ABSTRACT

STATE LEVEL FISCAL REFORMS IN INDIA

Fiscal consolidation has been high among the reform priorities of the government. The year 1991-92 was the toughest years for the Indian Economy. All the macroeconomic indicators became adverse. The overall growth shaped to mere 1.1 percent. The gross fiscal deficit stood at 8 percent of GDP and revenue deficit on the current account at 3.5 percent.

The government decided to adopt in June 1991 a programme of macro-economic stabilization to restore viability of fiscal balances and the balance of payments and to contain prices. At the same time it took a far-reaching programme of structural reforms involving bold initiatives in external trade, exchange rate and industrial policy etc. Out of them one of the important components of the reform was 'Fiscal Reforms'.

The present study gives a picture of State level fiscal Reforms in India carried since 1990-91. We have studied the finances of All States (combined) during the period 1990-91 to 2002-03. Uttar Pradesh is studied as a separate state because it is our parent state. The finances of Uttar Pradesh are studied separately. We have also studied fiscal reforms initiatives taken by the fourteen major states of India. The study contains six chapters. The research is exclusively based on vital area of reforms of state level.

The first chapter is of introductory nature. It discusses the origin of fiscal crisis first at the Center and then at the states in the late nineties. The chapter also contains the reform agenda announced by the states. It also contains the objective of the study, scope, research methodology and limitations.

India is today one of the ten fastest growing economies in the world. Despite several international shocks such as East Asian crisis, rise in international oil prices and economic sanctions, the growth momentum of economy has not been seriously affected. Price stability has been by and large maintained and the balance of payments has also been remained comfortable.

Over the years, the Centre has seen a burgeoning of non-plan expenditure in the face of inadequate buoyancy of revenues. They have responded by resorting to larger and larger volumes of borrowing to finance plan expenditure, which is shrinking as a percentage of GDP. This process has led to steady build up of debt,
which in turn has generated a rising interest burden. One of the crises that India faced in 1990-91 was the unsustainable imbalance between government revenues and expenditure. Revenue deficit have been financed by running up surpluses on the capital account of the budget. Such surpluses on capital account of the budget will prove harmful for the long run growth prospects of the economy. The steady deterioration in the revenue account caused enlargement of gross fiscal deficit.

Unlike the Centre which had surpluses on revenue account in the budget till 1978-79, the states seemed to be managing their finances relative better but in the late eighties they also began to run revenue deficits which led to the steady deterioration in the revenue account which caused increase in states gross fiscal deficit. Revenue deficit have been financed by running surpluses on capital account of the budget. The rising fiscal deficit of the states became a matter of concern for Central government. To overcome the fiscal crisis of the states, Centre gave some bold and drastic measures or steps which will have to be taken on all fronts, if states want to come out of its fiscal crises. Such measures came to be known as “Fiscal Reforms Programme for states”.

The main cause of rising deficits of the state are interest payments increase in subsidies, rising wages and salaries and low return from tax and non-revenue. In the agenda of the reform important items are revenue augmentation, expenditure management, state level public sector enterprise power sector reforms and reduction in deficits.

States have initiated steps to address some long-term issues in expenditure management, revenue mobilization, public sector undertakings reforms, disinvestments and investment in flows for infrastructure development, human capital formation, reduction in subsidies and creation of welfare state etc through the implementation of various measures and programmes. The main objective of the study are:

1. To examine the background and to identify the major problem areas at state level.
2. The over all fiscal balances of the states.
3. Steps taken by the states for resources mobilization.
4. To find out the ways for reducing their expenditure.

To study fiscal measures taken by the Government.
Chapter two deals with the review of literature concerning state level fiscal reforms in India. The important studies which were available on fiscal reforms in general and state level fiscal reforms in India were reviewed and are presented in this chapter.

Chapter three in our study deals about the macro level fiscal scenario at state level during the period 1990-91 to 2002-03. The role of state governments is very diversified. The Indian constitution entrusted the states with functions both expensive and expansive such as agriculture, irrigation, roads and buildings, rural development, education, medical and public health and law and order along with revenue powers mostly inelastic in nature. Since the advent of five year plans these expenditure commitments have been increasing considerably.

