

Restructuring State Finances in Andhra Pradesh

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The focus of reforms has shifted from the centre to the states in their second stage. Andhra Pradesh is one of the leading States of the country. The policy-makers of the State are engaged in the formulation of vision-2020. The elimination of the projected deficits in regard to infrastructure, industries and services sectors will require finances of a huge order. A study of the finances of Andhra Pradesh reveals that they are in great disarray. The continuing revenue and fiscal deficits have resulted in halting the economic march of the State. The performance on the revenue-raising front has been very tardy, both due to lack of effective tax administration and absence of innovativeness in levying new taxes. The buoyancy coefficients of the State's own revenue has turned out to be lower as compared to the other major states of the country. The public expenditure management is not in a healthy shape. The incidence of budgetary subsidies has been rising year after year. The losses incurred by the SLPEs have been on the increase. The expenses on salaries and pensions have recorded an exorbitant growth. The paper discusses, among other things, various strategies to effect such a revamp, paying the way for a sound fiscal management in Andhra Pradesh.

I Introduction

For the turn around of the Indian economy, a cautious policy of economic reforms was initiated in 1991. It was then believed that economic reforms at the Central level would bring about the desired results by reshaping the different elements of the Indian economy. However, things have turned out differently indicating the ineptness of our reforms process. Fiscal management at the Centre, has in recent years become an uphill task, more so with political instability, populist policies, fiscal indiscipline and low tax collections ($Tax/GDP = 0.1$). The recent pay revision of the Central Government employees (Fifth Pay Commission Recommendations) adds to the woes. The situation appears more grim if we take a look at the State finances. As India is no longer a Centrally dominated economy, it is necessary that reforms at the Central level percolate down to the States. The combined effect may provide a new fillip to the ongoing reform process.

This paper attempts to review the state of finances of Andhra Pradesh (AP) and suggest ways and means by which the State Government may bring about a restructuring of the public finances so as to restore budgetary balance and maintain macro economic stability.

II Growth

The growth impulses of AP have slowed down considerably. The country as a whole, on an average, had a growth rate of 5.6 per annum between 1980-1981 and 1996-97. Andhra Pradesh registered an average growth rate of 4.7 per cent during this period (Annex-1). The six fastest-growing states, namely, Haryana, