Over the years the Centre had seen a burgeoning of non-plan expenditure in the face of inadequacy of buoyancy of revenues. They have responding by restoring to large volumes of borrowings to finance plan expenditure, which is shrinking as a percentage of State Domestic Product. One of the two crises that India faced in 1990-91 was the unsustainable imbalance between government revenues and expenditure. Revenue deficits have been financed by running up surpluses on capital account of the budget. This caused steady deterioration in the finances of the government. The attempt to regain control on the macro economic situation, comprehensive set of reform measures were introduced in the economy in 1990-91. Out of them, one was the fiscal Reform process introduced in the country. First, sets of reforms were introduced for the Centre. During this period the expenditure rose much faster than its revenue leading to steep rise in the Center's fiscal deficit.

Besides Centre finances, state finances gradually deteriorated. With the imbalance in the states finances, Center became concerned and lends a helping hand in over coming their deficits.

Reforms at the Centre in the early nineties paved the way for the sub-national reforms. Unfortunately, this reform process did not pick up until the second half of the nineties when the state level fiscal crisis set in. Several states witnessed a slowdown in their growth rates relative to the level of the eighties. Competition for private investment by the states led to competitive tax concessions and incentives, leading to fiscal imbalance in the nineties. Populist policies like free power and irrigation to the farm sector compounded the problem. The states are unable to increase the tax ratio as also improve the productivity of non-tax revenue. Political compulsions do not allow the states to increase user charges (Rao, 2002).

The debt of states as result has gone up and sound fiscal management at state level has become urgent agenda of reforms. The important items of reform agenda were revenue augmentation, expenditure austerity, state level public sector enterprises reforms, power sector reforms and reduction in deficits.
In addition to states own efforts, the Centre has also taken initiatives to strengthen the reforms process at the state level. Further the policy initiatives undertaken by the Reserve Bank have a bearing on the state finances as well.

We have made a detailed study of states finances during period 1990-91 to 2002-2003 and reforms initiatives taken and by implemented by states to improve their performance. Moreover, we have also analyzed the trends and the reforms on state finances of Uttar Pradesh. The following conclusion emerges from our study which may summerised as follows: -

All states
1. The total receipts of all states showed an increasing trend during the period 1990-91 to 2002-03 which is a good sign. It also shows that the performance of the government is better in realizing the receipts. In rupees terms the revenue receipts increased at a faster than the capital receipts. The compound growth rate of capital receipts is more than that of revenue receipts during the three period which shows that the capital receipts are increasing at a faster rate but the magnitude of revenue receipts is still more than the capital receipts.
2. The tax revenue of states showed a faster rate of growth compared to the non-tax revenue of states during the study period. The compound growth rate and buoyancy coefficient of tax revenue is greater than non-tax revenue. Similarly the compound growth rate of states share in Central taxes was higher than the grants from the Centre. The buoyancy coefficient of states share in Central taxes and grants from Centre was also low. Thus the results about tax and non-tax revenues of states point out states should take measures to improve their tax and non-tax revenue to overcome their fiscal deficits.
3. The growth in states own revenues both tax and non-tax revenue as a percentage of GSDP do not present a healthy situation of state finances.
4. Taxes on commodities and services occupied the highest position. Out of it, sales tax occupied the highest position. Sales tax predominate the profile of tax revenue, its relative importance has increased. The CGR and buoyancy of sales tax is high. There is marginal improvement in the share of stamp duties and registration fees. Its buoyancy was above unity in all the three sub periods. The buoyancy coefficient of excise duty was below unity in all the three sub-periods. The below unity buoyancy coefficient was of states excise, motor vehicle tax and agricultural income tax was also observed. Agricultural income
continues to be untaxed for long. It is a high time that either the state government should pass their right of taxing agricultural incomes to the Central government or themselves initiates measures and raises resources at least from better off sections of the farming community. This arrangement would be helpful in raising the more resources of states.

5. The major sources of state own non-tax revenue was economic services. Collection from the non-tax revenue from social services has been low. The share of social services, fiscal services as well as dividends has gone down. The different is made up by on increased share of receipts from general services.