Public expenditure plays a very important role in economic development. Public expenditure is the expenditure incurred by the public authorities that is Central government, state governments and local bodies for the satisfaction of collective needs of the citizens for the promotion of economic and social welfare. The share of developmental expenditure of state governments is increasing at a faster pace than the Central government expenditure. This amply demonstrates the crucial role played by the states expenditure in the Indian Union. The growth of expenditure of the states was to fulfill the two objectives of economic growth and economic welfare. To attain these two objectives not only public investment but also private investment is also needed. In this chapter, we proposes to highlight the main feature of trends in revenue, expenditure and fiscal imbalances of all states during the period 1990-91 to 2000-03.

The total receipts of all states were Rs. 911,5963 lakhs, which increased to 4.66 times to Rs. 42,507632 lakhs in 2002-03. The revenue receipts of all states were Rs. 66,46678 lakhs in 1990-91, which increased to 4.21 times and became Rs. 28,033,960 lakhs in 2002-03. The capital receipts was Rs. 24,69285 lakhs in 1990-91 which went up to Rs. 14,473,402 lakhs in 2002-03. The Compound growth rate of total receipts of all states during the period 1990-91 to 2002-03 was 13.71 percent and it is buoyancy coefficient was 1.00.

Now seeing the revenue receipts of all states the compound growth rate was 12.37 percent and buoyancy was 0.91. Regarding the compound growth rate and buoyancy of capital receipts it was 17.19 percent in 1990-91 to 2002-03, and its buoyancy coefficient was 1.22, which was above unity.
Tax revenue of all states showed an increasing trend. It was Rs. 44,58,630 lakhs in 1990-91 which increased by 1.5 times and became Rs. 19,879,831 lakhs in 2002-03. As for the increase in the receipts from states own tax revenue is concerned it also showed an increasing trend. In 1990-91 it was Rs. 30,34483 lakhs and in 1995-96 it became Rs. 6386519 lakhs and further to Rs. 14,21,241299 lakhs in 2002-03 (an increase of 4.88 times). The share of states in Central taxes increased 3.97 times during the study period. It was Rs. 14,241,47 lakhs in 1990-91, which increased to Rs. 566,5532 lakhs in 2002-03. The compound growth rate of tax revenue was 13.29 percent in the period 1990-91 to 2002-03, increased to 14.20 percent during period 1990-91 to 1999-00 and decreased to 8.55 percent during the period 2000-01 to 2002-03. Out of it, the compound growth rate of states own tax revenue was 13.81 percent during the period 1990-91 to 2002-03 and the buoyancy was above unity. The compound growth rate of states share in Central taxes was 12.13 percent in 1990-91 to 2002-03.

As seeing the compound growth rate of non-tax revenue its growth rate was 10.40 percent in 1990-91 to 2000-03 that is less than the growth rate of tax revenue. As far as the Grants from Center are concerned the compound growth rate was 10.11 percent in 1990-01 to 2002-03 and its buoyancy was below unity.

Regarding the relative position of share of different taxes in rupees terms during the period 1990-91 to 2002-03. We can infer that taxes on commodities and services occupied the highest position. Its share was Rs. 2696,950 lakhs in 1990-91, which increased to high level of Rs. 12455616 lakhs in 2002-03, an increase of 4.61 times. Out of taxes on commodities and services, sales tax occupied the highest share followed by excise duty. The share of sales tax was Rs. 1766703 lakhs in 1990-91, which increased to Rs. 8,603,779 729 lakhs in 2002-03.

The compound growth rate of taxes on income during the period 1990-91 to 2002-03 was 14.42 percent and buoyancy was 1.03. Out of taxes on Income the compound growth rate and buoyancy of agricultural income tax was negative.

The compound growth rate of sales tax and excise duty was 14.25 percent and 12.46 percent respectively. The buoyancy of sales tax was above unity and that of excise was below unity. The buoyancy of taxes on goods and passengers, electricity, entertainment tax showed the buoyancy coefficient below unity.

Revenue expenditure of all states increased at a faster pace than increase in the revenue receipts of states. The total expenditure of states was Rs. 9108,805, lakhs that
increased to 4.61 times and became Rs. 420 46217 lakhs in 2002-03. Regarding, the position of revenue expenditure it increased 4.67 times during the period 1990-91 to 2002-03 and became Rs. 33545076 lakhs in 2002-03. The capital expenditure of states was Rs. 1931,230 lakhs in 1990-91, which increased 4.40 fold during the period and became Rs. 8501141 lakhs in 2002-03. The compound growth rate of total expenditure was 13.80 percent, while that of revenue and capital expenditure was 14.16 percent and 12.20 percent in period 1990-91 to 2002-03 respectively.

