INTRODUCTION
Economic development is not possible without finance, though finance by itself may not ensure or bring about economic development. Financial resources are normally estimated much earlier than the actual formulation of an economic plan. For in the absence of information and knowledge about financial resources, targets, priorities and investment criteria cannot normally be formed on a realistic basis. In some cases, the major cause of failure of the plan is the inability to raise sufficient financial resources.

An essential aspect of development planning relates to its financing. The size and the nature of an economic plan depends on the availability of finances. Finances are the "Motive force", which makes the economic plan "Get-going". The financial resources have, therefore, long been recognised by economists as the pivot or the very basis of planning. The importance of this particular activity, viz., resource growth, resource appraisal and resource mobilisation need not be over emphasised. The technique of resource creation, mobilisation and investment is the dynamic know-how which moves the wheels of planning and growth in the economy.¹

There are various sources of financing plan programmes. Taken together these sources with differing contributions, depict the pattern of financing. That pattern of financing is sound which provides adequate resources for plans, distributes equitably the burden of development among various sections of population and does not affect adversely the price-level.

One of the most crucial problems of the third world is the mobilisation of financial resources for development programmes.² The economic situations political complexions, geographic and climatic variations would suggest different approaches and solutions to the resource mobilisation problem.³

The size of a plan may either be fixed in the light of the "needs" or availability of resources. A development plan should not be based merely on needs but on resources and their development potential.⁴ Needs are unlimited; a plan based on needs is an advertisement rather than an instrument of control.⁵ To publish a plan which can not be implemented because it is excessively

1. The Indian Merchant's Chamber, Economic Research and Training Foundation; Resources for the Ill Five Year Plan, Bombay, 1961.
2. "Mobilisation of Resources" - Published by the society for development studies (SDS). Established in 1984.
5. Ibid p. 152.
large negates the principal purpose of planning, which is to guide policy. In case the expenditure is planned in excess of resources the plan becomes unrealistic without any serious possibility for implementation behind it. Thus, the size of a plan should be determined on the basis of available resources. It may also be contended that the amount of finance available may itself be a function of the size of the plan. "If the plan lists a number of projects which seem desirable to the public and then year by year the plan is falling behind for lack of resources the public may well educate itself into being willing to make a large contribution."

Generally the total revenue of state governments in India consists of:

a) States' own tax Revenue;
b) Non-tax Revenue of the States;
c) Share in central taxes; and
d) Grants-in-aid from the Union Government.

Whereas 'a' and 'b' indicate state's own resources, 'c' and 'd' relate to the aid from the centre.

Of all the above said resources, State Governments generally mobilise large revenue through taxation. As the Royal Commission on Taxation (Carter Commission) of Canada stated "If the Government had to choose one method to the exclusion of all other methods by which it can command resources, taxation would be preferable because it can be more equitable, can be less disruptive to the economy and can give the Government more effective control over the total demand for goods and services". Taxation is the most important source of development finance. It is primarily viewed as a means of transfer of resources from private hands to the public exchequer, which constitutes the principal source of revenue to the Government, to be utilised for financing the development expenditure. As such resources necessary for development plan have to be mobilised through taxation. Goode also stated that "the way to economic development is not along easy path of low taxation and minimum Government activity". In other words, taxation is a powerful tool which can and should be used primarily to influence the volume of economic activity through plans. But one of the important problems facing the state Governments today is the difficulty in mobilising additional/extra revenue through taxation to meet the ever increasing expenditure.

6. Ibid p. 152
particularly in the context of planning. In view of constraints faced by the State Governments, in mobilising revenue resources through tax measures the present study is primarily focussed on the role played by non-tax Revenue in financing the state development particularly during the VI plan, VII plan and 2 annual plans preceding the VIII plan.

Under India's federal system, a substantial increase in the domestic financial resources requires the willingness of the Union and State Governments to mobilise more and more revenues from their tax and non-tax resources. It is a well known fact that taxing is an unpleasant job and all popular Governments would like to keep it within tolerable limits and yet without substantial domestic mobilisation neither self-reliance nor rapid development is possible. The development must be financed by its own people. Irrespective of the fact whether the union or the states are imposing tax burdens, it is the people who have to pay for them. In a sense this burden is not real because adequate services based on the mobilisation are given back to the people. It is in this light that tax powers of the states have to be used to the longrun advantage of the people i.e., to push the programmes of development.