6. Revenue expenditure of all states increased to a faster pace than the increase in the revenue receipts. The Revenue expenditure increased 4.67 times while capital expenditure increased 4.40 fold.

7. The developmental revenue expenditure of states continues to rise during the period under study and it increased 3.69 times while Capital expenditure increased 6.72 times. The CGR of development revenue expenditure was 12.07 percent while that of non-development revenue expenditure was 17.5 percent during the period 1990-91 to 2002-03. The buoyancy of development revenue expenditure was below unity and that of non-developmental revenue expenditure was above unity, which shows that non-developmental revenue expenditure, increased at a faster pace than developmental revenue expenditure. The share of developmental revenue expenditure also showed declining trend in total expenditure while share of non-developmental revenue expenditure increased. The share of developmental revenue expenditure in total expenditure was 68.07 percent in 1990-91, which decreased to 53.83 percent in 2002-03 while the share of non-developmental revenue expenditure was 30.8 percent whose share went up 44.36 percent in 2002-3.

8. Non-Developmental revenue expenditure also increased at a faster pace than developmental revenue expenditure. Out non-developmental Revenue expenditure the expenditure on interest payments was fastest growing item, followed by administrative services and pensions. The compound growth rate of pensions was highest it was 22.48 percent while that of administrative services was 12.90 percent during the period 1990-91 to 2002-03. The buoyancy of interest payments and pensions was above unity and that of
administrative services was near to unity, which shows that there was significant rise in these expenditures. The lowest non-developmental revenue expenditure was on organs of state.

9. The developmental revenue expenditure on social services overtook the economic services during the period 1990-91 to 2002-03 due to a reduced allocation for energy, industry and minerals. The compound growth rate of social services was greater than economic services but the buoyancy of both the expenditure was below unity. The buoyancy of social services expenditure items like water supply, sanitation, housing, welfare of SC and ST, natural calamities was below unity during the period 1990-91 to 2002-03. All the items showed buoyancy below unity except urban development and social security and welfare. Out of expenditure on economic services the expenditure on agricultural and allied activities was highest. The expenditure on rural development occupies the second position. The buoyancy of expenditure on agricultural and allied activities, rural development, irrigation and flood control and energy was below unity. The buoyancy of expenditure on transport and communication was above unity.

10. The plan and non-plan expenditure of all states showed an increasing trend during the period 1990-91 to 2002-03. The compound growth rate of non-plan expenditure is higher in all the three sub-periods than plan expenditure, which showed that its share is increasing at significant rate. It shows that there is a significant strain on the states budget on account of poor resources mobilization and uncontrolled fixed expenditure.

11. As far as the components of plan expenditure are concerned there is significant rise in plan revenue expenditure than plan capital expenditure. The compound growth rate of plan revenue in all period was also highest in all sub-periods.

12. After a detailed study of fiscal reforms taken by fourteen major state of India, we find that high income states like Maharashtra and Tamil Nadu started the first phase of reforms in early 1990. Lately, it was followed by other state like Karnataka, Haryana, Madhya Pradesh, Uttar Pradesh and Orissa. The rapid pace of reforms in all states in area of fiscal, institutional and sectoral was started in late 1990's.

13. The assessment of the entire fiscal reform process in the states reflects that government has failed to honour its own commitments from time to time and
also shows utter disregard for certain Constitutional provisions. The non-transparences in the utilization of funds are all too obvious. So a more enactment of acts and legislation is not enough to put the glorious economy on the path of economic development.

**Uttar Pradesh**

14. The total receipts of Uttar-Pradesh were Rs. 1212,853 Lakhs, which increased to Rupees 2,7882119 Lakhs, an increase of 2.29 times in span of 12 years. It is observed that the receipts on revenue account have been increased considerably than receipts on capital account. The revenue receipts increased 53.25 times while the capital receipts increased only 3.38 times during the period 1990-91 to 2002-2003. The compound growth rate of total receipts of Uttar-Pradesh was 11.11 percent while buoyancy coefficient was 0.94 during the period 1990-91 to 2220-2003. Due to bifurcation of Uttar-Pradesh in November 2000 into Uttar-Pradesh and Uttranchal the CGR fell to 4.45 percent and buoyancy coefficient fell to 0.50 during 2000-01 to 2002-03. The compound growth rate of revenue receipts of UP was 10.09 percent and the buoyancy coefficient was 0.85 in 1990-90 to 2002-03. With the bifurcation the CGR fell to 6.04 percent and buoyancy to 0.63 in 2000-01 to 2001-2003. As far as the position of capital receipts of UP is concerned, the CGR during 1990-91 to2002-03 was 13.43 percent which showed a healthy sign of development. The buoyancy of capital receipts was greater than one.

15. In rupees terms the revenue receipts of Uttar-Pradesh increased at a faster rate than the capital receipts. The CGR of revenue receipts is less than that of capital receipts during the period 1990-91 to 2002-03. The buoyancy of revenue receipts is less than one while that of capital receipts is greater than one, which is healthy sign of development.

16. The rising tax revenue and falling non-tax revenue is observed. The CGR of tax revenues is less than one whereas of the states share in Central taxes was higher than one, during the period 1990-91 to 2002-03. Due to bifurcation of UP, the CGR of States own tax and states share in Central taxes declined and buoyancy fell to below unity. Grants from Centre also showed declining trend.

17. As for the relative share of different taxes is concerned, Uttar Pradesh government has found commodity taxes as a best source of income. The share of the state in the Union excise duties has also become an important source of
revenue to Uttar Pradesh. It occupied the second place followed by sales tax. Stamps and registration fees were at third place, Last place was occupied by taxes on income, which includes land revenue and agricultural income tax.

18. The compound growth rate was highest of excise duty (11.42%), of sales tax (7.90%) and stamps and registration fees (14.12%) in the period 1990-91 to 2002-03.

19. The buoyancy of taxes on property and capital transactions, taxes on commodity and services was greater than one during 1990-91 to 2002-03. Due to bifurcation of UP we note that the CGR of taxes on property and capital transactions showed an increasing trend. It was 26.04% in 2000-01 to 2002-03 and the buoyancy coefficient was 2.50. The CGR of taxes on stamps and registration fees, commodities and services decreased due to bifurcation. Increased buoyancy rates of taxes will give more revenue to government but in Uttar Pradesh the buoyancy rates have continued to decreased for most all the taxes during the study period.

20. In rupees terms the increase in capital receipt was less than the increase in revenue receipts. Out of capital receipts, the share of internal debt increased at a faster rate, which is not, a good sign. Loans and advances from Centre showed an increasing trend but recovery of loans and advances showed decreasing trend.

21. In rupees terms own non-tax revenue of Uttar Pradesh showed an increasing trend. Out of major items of own-non-tax revenue the share of economic services was highest. Rate revisions led to the gains in the royalties from minerals in the recent years. The own non-tax revenue from forestry and wildlife has declined significantly. Firstly, due to Supreme Court decision linking to the felling of trees to scientific management of forests. Secondly, due to the partitions of UP more forests were in Uttranchal and the remaining forests in Uttar Pradesh are likely to contribute a very small amount. The CGR of social services was highest during the period 1990-91 to 2002-03. The revenue from social services was not much affected due to bifurcation. Its share in total own non-tax revenue increased which is a good sign of development.

22. The overall analysis shows that the total, revenue and capital expenditure of Uttar Pradesh showed an increasing trend during the period under study. The
revenue expenditure increase was more than the capital expenditure. The total expenditure of Uttar Pradesh increased 3.43 times, the revenue expenditure has risen 3.15 times while capital expenditure has shown increase of 3.38 times. The compound growth rate of revenue expenditure is higher than that of capital expenditure during the three periods, which shows that revenue expenditure of Uttar-Pradesh accounts for the lion’s share of expenditure in the state. The buoyancy of total, revenue and capital expenditure was below unity in all the periods except that of capital expenditure whose buoyancy coefficient became 2.20 in period 2002 to 03.