Both developmental and non-developmental revenue expenditure of states continued to rise during the period under study. The developmental revenue expenditure of states was Rs. 4885471 lakhs in 1990-91, which increased to 3.69 times and became Rs.18058076 lakhs in 2002-03. The non-developmental revenue expenditure was Rs. 2213699 lakhs in 199-91, which increased 6.72 times and became Rs. 14,881769 lakhs in 2002-03. The compound growth rate of developmental revenue expenditure was 12.07 percent while that of non-developmental revenue expenditure was 17.5 percent during the period 1990-91 to 2002-03.

Development revenue expenditure on social services overtook the economic services during the period 1990-91 to 2002-03 due to reduced allocation for energy, industry and minerals. The compound growth rate of social services was greater than economic service but the buoyancy of both the expenditure was below unity.

The non-developmental revenue expenditure was Rs. 2213699 Lakhs in 1990-91, which went up to Rs. 5419743 Lakhs 1995-96 and then to Rs. 14881769 lakhs in 2002-03. Out of non-developmental revenue expenditure, expenditure on interest payments was the fastest growing item and became Rs. 7218782 lakhs in 2002-03. The share of pensions also increased very fastly to 8.62 times during the study period and became Rs. 3100494 lakhs in 2002-03. The expenditure on administrative services was Rs. 701844 lakhs, which increased to 3.89 times and became Rs. 2737116 lakhs in 2002-03.

The compound growth rate of pensions was highest. It was 22.48 percent while that of interest payments was 18.57 percent and 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.
Fiscal health has not improved despite whatever measures have been. A continuous deterioration is clearly visible. The gross fiscal deficit of states was Rs. 1878.693 crores in 1990-91, which increased to Rs. 10212.89 crores in 2002-03. Revenue deficit also increased during the period 1990-91 to 2002-03. The revenue deficit of state was Rs. 530897 lakhs in 1990-91, which increased to Rs 5511,116 crores in 2002-03.

Chapter four deals with the recent state level reforms measures taken by states to improve their fiscal health. States in India are interested the responsibility in devising and implementing polices to reduce poverty, promote human development and stimulate growth. The year 1991-92 was one of the toughest years for the India economy. All the macro economic indicators become adverse. The overall growth slumped to mere 1.1 percent. The gross fiscal deficit stood at 8 percent of the GDP and revenue deficit on the current account at 3.5 percent in 1990-91.

The government decided to adopt in June 1991 a programme of macro-economic stabilization, in which fiscal reform was one of the most important component. The slow secular deterioration in the fiscal performance over the 1980’s and the 1990’s was catalyzed into a state level fiscal crisis by the fifth pay commissions pay awards in the late 1990’s.

Restructuring the tax system constituted a major component of fiscal reforms with the aim of augmenting revenues and removing anomalies in the tax structure. The main focus of reforms was on simplification and rationalization of both direct and Indirect taxes drawing mainly from the recommendations of the Tax Reforms Committee, 1991 (Chairman: Raja J Chelliah).

Unlike tax revenue where many problems are common across taxes and their administrations, different non-tax revenue sources have very distinct problems. A key objective of the reforms process was the augmentation of non-tax revenue by way of enhancement of user charges and returns through government investment through restructure of PSUs. States have also undertaken measures to enhance non-tax revenues by reviewing and rationalizing the royalties payable to then, including those on major and minor minerals, forestry and wild life, revision of tuition fees, medical fees, irrigation water rates. The issue of raising user changes with the cost of public services rendered, has not been given serious consideration yet. Recognizing this aspect, the Medium term fiscal Reform Programmes finalized by several states have
emphasis the cost effectiveness and raising of user charges of services rendered by
them.

Expenditure reforms also forms a major component of reform process initiated
by states in four major areas. To address this issue, the states governments have come
up with expenditure reforms in four major areas like salaries and pensions, subsidies,
public sector enterprises reforms and interest payments but much more reforms
remains incomplete.

The states level Fiscal Reforms undertaken by states can be divided into
following categories:-
FISCAL
Fiscal Reforms at states covered tax reforms, expenditure pruning
restructuring of public sector undertakings etc.

