In chapters 4 and 5 micro-analytical approach to the problem of fiscal adjustments with reference to Andhra Pradesh were made. While the revenue performance did not give any scope for adjustments, outlay performance viewed from different approaches gave scope for some improvements and adjustments. Since the problem of fiscal adjustments are sought to be viewed from the savings they can generate, improvements in revenue side and outlay sides which can result in generation and optimisation in savings naturally form part of the study. This is undertaken here with reference to Andhra Pradesh.

Financing economic development by a State in a federation has some difficulties. Assessment of needs may be easy, but finding finances is difficult. In that endeavour Union Govt. has to play a vital role. Assessment of internal resources, the gaps to be covered by F.C.s. grants are examined and compared with my own assessment which is based upon the concepts of Revenue elasticity and buoyancy. This has yielded fruitful results. Besides this, the scope for augmenting revenues still further under various tax and non-tax receipts, are explored eventhough their quantification has not been undertaken. Financial adjustments required to meet the developmental requirements of A.P. are also presented. This exploration, though strictly and from federal point of view, may appear to be illogical, stands to the same test of logical propriety of requests made by different State Govts. in their memorandums to different Finance Commissions.

CENTRE'S ROLE IN FINANCING.

Since the needs and potentialities of A.P. are so varied and huge that all of them can't be met or utilised in full during short period, financial estimates of investment for solving this problem
has to be made on an ad hoc and short-term basis. Financial investments may be viewed as a proportion of State's income or that amount required to increase per capita incomes of the State by a certain percentage over a period under given conditions of growth of population, capital-output ratios and available savings as well as the rate of growth of per capita income of the State as compared to that of all India per capita income. Based on certain assumptions and goals, financial investment was estimated by Govt. of Andhra Pradesh, which, for maintaining equity in per capita income with All India level, requires 40% increase in per capita income over the State income that prevailed by the end of 3rd plan. To achieve this level a total investment by all sectors (Centre, State and Private sectors) to the order of Rs. 1,400 to 1,600 crores are required. Rough projections of resources for IVth plan indicate that A.P. should be able to take up the next plan with an outlay of Rs. 650 crores. Out of this Rs. 546 crores is net investment and Rs. 104 crs. consist of outlay on recurring projects. Private sector is estimated to invest Rs. 235 Crs; thus Central Govt. was left with a major share to be fulfilled. In all Rs. 712 crs. were to be spent by way of investment in Andhra Pradesh. 1 For the purpose of analysis and approach to the problem of financial adjustments, above data is taken for granted. Then how the State has sought to finance its own share over the next period constitutes the probe. The experience of last three plans in financing them by the State Govt. is useful in this connection. SOURCES OF FINANCES FOR DEVELOPMENT. (VIDE TABLE 6.1.) Revenue surpluses could be mobilised during 2nd Plan period due to bold taxation policy of State Govt. Larger finances for development could be made available since demands for wage increases

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TABLE No. 6.1 - FINANCING THE PLANS OF ANDHRA PRADESH. (Rs. in Crores)

**PART - A.**

<table>
<thead>
<tr>
<th>Source of finance</th>
<th>2nd Plan.</th>
<th>3rd Plan.</th>
<th>4th Plan.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>O.E.</td>
<td>R.E.</td>
<td>O.E.</td>
</tr>
<tr>
<td>Current Revenue surplus</td>
<td>5.10</td>
<td>24.30</td>
<td>14.77</td>
</tr>
<tr>
<td>Addl. Taxation</td>
<td>9.06</td>
<td>24.49</td>
<td>38.00</td>
</tr>
<tr>
<td>Public Loans</td>
<td>26.70</td>
<td>28.91</td>
<td>40.00</td>
</tr>
<tr>
<td>Small Savings</td>
<td>5.00</td>
<td>11.11</td>
<td>17.50</td>
</tr>
<tr>
<td>Misc.Cap. receipts including withdrawal</td>
<td>2.40</td>
<td>-4.68</td>
<td>-26.50</td>
</tr>
<tr>
<td>from current revenues</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Contribution from public enterprises</td>
<td></td>
<td></td>
<td>6.23</td>
</tr>
</tbody>
</table>

**TOTAL.** 48.80 84.13 90.00 78.41 140.26

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**PART - B.** (columns same as above).