Non-tax revenue of a State Government consists of grants from central Government and the States' own non-tax revenues. The latter include a) interest receipts, b) Dividends and profits from public sector enterprises and c) Revenue from general services, social services and economic services. "Non-tax receipts play as great a role in State finances as tax-revenues properly exploited and managed, they could be a very elastic source of income to the State Government. Moreover in view of the growing investments of most State Governments in capital works, these investments should be generating an acceptable rate of return, through a correct structure of prices for the services provided by these assets". ¹⁰

**Need for the study:**

Before 1980s part of the money necessary for economic development used to come from balances in the current revenue i.e. there used to be a surplus in the revenue budget. This surplus used to get shifted to investment for planned economic development. But in the eighties, the surplus began to dwindle. Then came a time when the surplus became zero and also negative during 1989-1991. After some time even revenue budget began to develop deficits. For example in Andhra Pradesh the fiscal deficit which was about 7.2 per cent of the state domestic product, 28.8 per cent of total expenditure in 1980-81 went up as high as 14.5 per cent of SDP, 42.4 per cent of total

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¹⁰. Christine Wallich: "State Finances in India" Vol. 2 p.5
expenditure in 1984-85. So borrowing has become necessary even for the regular revenue budget. Under these circumstances to restore fiscal equilibrium effort should be made to balance the revenue budget; if possible a surplus also should be obtained from revenue account for financing economic development. This is possible only through effective mobilisation of the tax resources. Necessary reforms have to be undertaken to increase tax revenue through expansion of tax bases, exploiting the untaxed potential of the economy (agricultural income), rationalisation of the tax rates, ending of the tax wars between the states, control of tax evasion, computarisation of tax-accounts and the like. However even if there is a success in balancing the revenue budget it may not be possible in the coming few years to have an adequate surplus on the revenue account. Hence non-tax revenue and other measures for mobilising resources have to be thought of. Non-tax revenue includes interest receipts, loan advances, forest and irrigation receipts, fees from educational and medical institutions and dividends from public sector enterprises. But the relative contribution of non-tax revenue to total revenue has declined from 17% in VI plan to 16% in VII plan and further to 15% during 2 annual plans, preceding the VIII plan.

Hence there is not enough money even from non-tax sources to finance economic development, then the question of user-charges arises. In earlier years Governments have invested hundreds of crores of rupees on irrigation projects, electricity generation schemes, road-transport under takings etc. A time has now come when these projects should generate surpluses for financing economic development. There was a time, when returns from irrigation projects helped in paying not only the interest charges but also the principal. Krishna and Godavari barrages of Sir Arthur Cotton are examples. But unfortunately even these sectors have not been yielding revenue adequate for maintenance charges, leave alone payment of interest on the loans raised to finance them or repay the loans. If for political or other reasons, if adequate internal resources cannot be generated or adequate foreign investment on the basis of infrastructural or other facilities can not be attracted, economic development of the state would come to a stand still, there will be a negative growth or stagnation. It is in this context that the present study is undertaken with an intensive analysis to examine the potential of non-tax revenue of Andhra Pradesh State to finances economic development during the VI plan, VII plan and Two annual plans preceding the current VIII plan of 1992-97.

Review of Literature

A detailed study on the role of non-tax revenues in financing economic development of Andhra Pradesh has not been undertaken so far by any one. However, a general study on resource mobilisation for state plans and the importance of the criterion of 'tax-effort' in mobilising the
revenues for state plans had been made by some researchers and Institutions in their studies on 'Financing of State Plans'.

Christine Wallich\(^{11}\) made an intensive study on the sources of State Finance and the role of non-tax receipts in development finance. The study analysed the different sources of non-tax revenue in general and that of Tamil Nadu in particular. The study found that non-tax revenues of Tamil Nadu declined considerably from 26 per cent of total receipts in 1974-75 to 11 per cent in 1979-80, indicating the declining importance of non-tax revenue. Further it stated that contribution of Public Sector Enterprises had been moderate through out the plan periods and also negative in most of the cases indicating the insignificant contribution of Public Sector Enterprises to "Plan Finance" in most of the states.