The developmental revenue expenditure of Uttar-Pradesh showed an increasing trend during the period under study. The major item of developmental revenue expenditure is on social services. Out of social services, the major item of expenditure is on education is on education, sports, arts and culture which constituted more than one third of the total developmental service expenditure which is a welcome trend. The major share of economic services was spend on rural development. The social service expenditure overtook the economic services. The developmental revenue expenditure on economic services decreased after bifurcation while that of social services remained unaffected.

The developmental revenue expenditure exceeded the non-developmental revenue expenditure during 1991-92. However, thereafter the share of developmental expenditure has continuously decreased which is a matter of serious concern. The non-developmental expenditure of Uttar-Pradesh also showed an increasing trend during the period under study. The major item of non-developmental revenue expenditure was spend on interest payments, which increased almost five times during the study period. Administrative services increased more than 3 times and pensions increased more than 7 times. After the bifurcation of Uttar-Pradesh, the expenditure on administrative services decreased while the other items of non-developmental revenue expenditure remained unaffected. The CGR of non-developmental revenue expenditure was 14.52 percent while buoyancy coefficient was more than unity, which shows that there was a spectacular rise in this expenditure.

The major fiscal indicators of Uttar-Pradesh that is gross fiscal deficit, revenue deficit and primary deficit showed a very alarming trend. The gross fiscal
deficit of Uttar-Pradesh was highest followed by revenue deficit and primary deficit. The main cause of such deterioration was due to the salary revision of fourth and fifth Central Pay Commission. As far as the GSDP ratio is concerned they have showed the declining trend during 2002-03. The gross fiscal GSDP ratio was 5.43 percent in 1990-91, which declined to 4.53 percent in 2002-03. The revenue deficit GSDP ratio was 2.17 percent in 199-91 which but then declined to 2.44 percent in 2001-02. The primary deficit GSDP ratio was 2.84 percent which declined to 0.44 percent in 2002-03.

26. An evaluation of the power sector reforms of Uttar-Pradesh reveal that even the state has adopted reforms in the last few year but has not adhered to the recommendations of most of the committees and commissions and the financial targets laid down in various documents have not been achieved. Though Uttar-Pradesh has implemented several reforms in power sector but no improvement is seen.

27. A perusal of the finances of the government of India shows large revenue and fiscal deficit years after year indicating continued macro fiscal imbalances of the states. Increase dependence on the R.B.I and the continuous application of borrowed funds largely on current consumption and debt services indicates unsustainability and reflects vulnerability of the states finances. As increase in the ratio of fiscal liabilities of GSDP together with large revenue deficit indicates that the states are gradually getting into a debt.

28. The assessment of the entire fiscal reform effort of the states reveals that the government is seized of the seriousness of the situation, admits the gravity of consequences but lacks the grit and determination to implant certain hard decisions for fiscal restructuring. The government is very caught up in the web of populist policies and succumbs readily to political pressure against certain unpopular decisions for attaining fiscal stability. The success of the fiscal reform programme depends only on the administrative competence and political will of the government towards achieving long terms fiscal consolidation and restoration of fiscal balances in the states.

29. The states have taken a number of corrective measures towards fiscal consolidation to restore fiscal stability and achieve a balanced revenue account, which is an important indicator fiscal prudence. The deteriorating finances of the state governments area is a matter of concern as these are
leading to compression of developmental expenditure and burgeoning non-
developmental expenditure. All the fiscal, institutional and sectoral measures
suggesting to attain fiscal balances at the sub-national level have been adopted
by the states to attain fiscal balances.

SUGGESTIONS

1. Reforms of the transfer system should be accompanied by a widening of the
tax powers of the states and review of the system where by large
responsibilities are cast on them with out regard for the consequences on their
expenditure budget.

2. All revenue transfers the Centre to the states world need to be integrated by
bringing them under the Finance Commission purview.

3. Simplification and rational allocation of the States tax systems must receive
unmediated attention to make them both growth response .The most important
item calling for immediate attention is the simplification and rationalization of
the states sales tax systems.

