CHAPTER 6

SUMMARY AND CONCLUSIONS

Finances are the "Motive force" which makes economic plan "Get-Going". The financial resources have, therefore, long been recognised by economists as the pivot or the basis of planning. 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 the various sections of population and does not affect adversely the price-level.

Taxation is the principal source of revenue to any Government. It is primarily viewed as a means of transferring of resources from private hands to the Public Exchequer for financing development expenditure. As such, resources necessary for the development plans have to be mobilised through taxation. Thus taxation is a powerful tool which can and should be used primarily to influence the volume of economic development through economic plans.

Inspite of all its rich resources, Andhra Pradesh at the time of its formation as a separate State, was one of the poorest States in the Indian Union. But after the formation of Andhra Pradesh it embarked upon planned economic development through the implementation of a series of Five Year Plans. As per the "Survey of Economic Trends and State Plans" from 1987-88 to 1991-92, there was an appreciable economic development in Andhra Pradesh during the VII Plan period.
The Net State Domestic Product of Andhra Pradesh during the VII Plan recorded a sustained continuous increase from Rs.12,878 crores in 1985-86 to Rs.21,096 crores in 1989-90 registering a rise of 63.8 per cent. At the same time per capita Net State Domestic Product rose from Rs.2205 in 1985-86 to Rs.3364 in 1989-90 recording a rise of 52.7 per cent.

The structural change i.e. increasing contribution of tertiary sector by 5.6% and decreasing contribution of secondary sector by 3.9% and primary sector by 1.7% towards Net State Domestic Product shows a good indication of economic development during the VII Plan in Andhra Pradesh.

Inspite of the 3 successive years of drought and natural calamities from the starting of the VII Plan, the total food grains production rose from 96.15 lakh tonnes in 1984-85 to 127.71 lakh tonnes in 1989-90 showing an increase of 32.8% over the terminal year of the VI Plan. The share of rice was 76% among the food grains production.

The industrial production during the VII Plan recorded a steady increase in Andhra Pradesh with a significant rise in general index number of industrial production from 274 in 1984-85 to 370 in 1989-90.

The overall power generation rose by 20% at the end of the VII Plan over the terminal year of the VI Plan in Andhra Pradesh. At the terminal year of the VI Plan 84% of villages, 30% of Hamlets, and 71% of Harijanwadas were electrified whereas by the completion of VII Plan
99.9% of villages, 48% of Hamlets and 88% of Harijanwadas were electrified in Andhra Pradesh. This shows an appreciable, successive and impressive progress during the VII Plan in Andhra Pradesh.

The revenue mobilised for the development programmes during the VII Plan in Andhra Pradesh consists of

a. State's own tax revenue
b. Non-tax revenue of the State
c. Share in Central taxes and
d. Grants-in-aid from the Union Government.

The total revenue receipts of Andhra Pradesh State increased from Rs.2,773 crores in 1985-86 to Rs.4,477 crores in 1989-90, i.e. by 1.6 times and the annual compound growth rate of total revenue of the State amounted to 13.8 per cent during the VII Plan.

The annual compound growth rate of State's own tax revenue was lower in Andhra Pradesh (13.57) than that of All-States' Model (15.31) while annual compound growth rate of Non-tax revenue was appreciably higher in Andhra Pradesh (23.28) than in the All-States' Model (12.15) during the VII Plan.

An analysis of resource mobilisation effort in Andhra Pradesh reveals that 67% of the total revenue of the VII Plan was mobilised from State's own resources comprising of 51% from State's own tax revenue and 16% from State's own non-tax revenue. In the All-States' Model, 60% of the total revenue was mobilised from State's own resources out of which 44% emerged from State's own tax revenue and
16% from State's own non-tax revenue. On the other hand the combined share of revenue from Central taxes and grants-in-aid from the Centre was 33% in Andhra Pradesh and 41% in All-States' Model. Thus Andhra Pradesh State mobilised more revenues from its own tax and non-tax resources rather than from the transfers from the Centre compared to that of All-States' Model during the VII Plan.

Apart from this the relative share of State's own tax revenue as 9.4 in the aggregate revenue of all the States, was higher than the share of the State (8.4) in respect of total area and population of the country.