Richard Goode\(^{12}\) examined the opportunities of Government borrowing at home and also abroad, and the consequences of these forms in 'Plan Finance'. The study finds that opportunities for Government borrowing at home are limited in most of the developing countries by low saving and preference for assets other than Government securities. Eventhough external borrowing gives a country command over more goods and services than it is currently producing, it entails a future-real cost and transfer problem. So the study concluded that the significance of Government borrowing is limited in Development Finance.

Dr. Siddarth Shastri\(^{13}\) made an intensive study on sources of States' Plan Finance in India with reference to development planning in Rajasthan. He analysed the State's own resources for planned Development of the Rajasthan State along with the central plan assistance to the state for the period of 16 years i.e., 1969 to 1985. He concluded that of the total revenue receipts, growth of state's own receipts had been faster than that of central transfers. Further with in State's own revenue, there was a greater increase in non-tax revenue than that in tax revenue. Though the significance of NTR went up, the rise in proportions was not significant. He also concluded that "Additional Resource Mobilisation" emerged as the most consistently growing segment of plan Financing in Rajasthan during the study period.


J.V.M. Sarma and N. Sreedevi reviewed Fiscal imbalances in Andhra Pradesh for a period of 2 decades i.e., from 1974-75 to 1993-94. The study observed that non-tax revenues constituted 16.5 per cent of the state’s total revenues. Out of which half of the NTR arose from the interest receipts and the other half comprised of the Administrative receipts. The study further stated that non-tax receipts had not been growing at a satisfactory rate during the said period in Andhra Pradesh.

M. Surendar Reddy and Arif A. Waquif focussed non-tax revenue in their study on 'Non-tax revenue' - A background paper to the seminar on "Additional Resource Mobilisation through Non-tax revenue sources" organised by Data News Features, at Hyderabad. The study examined the past trends in the Government’s revenues in general and the Government’s non-tax revenue under specific heads in particular during the period of 14 years i.e., 1972-1986 and stated that non-tax revenues had been going up at a rate of 14.86 per cent per annum. It suggested that the non-tax sources would be the highest if the recovery of the revenues could be expected on the basis of the trend growth rates achieved during 1972-86.

Tenth Finance Commission Report for 1995-2000 presented an analysis regarding the non-tax revenues of the Stage Governments. It was stated that while tax revenues have been generally more buoyant than estimated by successive Finance Commissions, the Non-tax revenues have consistently fallen behind in almost all the states.

Amaresh Bagchi, J.L. Bajaj and William A. Byrd reviewed the patterns of plan financing both aggregate and state-wise during the Sixth and Seventh Five Years Plan in India. The study stated that non-tax revenues, generally constitute 33 per cent of the total revenue receipts of the states. Further the contribution of states’ own non-tax revenue to total revenue receipts had been declining (15.4 per cent in Seventh Plan against 17.6 per cent in the Sixth plan) indicating the unimportant role of non-tax revenue in plan finance.

Amaresh Bagchi and Tapas Sen examined the overall budgetary trends, plan outlays and financing of the plans in the states. The study observed that revenue receipts of State Governments had grown at least as fast as State domestic product (SDP) during the VI and VII plans, although the growth of non-tax revenue had not been satisfactory. Further declining BCRs and Weak contributions from public enterprises lead the states to rely on borrowings of various kinds to finance their plans, including assistance related to externally-aided projects.

S. Guhan reviewed the State Finances in Tamil Nadu during the 30 year period i.e., 1960-90 with particular reference to developments in the 1980s. The study looked at levels, structure, trends, issues and interstate comprisons. The study stated that the contribution of Non-tax revenues to the plan finance was insignificant as it didnot benefit much from forest and mineral royalty revenues during the the study period.

J.L. Bajaj and O.P. Agarwal examined the budgetary operations of the Government of Uttar Pradesh in the 25 year period i.e., 1965-1990. The study stated that the major source of Non Tax Revenue (NTR) was interest receipts followed by departmental receipts. Dividends of Public Enterprises contributed an insignificant amount, less than 1 per cent of total NTR. Further the study expressed that Uttar Pradesh did not possess large mineral resources, royalties did not contribute significant revenue unlike in Assam, Bihar, Orissa and Madhya Pradesh.