<table>
<thead>
<tr>
<th>Source of finance</th>
<th>2nd Plan.</th>
<th>3rd Plan.</th>
<th>4th Plan.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>O.E.</td>
<td>R.E.</td>
<td>O.E.</td>
</tr>
<tr>
<td>Total Plan outlay.</td>
<td>175.74</td>
<td>185.01</td>
<td>305.00</td>
</tr>
<tr>
<td>States Resources</td>
<td>48.80</td>
<td>84.13</td>
<td>90.00</td>
</tr>
<tr>
<td>Central grants and loans and other tax</td>
<td>106.94</td>
<td>80.88</td>
<td>170.00</td>
</tr>
<tr>
<td>transfers</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>F.C.'s. grants</td>
<td>20.60</td>
<td>20.00</td>
<td>45.00</td>
</tr>
</tbody>
</table>

Sources: (1) Memorandum submitted by Govt. of A.P. to F.C. (1957) and (1962), as well as (1965).
(2) "Review of 2nd Five Year Plan" by Bureau of Economics and Statistics, Govt. of Andhra Pradesh.

*Includes tax transfers by Union Govt. under recommendations of F.C.

**NOTE:** O.E. = Original Estimate.
B.E. = Revised Estimate.
were pressed only at the later years of 2nd Plan. Transfers from Union were also substantial. The measures of additional taxation were mainly directed towards agricultural sector. Sales tax structure and Motor Vehicle Tax structure were also reorganised. Consequently, additional taxation was 155% over and above the original estimate. In an atmosphere of overall and initial stages of economic prosperity, small savings which were till then not exploited fully yielded substantial additional resources. Public loans just exceeded their targets. Overall picture of 2nd Plan financing was, therefore, satisfactory. Third plan financing, per contra, was not so much encouraging. Revenue surpluses (revised) were far below their original estimates. Additional taxation measures taken by Govt. during that period were expected to yield Rs. 47 crs. as against the target of Rs. 53 crs. Mobilisation through Small savings, and public loans were according to the targets. Since the overall performance of State was below the targets, transfers from the Union had to increase to the extent of short-fall. Impact of the performance of 3rd plan could be clearly seen by the way the targets for additional taxation and Small savings during 4th plan were fixed. Alternatives available to State Govt. were either a recourse to Market loans or increased dependence upon Union for larger devolutions through Finance Commissions.

**PROJECTION OF REVENUES DURING 4TH PLAN PERIOD.**

While this is the picture presented by trends, the scope for additional taxation based on the concepts of elasticity and buoyancy of tax and non-tax Revenues are estimated and the results are given in statistical Appendix No. 5 and $6(A:B)$. 
The comparison in the table 6.2 below clearly shows that the likely gap in resources is over-estimated and the actual results are under-estimated which has resulted in an increase in the financial gap of resources to the tune of Rs. 17.55 crs. According to the elasticity and buoyancy approach, under-estimation took place in the Tax receipts of the State. According to State's memorandum the final gap in resources on Revenue A/c was Rs. 53.63 crs. According to my present estimate, the gap may be of the order of Rs. 36.10 crs., which has to be covered by the recommendations of F.C. The Finance Commission (1965) also arrived at a final gap in the resources of A.P. Govt., after making various calculations and placed the gap at Rs. 36.10 crs.¹ The present estimate is very close to the gap as estimated by Finance Commission which shows that Buoyance approach is helpful in estimating future revenues of any State Govt. in a federation during short periods.

<table>
<thead>
<tr>
<th>TABLE No. 6.2 COMPARATIVE STATEMENT OF ESTIMATE OF RESOURCES (Rs. in crs.)</th>
<th>A.P. State's Present estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>State's taxes.</td>
<td>364.90</td>
</tr>
<tr>
<td>Non Tax Revenues.</td>
<td>193.05</td>
</tr>
<tr>
<td>Grants from Union (Non-plan)</td>
<td>1.50</td>
</tr>
<tr>
<td>Total Revenue for 5 years.</td>
<td>559.45</td>
</tr>
<tr>
<td>Expenditure.</td>
<td>739.60</td>
</tr>
<tr>
<td>Gap in resources (Rev. A/c.)</td>
<td>180.15</td>
</tr>
<tr>
<td>Gap in plan finances.</td>
<td>114.00</td>
</tr>
<tr>
<td>Total gap.</td>
<td>294.15</td>
</tr>
</tbody>
</table>

Difference between these two estimates is Rs. 17.55 crores.