Restructuring of tax system constituted a major component of fiscal reforms
with an aim of augmenting revenues and removing anomalies in the tax structures.
The main focus of the reforms was on simplification and rationalization of both direct
and indirect taxes drawn mainly from the recommendations of the tax reforms
committee 1991. (Chairman: Raja J. Chelliah)

Recognizing the need for strengthening their finances, states have initiated
measures towards enhancement of various taxes such as land revenue, vechile tax,
entertainment tax, betting tax, luxary tax, sales tax etc. One of the important
components of tax reforms initiated since liberalization relate to the introduction of
value added tax (VAT). At a meeting of the empowered committee held on June 18,
2004, the state value added tax was implemented from April 1st 2005. The empowered
committee of state has also come up with a White Paper on the state level value added
tax on January 17, 2005.

INSTITUTIONAL
States have also undertaken measures to enhance non-tax revenue by
rationalization the royalties including those on major and minor minerals, forestry and
wild life, revision of tuition fees and medical fees.

States have also taken institutional measures aimed at facilitating the fiscal
consolidation process. The need for fiscal adjustment has been well recognized.
Interest payment is a major item of revenue expenditure. To reduce the interest burden
of states, a Debt Swap Scheme has been formed by states. States has to swap their
high cost Central Government loans bearing a coupon rate of 13 percent and above.
With relatively low cost market borrowing and loans from NSSF, was put in place in 2002-03. The process of swapping high cost debt under the scheme is complete in respect of 20 states. The Twelfth Finance Commission (2005-2010) has made recommendations on reform of states finances. Debt relief to State is conditional upon the enactment of Fiscal Responsibility Legislation prescribing specific annual targets with a view to eliminate the revenue deficit by 2008-09 and reduction in fiscal deficit by a path to be specified. All states are required to set up Sinking Fund in public account for amortization of all loans and Guarantee Redemption funds through earmarked guarantees fees, after risk weighting guarantees.

SECTORAL

States have also undertaken sectoral measures to improve their finances. Several states have shown interest in undertaking a comprehensive review of functioning of states public sector undertakings (SPSUs) including the closing down of non-viable units after providing suitable safety nets to employees including voluntary retirement scheme (VRS). States such as Tamil Nadu, Kerela, Haryana, Karnataka, Himachal Pradesh, Goa and Orissa have encouraged private sector participation in the transport and power generation sectors. Karnataka has come out with the policy paper on restructuring of state public sector undertakings (SPSUs) while Maharashtra has introduced a bill for restructuring of the (SPSUs). In order to strengthen the administrative machinery many states have initiated measures to computerize their records as well as their day-to-day functioning. States have also initiated measures to reform the power sector, which is crucial for the fiscal reforms. The main objective of these reforms was to mobilize private sector to resources for augmenting power generating capacity.

The power sector reforms have assumed critical importance in recent years. The measures taken by the states in this regard relate to the constitution of State Electricity Regulatory Commission (SERCs) for determining tariff structure, unbundling of electricity boards and to separate entities for power generations State electricity Regulatory commission has been constituted in 21 states out of these SERCs of 15 states have issued tariff orders. The states of A.P., Delhi, Gujarat Haryana, Himachal Pradesh, Karnataka, Madhya Pradesh, Maharashtra, Orissa, Punjab, Rajasthan and Uttar Pradesh have enacted their state electricity acts. Twenty-one states have signed Memorandum of Understanding (MOUs) with the Ministry of Power, Government of India to undertake reforms in time bound manner.
As a banker and debt manager to the state governments the RBI has taken many initiatives. The Reserve Bank provides a forum for state governments for discussing various relevant issues through its biannual conferences on state finance secretaries. The RBI provides way saved means state to tide over the temporary mismatches in their receipts and payments. In area of market borrowings, the RBI has enhanced the flexibility available to the states. As per requests received from Maharashtra and Kerala, the bank has permitted these states to raise up to 50% of total market borrowings through action route during 2002-03. The RBI has also constituted a consolidated sinking fund (CSF 1991-200) scheme for market borrowings of states operation since 1999.

Chapter five of the study deals with the study of finances of Uttar Pradesh during the period 1990-91 to 2002-03. Uttar Pradesh is a huge state having one-sixth of the population of the nation. It is situated along the foothills of the Himalayas.