R. Ramalingom Aiyar and K.N. Kurup studied about tax revenue and NTR of Kerala state for 1974-90. The study found that the growth of NTR in Kerala had decelerated since 1982-83. It fell to 14 per cent in 1989-90 from 30.9 per cent in 1974-75. In order to tap sources of NTR, the State Government introduced lotteries. It had been a pioneer in mobilising substantial revenue from lotteries. The study concluded that the sluggish growth of Kerala's revenue was traceable to a considerable extent to the poor performane of State Public Enterprises.

L.S. Porwal study was devoted to State Finances in India along with a case study of Rajasthan for the period of 20 years (1950-1970). It explained the trends in revenue of Rajasthan.

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and also made a comparative study of Tax-revenue and Non-tax revenue of the state. The study stated that states' own non-tax revenue accounted for about one fifth of the total revenue and did not make a substantial contribution to the exchequer during the study period.

The Economic Research Division\textsuperscript{23} (ERD) of Birla Institute of Scientific Research (BISR) made a useful study on provision of the federal resource transfers in some of the Western Countries i.e., U.S.A., Canada, Australia and Germany. It also examined the transfer of resources from the Centre to the States through the Finance Commissions in India. It suggested to raise the transfer of resources from the Centre to the relative backward states to reduce the economic disparities between the states.

R.K. Sinha\textsuperscript{24} examined the role of Fiscal Policy in economic growth and also the mobilisation of savings for planned economic development. The study stated that voluntary savings from individuals would not be sufficient in the initial stages of development, so the Government had to raise loans from different financial institutions both within and outside the country for quicker economic development.

S.N. Lai\textsuperscript{25} dealt with the sources of financing the economic development internal and external and the role of Public borrowing in financing economic development. The study expressed that the volume of savings and other unfunded debts implied greater participation of Non-Government sector in financing the developmental needs of the country.

Ram Niranjan Thipathy\textsuperscript{26} studied the problem of mobilisation of resources for public sector in a developing economy as well as the role of Public Borrowing in development finance in India. The study stated that the Public Sector failed to acquire the requisite command over the real resources because the total monetary impact of deficit financing by the Private and Public Sectors exceeded the growth of real output during the period of 3 Five Year Plan in India.

R.K. Sapru studied the role of Public Enterprises in the economic development of the Third World Countries. The study observed that the main cause for the losses of Public Sector units during the Seventh Five Year Plan of India was attributed to the weak and inefficient administration of P.S.Es. The study suggested that P.S.Es must generate surpluses through proper pricing and efficient operations so that the resources can be available for Plan Finance.

G.R. Reddy examined the charges in the pattern of financing of Public Sector plan outlays during the first four years of the VII plan in India and the implications of the changes were also analysed. The study concluded that shortfalls in ARM of the Centre, meagre contributions of Public Sector Enterprises and Small Savings led to an alarming increase in deficit financing during the VII plan in India.

T. Divakara Rao made a modest attempt to go into the existing resource base for financing the VII plan of Andhra Pradesh State. The study observed that NTR had registered a compound growth rate of 10.67 per cent per annum during the 8 year period i.e, 1980 to 1988. The study suggested for cutting down of State’s non- developmental non-plan expenditure to improve the resource position for meeting the plan expenditure.

R.K. Misra and Pakki Reddy analysed the surplus generation by Public Enterprises for the financing of VII plan in India and it accounted for 20 per cent of the total resources. Between the Central Public Enterprises and the State Level Public Enterprises (SLPES), the latter had not contributed at all to the Plan Finance. The study concluded that the experience of the SLPEs in Andhra Pradesh, one the better-off states in terms of the profitability, revealed that suitable reforms in those enterprises would bring about a sea change in their working.

R.K. Sinha study is mainly devoted to the role of Public Enterprises in the process of economic development in India. The study found that the reason for inefficient performance of the

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Public Sector was huge inventory accumulation (one third of the total capital) which reduced the quantum of return on capital. It suggested that huge "inventory accumulation" should be controlled and reduced properly to improve the efficiency of PSEs.

P.C. Sai Babu and K.V. Rao\textsuperscript{32} attempted to examine the working of Public Enterprises in Andhra Pradesh State during the Five Year Plans as well as the return on capital invested during 1994-95.