To assess the performance of Andhra Pradesh, during the VII Plan the annual compound growth rates of revenue components of Andhra Pradesh, All-States' Model and southern States had been analysed. The annual compound growth rate of State's own tax revenue in Andhra Pradesh was 14.50 which was higher than All-States' Model (14.25), Kerala (13.66), Tamil Nadu (10.00), but lower than Karnataka (15.87). The annual compound growth rate of non-tax revenue of Andhra Pradesh was 20.15 which was appreciably higher than All-States' Model (10.80), Karnataka (10.83), Kerala (7.64) and Tamil Nadu (1.88). At the same time the annual compound growth rates with regard to the share in Central taxes was lower in Andhra Pradesh than in the All-States' Model and other three southern States. The annual compound growth rate of grants-in-aid from the Centre to Andhra Pradesh was lower than in All-States' Model and Karnataka but was higher than in Kerala and Tamil Nadu. Thus the performance of Andhra Pradesh was fairly
satisfactory and better than All-States' Model and other southern States, largely due to the effort of the State in the sphere of own tax revenue and non-tax revenue during the VII Plan.

A comprehensive study of the tax structure of Andhra Pradesh, All-States' Model and other three southern States reveals the growing dependence on indirect taxation during the VII Plan.

The ratio of direct and indirect taxes excluding shared taxes during the VII Plan was

94:6 for Andhra Pradesh
90:10 for All-States' Model
92:8 for Karnataka
89:11 for Kerala and
91:9 for Tamil Nadu

It is obvious that reliance on indirect taxes became heavier because of the fall in the importance of direct taxes during VII Plan. The relative share of indirect taxes was the highest in Andhra Pradesh compared to the All States' Model and southern States.

Among the taxes on commodities Salex tax and State Excise duties emerged as the most important taxes. Sales tax and State Excise duties occupied the first and second ranks in the tax structure of Indirect taxes among all southern States and All-States' Model. The percentage contribution of Sales Tax to SOTR was less in Andhra Pradesh compared to All States' Model and other 3 southern States. While the percentage contribution of State Excise duty to SOTR in
Andhra Pradesh was higher than that of All States' Model and other 3 southern States.

The percentage contribution of Sales Tax was less in Andhra Pradesh (52.6) than in the All-States' Model (58.1) largely because of the relatively less advanced industrial and commercial character of the State. In percentage terms the relative importance of State Excise duties in Andhra Pradesh (27.7) was double than that of importance of excises in the All States' Model (14.4), largely because of the non-existence of prohibition in Andhra Pradesh. Sales Tax and State Excise duties together contributed 80.3 per cent of the own tax revenue of Andhra Pradesh whereas it was 72.5 per cent in the All-States' Model. Thus the Salex Tax 52.6 and State Excise duty 27.7 contributed stupendously to the total State's own tax revenue and occupied important places in the tax armoury of Andhra Pradesh during the VII Plan.

Striking feature of the tax structure of Andhra Pradesh is the absence of a single productive and elastic tax, much less a tax on agricultural income - an important component of the State domestic product while the contribution of primary sector to SDP was 39.62% during VII Plan period. The fact that the 6 taxes contributed about 97 per cent of State's own tax revenue in VII Plan in Andhra Pradesh indicates the non-availability of new tax handles or bases and the limited options open to the State Government to change the mix of taxes. It is obvious that the luxury of tax structure flexibility has not been available to Andhra Pradesh for economic and political reasons during the VII Plan Period.
Apart from the mobilisation of tax and non-tax revenues, the State Governments had been mobilising additional revenues from additional taxation, raising the rates of bus fares and electricity duties etc. for financing the development plans.

An analysis of Additional Resource Mobilisation as per the R.B.I. Bulletins indicates that even though the proposed contribution of Andhra Pradesh was given only for 3 years, it was the highest among the southern States amounting Rs.292 crores which was 10% of the total estimated additional resources of All States' Model i.e. Rs.2,926 crores. It is significant to note here that the anticipated performance of Andhra Pradesh was quite appreciable and it ranked first among southern States, followed by Karnataka amounting to Rs.265 crores (9% of the total estimated revenues of All-States' Model), Kerala amounting Rs.174 crores (6% of the total estimated revenue) and Tamil Nadu amounting Rs.146 crores (5% of the total estimated revenue). Another important point is that major portion of additional revenues were anticipated from Sales tax in All States' Model and in all southern States during the VII Plan.