SCOPE FOR REALISING TARGETS OF TAXATION.

Now let us examine whether the same position as estimated is likely to prevail or not. As regards to additional taxation, the targets set by State Govt. was a modest amount of Rs. 45 crs., "since all major sources of tax revenue in the State field viz. land Revenue, Sales tax, Motor vehicle tax etc., have already been exploited to the utmost extent1 part of the additional tax revenue was anticipated through collection of arrears. Arrears as on 1-4-64 on account of land revenue were Rs. 5.13 crs., Sales tax Rs. 3.31 crs. and State excise duties Rs. 3.45 crores and their total amounted to Rs. 11.59 crores. Since they were already accounted for in the estimation of resources for the year 1965-66, part of it might have already been collected. In view of general adverse conditions in agriculture during 1965-66 due to failure of rains, major share of Land Revenue (arrears) collection is likely to be postponed or written off. Possibility for writing off land tax is more since even in the normal (and better) year 1963-64 Rs. 80 lakhs were written off. Hence entire Land revenue arrears may not be realised at all. On the contrary Taccavi loans may have to be advanced to poor farmers in drought affected areas, besides undertaking some other relief works by State Government,2

The scope for additional taxation may be viewed as the scope for (a) increasing the tax rates (b) widening the tax bases and (c) imposition of new taxes. Given the rationale that the case for additional taxation lies on the assumption that the comparative

1. Memorandum to F.C. (1965) by Govt. of Andhra Pradesh, p. 27.
2. In this context the move of Madras Govt. to abolish Land Revenue and similar eagerness shown by other State Govts. (Punjab) may be mentioned. As regards to A.P., this move will be unrealistic and impossible since substantial share of revenue is derived through land revenue by the State Govt.
burden of taxation on the units is less either at current rates or at currently defined base and coverage; the scope as mentioned above may be examined with reference to each tax of Andhra Pradesh. However quantification of the proposals has not been undertaken, here.

(1) **LAND REVENUE**: This source has been extensively exploited both by State and Local Govt. (by way of local cess and surcharges for education). Present system of Land revenue is rationalised and standardised on the lines suggested by T.E.C. Assessment is based on standard rates of assessment which provides for additional levy for dry and wet assessments. Nevertheless scope for augmenting revenues from this source are explored below. The fact that the Land Revenue system of A.P lacks uniformity in assessment can be seen from the variations in the minimum and maximum rates of Land revenue on cultivated/(under wet and dry forms of cultivation) both in Telangana and Andhra areas. Further, rates vary from district to district. Thus in those cases of Andhra area lands using lifts for water the rate varied from Rs. 3.42 Ps. to Rs. 10.28 Ps., while in Telangana, for lands using canal water the rate varied from Rs. 6.85 Ps. to Rs. 18.85 P. The minimum rate of Land revenue per acre of dry and wet land is very low that any first step in the reformation of Land revenue should be concerned with this aspect.

Here the issues involved are: Whether a higher minimum uniform rate for all varieties of land should be first fixed and then variations in the quality of land, variety of crops, method of cultivation etc., should be taken into account for assessing additional levies or

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1. Minimum rate of assessment of dry land in Andhra area is 19 Ps., per acre while the maximum rate for dry land is Rs.10/- per acre. Similarly rate of assessment of wet lands vary within the range of Rs. 1.12 ps. to Rs. 14.25 ps. In Telangana maximum and minimum rates of L.R. for dry lands are Rs.0.64 ps. and 2.67 ps., respectively. Corresponding wet rates in Telangana are Rs.2.51 ps. and Rs. 18.85 ps. Gardens are also taxed separately in Telangana. Even here, the sources of water supply is the guiding principle for varying rate of assessment. Gardens that received water supply from lifts are charged at a relatively low rate than those that used canal water supplied by Government.
the present rate structure should be continued without any further alterations.¹ Surcharge on lands used for raising commercial crops (which is now repealed by the latest Act) is not based on the value of the product or crop but is levied on the basis of area, i.e., acre. Even here the rates of surcharges or special charges appear to be quite nominal.² Since some commercial crops enter into inter-district, inter-state and international trade and as economy develops the demand for these commodities increases, the easiest method of taxing agricultural incomes is taxing the owner of the land yielding that product rather than the product itself. Additional revenue mobilisation by State Govt. can be achieved by raising the rates of levy of special charges on commercial crops. During the early stages of development, food requirements are essential part of plan targets, this objective can also be achieved by levying additional rates on commercial crops.

(2) TAX ON NON-AGRICULTURAL LAND:— This tax is based on division of areas by population and functional groups. The scope for additional taxation by way of rate increases exists in re-classifying local areas by residential and non-residential Zones and levying additional taxation per sq. yard on commercial and industrial uses of land in residential zones. This measure besides providing certain revenue to State enables development of functional zones in local areas. This land use tax for non-agricultural purposes should be extended to all areas irrespective of the size of population. Alternatively local Govts. should be allowed to levy this tax along with the property tax since they are appropriate units to levy this tax.

¹ Former should be favoured and special surcharges should be levied only for marginal purposes implying that they should form a minor share of total tax proceeds.

² For example, the surcharge levied on land growing tobacco is only Rs. 5/- per acre, even though higher quality of tobacco bringing higher income to the farmer is grown on that plot of land. Maximum special charge of Rs.5/- is levied on lands growing sugar cane, turmeric and onions.
(3) BETTERMENT LEVY: While the rate of taxation is acceptable
the method of charging betterment levy is open to criticism. (a) Finan­
cial limit of the work or project of Rs. 1.50 lakhs is reasonable, but
minimum ayacut area that is likely to benefit should also be specified
for each work; otherwise the public or the land owners may have to
bear the wastages in public expenditure on the small projects. (b) This
limit should be revised according to price changes and area to be
benefited. (c) The method of assessment of change in the value of
lands is open to serious objections. Since market value of lands at
two periods of time does not reflect real changes in the capabilities
of the land; however nearer it may be to reality the recorded rates
of transaction may always be less than actual or market value of
land. Therefore, there is need for finding appropriate method of
assessment. Probably, betterment may be felt by way of additional
yield of the land or the ease with which different crops can be grown.
When there is marked change in the yield or change in the crops
(normally for better once) benefits can be estimated by the differen­
tial yield of revenue of a representative farm or farms in that
project area over the next decade under the given assumptions of
given prices for different crops. This differential benefits due to
land may be taxed as the betterment levy. As per the Act, 50% of the
increment in land values may be taxed. However, the method of levy,
if improved, may result in improved revenues to State Govt.

(4) STATE EXCISES: Since this is mainly a policy variable,
the base and rates are purely governed by State's policy. Hence
its scope cannot be explored.

(5) SALES TAX: Based on revenue requirements, demand,
production, effect on local business activity and incentives to
start new industrial units within the State, the point of levy
may (from single point to multi point or double point levy) be altered
as was shown below.

(A) 1. Single point S.T. on stainless steel articles @ 5% may be changed to multi-point levy at 3%, to mention a specific case, if it is desired that higher income groups have to be taxed more than what they have been paying at present under single point levy. Changes in the point of levy may thus be employed to subserve revenue and distributional purposes.

2. Sales Tax on matches was collected formerly @ 3% of the turnover of the sales and in 1963-64 it was changed from single point to multi-point at reduced rate of 2% on the turnover. The conclusion that can be drawn from above examples is that the system can be changed to suit the revenue needs and economic conditions. Future policy consideration regarding selection and/or alternation of the point of levy may be one of careful balancing between revenue requirements, control of incidence, changes in organisation of trade and business, mopping up of surpluses from the mass of population as well as diverting the investment process into desired alternative channels, besides efficient administration.

(B) Out of industrial raw materials lime stone is not taxed at all. If royalty rights are exercised by Govt. this may be utilised for additional taxation on the product removed from Govt. quarries. Since the annual production is quite significant there exists revenue potentiality.

(C) Third alternative is to review exemptions which are normally granted (1) as a matter of incentive to infant industry (2) articles sold to or purchased by charitable, religious, and educational institutions, (3) on articles which have political stigma. Accordingly repeal of exemption on salt from Sales tax on a single point basis at a lower rate say @ 1% may be advocated. Secondly sale of

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1 Refer D.T. Lakadawala "Taxation and Plan", p. 24-26 on this point.
energy to industries that may be considered as non-essential may be charged at a higher rate.1 When tax measures of other States are considered, exemption of Sales tax on all varieties of textiles is not justified. Sales tax may be levied on cloth (both Handloom and power-loom) that is not liable to Central excises.