4. Better economic integration of the Country and all barriers on inter state trade
are removed.

5. Containment of emoluments: - The longer term solution to the problem of
burgeoning salary lies in observing the principle that government is basically
meant to provide administrative, social and economic infrastructure and not
employment person. Its not possible to reduce the total number of employees
with out undertaking harsh measures like retrenchment. By simply putting a
freeze on fresh recruitment in the state governments and aided institutions for
the next three years. As about 3 percent of the employees super anuate every
year, this measure in the course of the next five years result in the savings of
about 10 to 15 percent of the expenditures.

A detailed review of every programmed to ensure its viability and
careful scouting of each department to identify the surplus manpower the
programmes and project which are not viable should be discontinued and
those which are potentially useful should be revived and consolidated with
appropriate policy packages. The employees in the projects and programmes
which are be discontinued should be redeployed when freeze on fresh
employment is imposed exemptions are sought by various departments under one pretext or another.

To avoid such pressures in every state, it is necessary to have high pioneered independent institutes which should also assess the genuine need for additional posts and will implement and monitored the freeze in fresh employment.

A frequent method employed to ones come the employment freeze is to employ people on casual or daily wage basis and regularize then after a period of time. If they are not regularized by the governmental itself, the courts have ruled that usual employees.

There must be careful review of all Centrally sponsored schemes and only the schemes in extremely important activities such as primary health and family planning, education, drinking water etc should be continued.

6. It is important to levy economic rates on irrigation, water and electricity sold to farmers. Similarly proper fees for post secondary education and economic rates of user charge for water supply, urban transport and power must be levied.

Economic pricing of service is important and only for accountability and equity, but also for the reasons for avoiding wastage and improving the quality of services.

7. On educational alone the subsidy is quite large and it occurs to the economically affluent actions. This is the clear case for reducing the subsidy in the next five years by one half even if the remaining is retained to help economically weaker sections with scholarships. This can be done by reducing assistance to colleges and universities annually by 10 percent in the next five years and let the colleges and university find the remaining resources by concerning fees. The state governments should not enter in the determination of the fees and the regulatory mechanism should be confined to the extent of ensuring that meritorious and economically backward students get the benefit of scholarship.

8. Another important source of implicit subsides arises from the budgetary support to public sector enterprises, losses incurred in the irrigation sector is most important.
In case of SEBs, the generation of electricity can be privatized. The state governments must continue the activities of transmission and distribution. The decentralization of these functions thorough proper public agencies can help in the more effective and economic transmission and distribution function.

Tax system can be more efficient by rationalization of the stamp duty and registration fees. The levy of the tax at very high rates of 15 to 20 percent has resulted in substantial undervaluation of improvable properly.

It would be better to determine the share of the states in aggregate Central taxes rather than as a percentage of two specified taxes. This would require Constitutional amendment and discussed in detail by all the concerned parties.

Developmental expenditure especially expenditure on social sectors and social services has to be increased in order to ensure a high rate of economic growth in the state.

The states should reduce the loan from Centre. Expenditure management policy in state level should be achieved properly to cut down non-productive expenditure.

Growth of States gross domestic product and state domestic capital formation should be accelerated.

The States must plan to reduce out standing liabilities, reduce loan from Centre and lower market borrowings.

States should impose agricultural tax in lump sum amount on the value of output in a year.

Subsidies on agriculture should be brought down to zero under target approach.

Fiscal Responsibility and Budget Management Bill (FRBM) must keep fiscal deficit of the States within the range of 3 percent of GDP and 5 percent of SDP as perturbed.

The need for mobilizing additional tax revenue and non-tax revenue after maintaining the principles of equity.

Development expenditure should be used to sustained with proper return on the same and at the same time non-developmental expenditure need to be controlled.

Another important suggestion is that the states must cut their coat according to the cloth.
Restructuring of the existing tax system without effecting economic opportunities and incentives, strict enforcement of tax laws, in collusion of agricultural income tax to the tax net, curtailment of non-essential expenditure, strengthening of administrative machinery, timely evaluation and monitoring and simplification and widening of tax base of the tax system have been suggested to improved the fiscal position of the state. Wastages, delays or backlogs of the budgeted amounts on specific items should be plugged out.

24. Some sort of a 'government expenditure vigilance committee' should be set up to monitor public expenditure.

25. Duplication of allotment of budget for a particular item should be strictly done away with.