After the formation of the new state named as Uttarakhand on November 9, 2000, the land area of Uttar Pradesh reduced to 240928 sq. kms. One of the causes of worsening finances of states of Uttar Pradesh is the growing imbalance between revenue and expenditure. The total receipts of Uttar Pradesh was Rs. 1212,853 lakhs which increased to Rs. 2,782,119 lakhs, an increase of 2.29 times in span of 12 years. It is observed that the receipts on revenue account have been increasing considerably than receipts on capital account. The revenue receipts of Uttar Pradesh was Rs. 831010 lakhs in 1990-91, which rose to Rs. 4,42431,37 lakhs in 2002-03, registering an increase 53.25 times, while capital receipts was only Rs. 381,843 lakhs in 1990-91 just doubled to Rs. 38,638 lakhs in 1995-96 and in 2002-03 it was Rs. 1,461,018 lakhs, an increase of only 3.28 times during the period. The compound growth rate of total receipts Uttar Pradesh during the period 1990-91 to 2002-03 was 11.11 percent while the buoyancy was only 0.94. The compound growth rate and buoyancy of revenue receipts of Uttar Pradesh during the period 1990-91 to 2002-03 was 10.09 percent and the buoyancy coefficient was 0.85. As far as the position of capital receipts of Uttar Pradesh is concerned, the compound growth rate during 1990-91 to 2002-03 was 13.43 percent which showed healthy sign of development and buoyancy of capital receipts was greater than one.

The tax revenue of Uttar Pradesh was Rs. 546,777 lakh in 1990-91, which increased to 4.31 times in 2002-03 and become Rs. 2359868 lakhs. As far as the states, own tax revenue is concerned it also showed an increasing trend. It became
almost four fold from period 1990-91 to 2002-03. The states share in Central taxes also showed an increasing trend and it lumped from Rs. 230, 565 lakhs in 1990-91 to Rs. 1083178 lakhs, an increase of (4.69 times). Non-Tax revenue also showed an increasing trend. It was Rs. 284, 233 lakhs in 1990-91, which just doubled to Rs. 422, 251 lakhs in 2002-03. The states own non-tax revenue also showed an increasing trend. It increased almost 2.46 times during the study period. It was rupees 77,747 lakhs in 1990-91, which became Rs. 191349 lakhs in 2002-2003.

Grants from Centre to the state showed a fluctuating trend. It was Rs. 206,486 lakhs in 1990-91, which just increased to Rs. 231,286 lakhs in just a span of 5 years. In 2002-03 it became to Rs. 230,902 lakhs, an increase of about 1.11 times in 12 years. The compound growth rate of tax revenue of Uttar Pradesh 13.05 percent in 1990-91 to 2002-03 and buoyancy was greater than unity. The compound growth rate of own tax revenue of Uttar Pradesh was 12.62 percent in 1990-91 to 2002-03, which decreased to 7.83 percent in 2000-01 to 2002-03. The compound growth rate of states' share in Central taxes was above 13 percent during the period 1990-91 to 2002-03. But due to bifurcation of Uttar Pradesh it fell to 7.83 percent in 2000-01 to 2002-03. The buoyancy of states non-tax revenue of Uttar Pradesh remained below unity during the three periods. Compound growth rate of Grants from Centre was 0.82 percent during the period 1990-91 to 2002-03 which became negative during the two period that is 1990-91 to 1999-00 and 2000-01 to 2000-03. The relative shares of different taxes of Uttar Pradesh during the period 1990-91 to 2002-03. Taxes on services and taxes on property and capital transaction accounted for almost half of the total tax revenue. Uttar Pradesh government has commodity taxes as best source of income. Out of taxes on commodities and services is concerned, sales tax occupied the highest position followed by state excise. The own non-tax revenue of Uttar Pradesh was Rs. 77,747 lakhs, which increased to just 2.46 times in 2002-03 and became Rs. 191,349 lakhs. Out of own-non-tax revenue the major item of revenue was economic services, which was Rs. 19,223 lakhs that increased around 3.22 times and became Rs 62,033. Next item of own non-tax revenue was general services, which increased around 1.22 times during the period under study and became Rs. 33,360 lakhs in 2002-03. However, one thing we note that with the division of Uttar Pradesh in 2000, it has effected the non-tax revenue resource of the states. Uttar Pradesh has lost out in terms of share of forests and sources of hydel energy. Regarding the compound growth rate and buoyancy of own non-tax revenue during
the period 1990-91 to 2002-03 it was 4.79 percent and buoyancy coefficient was 0.42. The highest compound growth rate was observed in case of social services, which were 15.05 percent, and its buoyancy was greater than unity. Total expenditure of Uttar Pradesh increased 3.43 times. The revenue expenditure has increased 3.15 while capital expenditure has shown an increase of 3.38 times. The compound growth rate of revenue expenditure is higher than compound growth rate of capital expenditure during the three periods, which shows that revenue expenditure of Uttar Pradesh account 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 2000-01 to 2002-03.