(D) Lowering of turnover limit to Rs. 10,000/- for the purpose of taxation has not been accepted by the Govt. of A.P. on the plea that the cost of collection would mount up. The suggestion made by Prof. Lokanathan for simplification of accounting procedure for small dealers may result in development of financial accounting even by small traders, but his suggestion will only help the assessment of Sales tax. If the accounts as presented by the trader are less than Rs. 10,000/-, then and there itself the tax assessment can be made at a flat rate of 3 or 4% on the actual turnover at least as a measure to cover the cost of administration. The very fact that the turnover does not reach the assessable limit, can be decided only after a detailed scrutiny of A/cs., makes the matter easy for the purposes of assessment. Small traders whose turnover was less than Rs. 10,000/- were 12,774 in 1959-60 and they contributed an amount of Rs. 9,23 lakhs to the tax revenues which forms 1% of the total S.T. receipts.

(E) ALTERING THE RATE STRUCTURE: Normally the selection of point of levy gives simultaneously the rate of levy of S.T. on any particular commodity. Prof. Lokanathan observed that the rate structure should be so designed as to prevent the flow of trade to adjoining States and thereby avoiding the tax payment in the State of origin and/or gaining, the incidental benefit of lower taxation in the

1. Bombay levied Electricity duties on the textiles since the cost of consumption of electricity in that industry is relatively small as compared to other costs. (vide RBI, May, 58, p. 809-25) Electricity consumption by these commercial and other units (service type) may be charged at a higher rate.
However, it is not always possible to frame the tax structure on above lines. For example, raw materials produced in other States may be required to feed the local industries whose products are mostly consumed locally. So far as rate structure is concerned, uniformity, despite its apparent desirability, is not practicable and a type of incentive tax rate may be economically necessary and politically unavoidable. Changing composition of income groups in the total population of a State should also be another guide for the policy purposes in altering the rate of tax on any single article, so as to decide whether the rich, middle or poor class are to bear the larger share of additional tax burden.

6. MOTOR VEHICLE TAX: Tax rates were revised through an integrated A.P. Motor Vehicle taxation Act, 1963, it was expected to yield Rs. 11.25 crs. during 4th plan period. Scope for additional taxation exists as under. (a) Tax rates: Under this category, if the proportion of Motor vehicles not plying for hire or reward increase in the total then revision of the rate structure may be considered. (b) Tax on passenger vehicles may be increased if the traffic requirements are beyond the capacity of publicly operated vehicles to even-out the demand. However, the impact of the increase in passenger tax on Motor vehicles should not be allowed to divert the traffic to railways. This defeats the purpose by reducing the earnings and hence of profits of A.P.S.R.T.C. (where it is operating) or private transport companies whose contribution to the State exchequer would diminish directly. It would result in a permanent loss of revenue since the railway earnings do not find their way to State's coffer in the same proportion. Tax on railway passenger fares, which was centralised enabled States only to get a fixed amount of grant from

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Centre (which was fixed at Rs. 1.11 crs., per year for Andhra Pradesh). Therefore any diversion of passenger traffic from road transport to railways is not at all beneficial to the State's revenues. Taxation of Motor vehicles should be considered from the transport requirements of production within the State's economy. Since the bulk of goods transported by Motor vehicle companies are agricultural commodities their fortunes are also fluctuating with the agricultural production. Therefore any attempt at increasing or equalising the tax rates with those of adjoining or industrial State would only jeopardize the transport earnings of this section. From the above description it is clear that there is not much scope for additional taxation.

(7) TAX ON MOTOR SPIRIT: - The rates are already high and there is not much scope for additional taxation.

(8) ENTERTAINMENT TAX: - The tax rate is in accordance with the recommendations of T.E.C. During 1965-66 its rates in Telangana area are increased for the purpose of strengthening local finances. The rate structure of entertainment tax may further be enlarged to allow few more rates. The cinema show tax in towns with population above 50,000 may be raised to Rs. 5/- A tax separate tax on commercial documentaries shown in theatres at a nominal rate of say Re. 1/- per day per film may be levied.