The study concluded that the percentages of return on Investment were very low and the performance of Public Enterprises was far from satisfaction in Andhra Pradesh as per the norms fixed by the Planning Commission.

V.G. Mankar\textsuperscript{33} explained about the non-tax revenues of the Union Government for the period of 20 years i.e., 1970-71 to 1990-91. The author found that surplus-budgets of 1970s had disappeared and deficit budgets arose during 1980's and 1990s. The author further formed that the price Policy of Public Enterprises geared to the mobilisation of Investible surplus in the economy may come into conflict with the other objectives of this policy. In this regard the author explains about the traditional principle of break-even and the principle of a surplus.

Timmaiah\textsuperscript{34} estimated the revenue potential of the four Southern States of India and Union Territory of Pondicherry, in one of the research studies sponsored by the Planning Commission.

S.C. Srivastava\textsuperscript{35} had analysed the various sources of State revenue for development plans under two categories tax revenue and non-tax revenue in the study on financing of state plans.

K.K. Sinha\textsuperscript{36} discussed the mobilisation of resources at local levels in his study on "Financing from Below". He also analysed hurdles in resource mobilisation at local levels.

\textsuperscript{36} K.K. Sinha : "Local Taxation in Developing Economy" Vora & Co., 1968, pp. 68, pp VI also Appendix B & C.
S.V.L.N. Row\textsuperscript{37} made an intensive study on mobilisation of various resources for state plans in India, in his study on "Financing of State Plans". He also examined the problems and prospects in mobilising the revenues with particular reference to the state of Gujarat.

Viswanadham's\textsuperscript{38} study focussed on the finances of APSRTC and analysed the financial structure, deployment of funds, cost-fare relationship and funds flows between the Corporation and Government. The study relates to the period of 12 years, i.e., 1965-66 to 1976-77, during which period the APSRTC did not incur losses barring the 3 years.

D.M. Mithani\textsuperscript{39} explains about the various sources of Public revenue stressing the sources of non-tax revenue. It explains the classification of Non-tax revenue i.e., administrative revenue, profits from State Enterprises, gifts and grants.

M.L. Kantha Rao and M.D. Bavaiah\textsuperscript{40} analysed the mobilisation of tax and non-tax revenues in Andhra Pradesh in the article "Mobilisation of Resources for welfare schemes and Economic Development of Andhra Pradesh".

These studies, even though analysed Non-tax revenues of the State Governments however, are not specifically related to the Non-tax revenues of the Andhra Pradesh state for the period of 12 years i.e., 1980-1992. A detailed study on the role of non-tax revenues in financing economic development of Andhra Pradesh for the above 12 year period has not been undertaken so far by anyone. In this context the present study assumes importance.

**OBJECTIVES OF THE STUDY :**

1. To review the financing of Five Year Plans in India in general and the state of Andhra Pradesh in particular.
2. To observe the general features and levels of economic development in Andhra Pradesh in the VI plan, VII plan and Two Annual Plans preceding VIII plan for the period of 12 years i.e., 1980-92.

3. To analyse the revenue structure, Fiscal deficits and pattern of resource mobilisation in Andhra Pradesh during the 12 year period i.e., 1980-92.

4. To undertake an intensive study of the components and trends of non-tax revenue during 1980-92 in Andhra Pradesh and to suggest measures for improvement of Non-tax resources.

5. To examine further the role of "Additional Resources Mobilisation" in Andhra Pradesh during the study period.

6. To analyse the contribution of Public Sector Enterprises, particularly APSRTC and APSEB, towards non-tax revenue in financing the state development during the 12 year period i.e., 1980-1992

Besides the objectives stated above the study also tries to test the following hypotheses.

Hypotheses:

1. Adequate revenues are mobilised through non-tax revenue.

2. The performance of Andhra Pradesh in respect of mobilisation of non-tax revenue is better than in the All States’ Model.

3. Fiscal Deficits are due to growing difference between routine expenditure and revenue and not because of Investment / Plan expenditure.