The non developmental revenue expenditure of Uttar Pradesh was Rs. 327.635 lakhs in 1990-91 which went up to Rs. 1558.269 lakhs in 2002-03 an increased of 4.75 times. The major item of non-developmental revenue expenditure of Uttar Pradesh was spend on interest payments which was Rs. 146,198 lakhs in 1990-91 which increased 5.86 times and became Rs. 856,895 lakhs in 2002-03. Next item was administrative services whose expenditure increased 3.08 times in 12 years span. It was Rs. 100,604 lakhs in 1990-91, which increased to Rs. 309,983 lakhs in 2002-03. Pensions were another major item of revenues non-developmental expenditure. It showed a major increase in all the items of non-developmental expenditure in (7.20 times). It was Rs. 38180 lakhs in 1999-91, which increased to Rs. 275113 lakhs in 2002-03. The compound growth rate of non-development revenue expenditure of Uttar Pradesh during the period 1990-91 to 2002-03 was 14.52 percent while the buoyancy coefficient was more than unity. Out of non-developmental revenue expenditure, the compound growth rate of interest payments during the period during the period 2000-01 to 2002-03 was −0.35 percent and buoyancy became negative. The compound growth of administrative services was 11.35 percent during the period 1990-91 to 2002-03 and the buoyancy rate was less than unity.

The compound growth rate and buoyancy of pensions was 21.98 percent and 1.76 respectively during the period 1990-91 to 2002-03.

The major fiscal Indicators of Uttar Pradesh are gross fiscal deficit, revenue deficit and primary deficit showed a very alarming trend during the period 1990-91 to 2002-03. Table 5.31 presents the gross fiscal deficit, revenue deficit and primary deficit of Uttar Pradesh in rupees as well as ratio in GSDP. From the Table 5.31 we
can see that gross fiscal deficit of Uttar Pradesh was Rs. 306,755 crores in 1990-91 which increased at an alarming rate of Rs. 959,688 crores in 2002-03. The Gross fiscal deficit as ratio to GSDP is concerned 5.43 percent in 1990-91 reached a peak level of 7.56 percent in 1998-99. After that it showed a declining trend and decreased to 4.53 percent in 2002-03.

The revenue deficit also showed an upward trend during the 1990’s. It was Rs. 122,826 crores in 1990-91, which increased to Rs. 618,180 crores in 2002-03. The revenue deficit, GSDP ratio of Uttar Pradesh through showed moderate increase during the early 1990’s has shown steep rise especially during 1998-99, in which the ratio turned out to be 5.65 percent. After 1998-99 it declined moderately to 2.28 percent in 2001-02 and then to 2.44 percent in 2002-03.

The primary deficit of Uttar Pradesh showed fluctuating trend. In 1990-91 it was Rs. 160,557 crores which decreased to Rs. 64,141 crores in 1995-96 and then to Rs. 35,269 crores in 2001-02. In 2002-03 it again increased to Rs. 92,793 crores. As ratio in GSDP is concerned it was 2.84 percent in 1990-91, which decreased to 0.44 percent in 2002-03.

Chapter six deals with the summary and conclusion of the whole discussions. The suggestions are also mentioned to improved the fiscal position of states. The main conclusion are that emerges for our study are as flows:

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.

1. 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.

2. 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.
3. The major sources of state own non-tax revenue was economic services. Collection from the non-tax revenue from social services has been low.

4. 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.

5. 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.

6. 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, Madhaya Pradesh, Uttar Pradesh and Orrisa. The rapid pace of reforms in all states in area of fiscal, institutional and sectoral was started in late 1990’s.

7. 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-transparencies 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.

8. 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.

9. 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.

10. 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. 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.

11. 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.

12. 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.

13. 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.

14. 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.

15. 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.

Following are the suggestions that are recommended by our study to improve the fiscal performance of states.

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

2. 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.

3. 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.

4. 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.

5. 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.
6. Expenditure management policy in state level should be achieved properly to cut down non-productive expenditure.

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

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

9. 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.

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