(9) BETTING TAX: - There is no scope for further changes in the rate structure excepting that it requires strict enforcement of rates.

(10) ELECTRICITY DUTY: - Exemption of commercial undertakings from the payment of electricity duty may be reconsidered. This remark relates to exemption given to Railways and Unions Departments; for the exemption of non-commercial units of Central Govt. or local Govt. has some justification.
(11) REGISTRATION AND STAMP DUTIES: - Registration fees are quite high and hence there is no possibility for variations in its rate structure. However, tax avoidance in transactions involving huge amounts that require larger stamp duty and registration charges is taking place. There is need for prevention of avoidance of tax by a provision of penal levies on both the parties to the transaction may be considered.

(12) AGRICULTURAL INCOME TAX: - This has not been levied by Govt. of A.P. The need for exploiting this source has been mentioned not only to augment State's revenues but also to bring about a balance in rural and urban taxation. It was imposed in Telangana area but it was repealed in 1957. Potentialities of this tax are not fully estimated and systematically exploited. The reason for the repeal was stated that consequent to the abolition of jagirs, revenue from this source in Telangana dwindled while it involved larger and uneconomic collection charges. Consequent to the enforcement of A.P.I.R. (Addl. Assessment) and Cess revision Act, 1962 from 1-7-62, surcharge as per A.P.I.R. (surcharge) Act, 1957, which was substituted in the place of Agricultural Income Tax in Telangana was also not collected. Hence the land owners in Telangana have benefited to some extent. This situation has to be changed by uniform enactment of Agricultural Income Tax for the entire State. As a step in that direction State Govt. may may direct Panchayat Raj bodies particularly Z.Ps. and P.Ss. to probe into the possible potentialities of this source if it is handed over to them for exploitation. In fact local knowledge as to the size and ownership of holding, crops raised, market value of crops, cost structure etc., are prerequisites for the proper assessment of this tax. Here the issue is whether it should be

1. It is observed that this tax may be used to serve equity principle in Indian tax system. Vide "Agricultural Income taxation in India" in R.B.I. Bulletin, August, 1963.
allowed to be levied as a special charge on land revenue or should be levied as a special tax. It is desirable to develop this as a separate tax which may in future help the unification of Income tax structure of the country as a whole.

(13) A NEW TAX SUGGESTED: While the existing sources of tax revenue as well as improvements suggested therein may bring in some additional revenues to the State Govt., effort must always be made to find new and fruitful sources of revenue to the State. From this viewpoint, a tax on conversion of agricultural lands for non-agricultural or residential and other purposes may be made liable to a special levy. Since this type of conversions of lands are mainly used for speculative purposes, the land values are artificially boosted. If not for preventing the speculation, at least to gain a monetary advantage from the speculation and incidentally curbing the speculation to the undue extent, the State Govt. may levy a special charge. The scope for levy of this tax is ample since location of projects, both in the public and private sectors, cause speculative dealings resulting in conversion of Agricultural lands for non-agricultural purposes. This tax may be levied by State Govt., which is the appropriate level. This tax may be called as "A special tax on conversion of Agricultural lands".

NON-TAX REVENUES; PUBLIC ENTERPRISES:

(14) FORESTS: Since the future demand pattern for the products of forests is likely to change as economy develops, to ensure adequate revenues from forests the supply pattern of forest products should also be so planned as to cope up with the changing demand patterns. Particularly a positive afforestation policy, together with a policy for prevention of continuous depletion or exhaustion of forest wealth must also be followed. The afforestation policy should take note that forest products which constitute basic raw materials for industries must be given priority since in Andhra
Pradesh 12% of the employees of Small Scale Industries (1960) are dependent upon forest products for their livelihood.

(15) ELECTRICITY: - As the financial working of A.P.S.E.B. since its inception in 1959 presented an unhappy situation with a recurring loss every year, 'Working papers' analysed its financial conditions with a view to examine the scope for improvement. They are as follows: -

(1) While its structure of receipts reveal the significance of industrial consumption power, as they rose from Rs. 178 lakhs (32% of gross receipts) to Rs. 285 lakhs (31% of the gross receipts) in the year 1959-60 and 1962-63 respectively, other classes of power consumption also showed a gradual increase. But percentage variations from year to year do not show progressive increase.

