging behind the increased in costs of pattern common to all states. It is interesting to note that both aggregate and per capita subsidies went disproportionally to better off states. The study shows that the extremely low rates of cost recovery prevalent in social services even in sectors like higher education where distributional and other justification for subsidies are weak. In case of economic services, the authors noted that irrigation and agricultural subsidy costs account for more than half of the total while power and transport also involve substandard subsidies. Inefficiency in state public undertakings as well as inadequate tariff increase resulting in worsening rates of return has been major factors contributing to the rise of subsidies.

Chelliah, Raja. J. (1991) in his essays says that with the era of liberalization and privatization the relative position of states has enhanced. Hence state level reforms are as important as the reforms at the Centre. Each state must set its own house in order. The reforms should include area of taxation with introduction of VAT; cut of subsidies cut of staff of general administration, privatization of SEBs etc. The tax reform, which was carried out in South East Asian countries, can provide the lessons for the future.

Bagchi, Amaresh (1991) in his article “Tax Reform in Developing countries”. Agenda for the 1990's discusses about the agenda for tax reform in both developing
and advanced countries in the 1990s. The motivation for reform in the developing countries came from the quest for finances, efficiency and simplicity. The main thrust of tax reform in the advanced countries is to reduce the states of individual income tax of top brackets, whereas the thrust of reform in developing countries, was towards the revision of structure of indirect taxes particularly sales tax and excise duty.

Murthy (1981) test the validity of the Wagner’s law in Indian Economy for the period 1960-1976, using the most appropriate quantitative measure, the ratio income elasticity. In his study he aimed to test for validity of the law and examine empirically whether the law is applicable in the Indian Economy. The double log linear regression model has been employed for the estimation of income elasticity. Be positive then the ratio of public sector to GDP increased and the Wagner’s law is valid other than not. The main findings of the study are as the validity of the Wagner’s law of public expenditure in India has confirmed from positive ratio income elasticity for the both the total government expenditure and its components. The result also reveals the non-resource absorbing expenditure has grown more rapidly than resource absorbing government consumption.

Rao, M. Govinda. (1981) makes a modest attempt to study and to identify the determinant of tax revenue and non-plan revenue expenditure of the states towards making their medium term projections. The researcher has chosen the states of Karnataka, Kerela, Orissa and West-Bengal for the purpose in studying the time series determinant. In this study, both the political and economics determinants have been considered. The effects of various economic and political factors on the fiscal decisions of the four states are also quantified. While discussing the determinants of non-plan revenue expenditure the study summarizes that in all the four states except Orissa, the growth expenditure on various services is of providing them. Only in Orissa the growth in non-plan revenue expenditure is due to increased quantity of public services. The results of the study confirm ‘Down’s Hypothesis’ that fiscal decisions are essentially guided by the desire to maximize the length of their tenure by the parties in power and are not influenced by their ideological doctrines.

Mann (1980) has examined the validity of Wagner’s is Law in Mexico for the period 1925-1976 using the six different versions of the law viz: 1. \[ E = f \left( \frac{GDP}{P} \right) \] 2. \[ C = f \]
(GDP) 3. $E = f \left( \frac{GDP}{P} \right)$ 4. $E/GDP = f \left( \frac{GDP}{P} \right)$ 5. $E/P = f \left( \text{GDP} \right)$ and 6. $E/GDP = f \left( \text{GDP} \right)$ have been empirically investigated. For estimation of the elasticity of government expenditure (or per capita government expenditure) with respect of GDP (of per capita GDP) has been specified by the general logarithmic model as $\log V = a + b \log X$ so that the elasticity coefficient ($b$) may be directly obtained. The Wagner’s hypothesis takes the assumption that the elasticity of expenditure should be greater than unity in all versions. The main findings of the study are that according to fourth and fifth version (as known as share version) the Wagner’s Law is not valid for Mexico for both sub periods but for others it is valid.

