PREFACE

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 macro economic 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 in 1990-91.

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’.

Fiscal reform process in the country was started by giving more emphasis on the Central level reforms. The measures to restructure the fiscal systems of Center through reduction in two tax rates in which state governments has substantial share, the reliance on market borrowings, the upward trend on interest rates has a serious effect on state government finances. Growing revenue expenditure particularly wages and salaries and pensions, burden of interest payments, losses of public sector enterprises, particularly power utilities, declining Central transfers as a proportion of GDP and inappropriate user charges have contributed in large measures to this deterioration. The cumulative effect of the above measures has been the state government resources have been under considerable stress. This in turn necessitated the state governments to introduce reforms at state level, which came known “State Level Fiscal Reforms”.

A number of initiatives have been taken by the Center and the states to remedy the situation which include measures like enhancement of sales tax through replacement of VAT, introduction of professional tax of government, debt swap scheme, increase of user charges, lowering of interest on Central loans to states, setting up of software technology parks, export promotional parks etc.

The Central government has been taking proactive steps to encourage state level fiscal reforms through provision of incentives. Based on the recommendations of
the Eleventh finance Commission, the Centre initiated a ‘State fiscal reforms facility (2000-01 to 2004-05). Under this facility, medium term fiscal reform programmes (MTFRPs) are drawn by the states encompassing fiscal and power sector 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.

The second chapter deals with review of literature. The literature concerning state level fiscal reforms are divided in to the two sections. One is concerned with post reform and other is concerned with the pre-reform literature.

The third chapter contains the trends analysis of finances of All states (combined) during the period 1990-91 to 2002-03. The trends of revenue, expenditure and deficits are analyzed in rupees terms; percentage terms, ratio in GSDP and per capita. The compound growth rate and buoyancy have also been calculated.

The fourth chapter highlights the recent reform measures at state level. It contains the background of the fiscal reforms measures and factors that led to fiscal reforms of states. The reforms measures taken by the states are divided into three categories: fiscal, institutional and sectoral. The reform measures suggested by Reserve Bank of India and Center are also discussed.

The fifth chapter contains the study of states finances of Uttar Pradesh during the period 1990-91 to 2002-03. The trends of revenue, expenditure and deficits are also analyzed.

Main findings of the study and suggestions are given the sixth chapter.