(2) On the Revenue expenditure side, increase in costs of maintenance are attributed to various reasons. (a) High cost of fuel and materials. (b) High cost of maintenance of thermal and diesel stations which are uneconomical. For instance, running costs of diesel set is more than 4 times that of Hydro and Steam stations. Operation costs of Thermal stations are very high as the plants are old and more operating personnel are required to man such stations. (c) While the operating costs are increasing as well as high, tariffs charged by A.P.S.E.B. remained unaltered during the period, which resulted in lower gross revenue. Whereas in Madras the rates were changed 4 times during 1959-63 to meet the changing cost conditions. Thus it is suggested that a revision of tariff is imminent. (d) Coal power plants in A.P., according to N.C.A.R., operated at an overall efficiency of 11% as against all India figure of 19% which is another reason for present financial position. (e) The cost of

1. Cost of coal increased from Rs. 38.76 ps. to Rs. 42.73 ps. per ton during 1958-60 to 1960-61 at Hussain Sagar power house at Remagundam Power house the price varied from Rs. 32.11 ps. to Rs. 31.96 ps. per ton with its peak cost of Rs. 32.47 ps. per ton in 1960-61.
rural electrification are higher as compared to Madras State. "power has to be carried to far off places and the load demand is not adequate to meet the cost" and "even in absence of demand the staff has to be maintained". Receipts from Agricultural loads constitutes only 5 to 6% of total receipts while their initial costs of electrification are higher. (f) The rate of interest and depreciation charges are a heavy burden on the electricity undertakings. These are long term projects involving huge investment of capital. Total interest charges constituted 78.05% and 36.03% of total gross receipts during the years 1957-58 and 1964-65 respectively. (g) In Andhra Pradesh the loss of power during transmission is very high. In 1960-61, 23.50% of power sent out was lost which directly contributed to the loss of revenue. (h) Because of these several factors the unit cost of power generated was high at 0.16 ps., 0.14 ps. and 0.15 ps., respectively during 1959-63. If all these inefficiencies could be removed the unit cost of supply of power could have been 0.10 ps., 0.09 ps., and 0.07 ps., respectively during that period. On the other hand receipts per unit supplied amounted to 0.12 ps., 0.11 ps., and 0.12 ps., respectively during that period. (i) Further, electricity duty levied by the State Govt. on the sale of power by the Board has resulted in the increased unit cost.

From the above, scope for further improvements in finances is evident. The line of approach is (a) to increase the operating efficiency of Thermal and Coal plants. (b) To revise the tariffs with favourable differentiation towards industries in general and rural industries in particular. (C) Complete removal of rebates. (d) Technical enquiry into the loss of power during transmission for locating and preventing its loss.
(17) ROAD TRANSPORT: Comparative performance of Road transport undertakings in other States, as revealed by 'Working papers', indicate that higher working expenses are due to higher S.T. on spare parts purchased by A.P.S.R.T.C., at 10% as against the payment in Madras by R.T.C. at 2% only. The difference is due to the differential treatment of State's commercial undertakings. In Madras it was treated as a Government department, while in A.P. it is an autonomous body. A.P.S.R.T.C. has taken up all routes irrespective of their profitability, which is against the very fundamental principle of any commercial undertakings. 1 Bad condition of roads is another reason for high operational costs. 2 Further loss of revenue was mainly attributed to city services which always run on loss. A study of those services shows that there is heavy traffic in one direction only during peak hours and usually very little traffic on return trips. 3 This aspect indirectly brings out the problem of Metropolitan spatial planning, in general and location of administrative, commercial and educational activities in particular.

Loss in case of city services in Hyderabad and Secunderabad is a social loss due to wrong planning and therefore remedy lies either (a) in changing the pattern of location and/or timing of offices or the spatial distribution of public and private enterprises or (b) subsidising loss to A.P.S.R.T.C. on this account or (c) allowing

1. The principle of "no profit and no loss" basis has been discarded. T.E.C., Vol. I, chapter 10 gave implicit support to this policy; also refer A.K. Das Gupta on this aspect in E.W., July 1959, p. 974.