4. Fiscal Deficits are mostly financed by Public borrowing.

Research Methodology

Bulk of the data used in the present study has been compiled from the State Budgets: “Estimates of State’s resources for Annual Plans”, “Explantory Memoranda on the Budget” by the Finance Secretary, “Survey of Economic Trends and State Plan” by the Minister for Finance, “Memorandum submitted to the Tenth Finances Commission” by the Government of Andhra Pradesh. Five Year and Annual Plan documents published by the State Planning Department and their progress reports published by the Directorate of Economics and statistics have been thoroughly examined and incorporated. Along with these, other published and unpublished reports and documents of the State Government and Public Enterprises, monthly Bulletins of Reserve Bank of India and standard works on the subject relevant to the study, have also been studied and used. Information has also been obtained through personal interviews and discussions with the officials of the State Government and of the various State Enterprises.

In order to assess the significance of various sources of Plan Finance, their contribution to the aggregate of resources, state’s own resources and the group totals have been calculated and compared. The collected data has been analysed by statistical techniques, like averages,
percentages, Index Numbers, Standard deviations and coefficient of variations. In addition, annual compound growth rates are calculated by employing the regression equation of the form $Y_t = ab^t$ and from the least square estimation of 'b', the annual compound growth rate is calculated by using the relation, $r = (b-1) \times 100$.

**Scope and Limitations**

The main purpose of the study is to examine the role of non-tax revenue in financing economic development of Andhra Pradesh during the VI plan (1980-85), VII plan (1985-90) and Two Annual Plans, preceding the current VIII plan of 1992-97. Hence, the period of the study is confined to 12 years i.e., 1980-81 to 1991-92.

The study is mainly confined to the role of non-tax revenues in financing economic development in Andhra Pradesh. However, to make the study as effective as possible and to facilitate comparison this study also analyse the revenue structure of "All States' Model".

Given the nature and scope of the subject, the study has to be based mainly on the secondary data, collected from the official records. Because of the time and financial constraints it is not possible to have detailed interviews and discussions with all the officials concerned of the State Government and of the various State Enterprises. Similarly revenue and expenditure are the two sides of the same coin, a comprehensive analysis on the trends in expenditure of State Government would have been a useful complement. However, this study also could not be undertaken for the reasons stated above.

**Chapter Layout:**

The report of the research work is presented in eight chapters, for the sake of convenience.

The first chapter deals with significance and need of the study; its scope, objectives and the methodological issues.

The second chapter describes the overall profile of the state of Andhra Pradesh. It studies the development trends in the composition of human resources in the state. It examines the levels of economic development and structural changes of the economy during VI plan, VII plan and Two Annual Plans, preceding the current VIII plan. A relative comparison of Annual Compound Growth Rates of Net State Domestic Product and percapita income in Andhra Pradesh with those of 15 major states of India is also furnished in this chapter.
The third chapter examines the essential component of development planning i.e., financing of states' plans in India in general. It studies the considerable divergences in the provisions / targets and the actuals of plan outlays both at the centre and in the states during VI plan and VII plan.

The fourth chapter analyses in detail the pattern of "Plan finance" exclusively in Andhra Pradesh during VI plan, VII plan and Two Annual Plans preceding the current VIII plan.

The fifth chapter deals with trends in revenue-deficits and fiscal deficits along with its major components in Andhra Pradesh during the 12 year period i.e., 1980-81 to 1991-92. The latter part of the chapter presents the revenue structure of Andhra Pradesh along with the All States' Model during the same period.

The Sixth Chapter examines the revenue trends in general and undertakes an intensive year-wise and plan-wise analysis of non-tax revenues in particular during the 12 year period in Andhra Pradesh. A relative comparison of the components of State's own non-tax revenue of Andhra Pradesh with that of All States' Model is also presented in this chapter. It also studies the trends in Grants-in-aid (from the centre) to Andhra Pradesh along with that of All States' Model. It analyses the different dimensions of Non-tax revenues and emphasises the need for improvement of non-tax resources in Andhra Pradesh.

The Seventh chapter studies the contribution of Public Sector Enterprises, especially APSRTC and APSEB, to plan finance during the 12 year period (1980-92). It also examines the "Additional Resource Mobilisation" (ARM) of the state during the study period.

The last chapter presents the summary and conclusions of the study. The hypotheses that have been postulated are tested based on the data collected from the secondary sources and the results are furnished in this chapter.