Chelliah, Raja. J. (1979) studied the system of tax administration of state Uttar Pradesh and suggested suitable changes for streaming tax administration. The estimate of buoyancy and elasticity of all the state taxes in U.P. for the period 1968-69 to 1977-78 was found. According to this committee all the taxes of states have been buoyant, indicating that the state government has undertaken considerable tax effort in respect of all taxes. The buoyancy of the land revenue alone is found to be much below, 1 indicating that the yield of the land revenue did not increase proportion with income. The share in states own revenues in total revenues decreased steadily between 1968-69 and 1971-78.

Lakadwala (1974) constituted the Taxation Enquiry Committee of Uttar Pradesh to review about the taxation of state of U.P During the period 1960-61 to 1972-73. Sales tax receipts have witnessed a rise of 20 times during the period 1948-49 to 1973-74. A higher degree of buoyancy was found in all the state indirect taxes together. The buoyancy coefficient of states taxes during the period 1960-61 to 1972-73 worked out to 0.83 as against the elasticity coefficient of 0.48. The scheme of rapid settlement was put forward by Lakadawala committee, which aimed at cutting short the long drawn processes of a regular settlement the severe problem of tax evasion was recognized by Lakadawala committee.

Reddy, K.N. (1972) has analyzed a secular and time pattern of the growth of public expenditure in India. He has taken time period from 1872 to 1968. In an effort to establish a theoretical link between the growth of public expenditure and National Income of the country Reddy has examined the applicability of Wagner’s hypothesis
in India. Reddy concludes that the study conducted by Peacock and Wiseman for great Britain also holds good in case of India. The study provides important guidelines to whose main concern is expenditure policy formulation. While examining the shorter period (i.e. periods after the two world wars and independence of the country) he sees the relevance and validity in the concept of displacement effect propounded by Wiseman and Peacock. His study of the growth of public expenditure in India over roughly a century, is a modest attempt on the lines of the pioneering study “Growth of public expenditure in the U.K.” done by Wiseman and Peacock.

Bird, M. Richard (1971) considers the validity of Wagner’s law for different time periods for developed countries. He observed that three broad factors help in the operation of the law of increasing state activity. Firstly, the administrative and protective functions (internal and external of the state) secondly, the maintenance of smooth operations for markets and thirdly the provision of more social and cultural goods. According to Bird the three necessary things for the operation of Wagner’s law are: 1. Rising Per Capita Income 2. Technological and Institutional Changes 3. Democratization.

Gandhi, P. Ved (1971) tried to test the Wagner’s Law for the developing countries. He tried to analyzed the conditions of validity of Wagner’s law for the cross sectional studies. He has argued that for the different versions of Wagner Law to hold good two conditions must be satisfied.

1. Income elasticity of public expenditure must be greater than unity
2. The per capita quantity of public goods must increase or quality of public goods must improve as population grows.

Wanchoo, K.N (1970) constituted The Direct Taxes Enquiry Committee. The committee submitted its final report in March 1972. The terms of reference were: 1. to recommend effective measures to unearth black money and prevent tax evasion 2. To suggest measures for checking tax avoidance. 3. To suggest ways of improvement in the tax administration. Wanchoo committee has felt that “Uniform and progressive taxation of agricultural income is urgently needed to ensure that agricultural income ceases to offer any scope for tax evasion and also on ground equity and distributive justice” this committee suggested that in the interest of uniformity and stability the
Central government should assume the power to levy and administer a tax on agricultural income.

Madalagi, (1966) has analyzed the trends in state governments expenditure in India since the inception of five-year plans. The study covers the time period exceeding from 1951-52 to 1965-66, which witnessed the completion of the first five-year plans. The main analysis of this study is that Madalagi has confined his study to the revenue expenditure only. He has analyzed the capital expenditure trends of the state government, which is most significant part of public expenditure. Thus the study becomes one sided and a halfhearted attempt.

From the above studies we may conclude that Centre is the main culprit for rising imbalance. First, Centre should set its own house in order than the states can follow then. The next chapter proposes to study the macro level fiscal scenario of states from the period 1990-91 to 2002-03.