2. This directly brings the functioning of another departments of Govt. of A.P., viz. P.W.D. (Highways section) and overall expenditure on road development by different bodies. Since the scope for fraudulent practices is ample in road works, need for control and supervision by departmental authorities as well as private bodies (like Automobile users and A.P.S.R.T.C.) and general public in road development and maintenance programmes cannot be ignored. This is more so when part of the receipts from M.V. Tax are earmarked for development of Roads by State Govt. Incidentally it may be suggested that a separate tax on those vehicles that cause damage to roads may be considered for levy.

it to enhance the rates to city services alone so as to cover the
loss (provided that losses due to inefficiency and other reasons
could be isolated). Improvement in the finances of A.P.S.R.T.C. can
be affected by checking pillferage which amounted to Rs. 8 lakhs or
0.2% of the revenue earnings in 1962-63. Another suggestion may
relates to that of making Drivers of vehicles responsible for the
operational efficiency.

FINANCIAL ADJUSTMENTS TO MEET REQUIREMENTS OF DEVELOPMENT
OF ANDHRA PRADESH.

Now, given the gap in resources, revenue capacities of exist­
ing sources and the possibilities of mobilising additional taxation,
financial adjustments have a positive role to play. Given the fed­
eral spirit the present issue relates as to how the gap in resources
can be abridged? Whether there is any chance for altering bases of
distribution of optional taxes that can help the State positively.
If not what alternatives are left? Views on financial adjustments
are therefore briefly mentioned.

The problem of financial adjustment with reference to gap in
resources necessitates the review and changes that may be made in
the bases of distribution of divisible pools and tax rental agree­
ments. It may be cautioned here that change in the basis of dis­
tribution of tax proceeds cannot be considered with reference to
needs of any single State.

INCOME TAX: While the per centage of proceeds to be shared
in between Union and States is determined by F.Cs, the distribution of
proceeds in between States, the main issue is the selection of
basis itself, i.e. collection or origin and population. Collection
basis has received new support from Maharashtra; it argued that since
corporate incomes have been excluded from divisible pool, income tax
proceeds represent only personal incomes that are purely of local origin. Therefore, it pleaded, for the removal of population basis and the replacement by collection basis. This can be done if only the deviations in per capita income tax collections between wealthy and poor regions are just 5-10% either side of the All India per capita income tax collections. But under the existing system, per capita Income tax collections vary very widely; hence population basis has to be retained in tact. The variances in per capita Income tax collections have to be provided since historical lesson of American federation is that variations between incomes of regions are bound to exist.1 If the needs of A.P. alone were to guide the distribution of Income tax proceeds (which is untenable) the proceeds of Income tax should be distributed on the population basis.

**UNION EXCISE DUTIES:** - Memorandum submitted by A.P. Govt. points that the rate of growth of Union excise duties that are shared with States is smaller than those that are not shared; further it was stated that special excise duty collected, since Finance Act, on tobacco, Motor spirit, diesel and vaporising oils, cements, tyres and tubes, motor vehicles and papers increased from Rs. 3.13 crs. to Rs. 59.24 crs. In view of these disparities it was suggested that all union excise duties (basic or special) should be made divisible on population basis and the ratio of distribution between Union and States being 50:50.

**ADDITIONAL EXCISE DUTIES:** - Govt. of A.P. pointed that the method of compensation adopted by F.C. resulted in a loss to the State. According to it, S.T. receipts on sugar, textiles and tobacco constituted 42% of the total S.T. receipts and that had these commodities not been surrendered to Union, Govt. of A.P. contends, that

1. Vide M.O. elements article on "Inter-state fiscal equity and federal grant in aid" in Southern Economic Journal, April, 1963.
they could have earned Rs. 696 lakhs in the year 1963-64, while
the compensation given to the State was only Rs. 315.73 lakhs.
Based on these facts State Govt. argued that compensation should
take into account not only the growth of sales tax receipts "but
with reference to the estimated income from these commodities in
proportion to the growth of revenue from the Sales tax from year
to year in the State". This aspect has to be given serious con-
sideration.

TAX ON RAILWAY FARES: - Govt. of Andhra Pradesh feels that
fixed grants are not just and therefore demands a share in the
annual growth of income from this source which accrues to the
Union as a result of expansion of business activity in the States.
Their distribution should be a fixed percentage of the total tax-
income to Railways on passenger fares rather than a fixed sum
being distributed in a given percentage between the States.