The mobilisation of additional revenues had been done in Andhra Pradesh in three ways.

a. Additional taxation measures taken by the State Government,

b. Increasing the rates of Electricity charges by APS Electricity Board,

c. Increasing bus fares by APS Road Transportation Corporation.

Additional Resource Mobilisation is a component of financing the plan as it indicates the effort of State Government in mobilising
resources. The total additional resources mobilised during the VII Plan in Andhra Pradesh was Rs.2,210 crores out of which 46% of the resources (Rs.979 crores) were derived due to the 85-86 measures, 4% of the resources (Rs.91 crores) due to 1986-87 measures, 43% of the resources (Rs.910 crores) due to 1987-88 measures and 7% of the resources (Rs.140 crores) due to 1988-89 measures. No additional resource mobilisation measures were taken in 1989-90 by the Government of Andhra Pradesh.

The percentage contribution of additional taxation to the additional resources mobilised through different measures during the VII Plan was:

- 73 per cent in 1985-86 measures,
- 91 per cent in 1986-87 measures,
- 34 per cent in 1987-88 measures and
- 100 per cent in 1988-89 measures.

This indicates the role of additional taxation in the field of additional resource mobilisation during the VII Plan in Andhra Pradesh.

Among the additional taxation revenue mobilised, the contribution of Sales tax was highest. The percentage contribution of Sales tax to the additional taxation revenues was 44.7 per cent according to 1985-86 measures, 74.6 per cent according to 1986-87 measures, 73.95 per cent according to 1987-88 measures and 30.2 per cent according to 1988-89 measures. So the revenue from Sales tax and been increased appreciably and occupied a primary place in the additional taxation measures of Andhra Pradesh during the VII Plan.
The Government of Andhra Pradesh mobilised 59 per cent of the total additional resources through additional taxation measures, 27 per cent through raising the rates of Electricity duties and 14 per cent through raising the rates of bus fares during the VII Plan.

The above study reveals that the total additional resources mobilised during the VII Plan was Rs.2,120 crores as against the original target of Rs.1,712 crores i.e. an increase of 24 per cent over the target. Thus the performance of Andhra Pradesh was appreciable with regard to additional resource mobilisation during the VII Plan.

To measure the tax performance of Andhra Pradesh during the VII Plan, the tax effort of the Government of Andhra Pradesh can be analysed. It is well recognised by economists that taxable capacity can't be measured in its absolute sense. However it is possible to judge the tax effort of a State in relation to those of other States; or more specifically in relation to the average performance of the all major States in India. The ratio of the tax revenue to the total income of a State is commonly taken as the indicator or the measure of relative tax effort. The analysis of the tax effort of 15 major States during 1985-88 makes it clear that the ratio of tax revenue to State Net Domestic Product was the highest at 11.68 per cent in Kerala followed by Andhra Pradesh (10.89 per cent), Tamil Nadu (10.67 per cent) and Karnataka (10.13 per cent). It is also obvious that these four southern States had indices of tax effort distinctly above the average i.e. Kerala with 1.40, Andhra Pradesh with 1.30,
Tamil Nadu with 1.28 and Karnataka with 1.21. This clearly indicates that all the southern States made sufficiently high effort in mobilising resources from taxation and occupied top four ranks among the 15 major States of the Indian Union.

The difference between buoyancy and elasticity coefficients also indicates the nature and extent of the effort made by the State Government in the mobilisation of additional resources from taxes. The difference between the buoyancy (1.0554) and elasticity (0.8574) coefficients of State's own tax revenue was 0.1980 during the VII Plan in Andhra Pradesh which indicates the success of the State Government in mobilising the additional resources from the taxes.

Thus it can be concluded that the Government of Andhra Pradesh mobilised successfully 67 per cent of revenue from its own resources which was higher than that of All-States' Model (60 per cent) during the VII Plan. The annual compound growth rate of State's own tax revenue in Andhra Pradesh was higher than that of All-States' Model, Kerala, Tamil Nadu but lower than Karnataka. The annual compound growth rate of non-tax revenue of Andhra Pradesh was appreciably higher than All-States' Model, Karnataka, Kerala and Tamil Nadu. The performance of Andhra Pradesh was quite appreciable with regard to additional resource mobilisation as it achieved 124 per cent of the target during the same period. The effort of Andhra Pradesh in resource mobilisation was good as the State achieved second rank among the 15 major States of the Indian Union in terms of tax effort during the VII Plan.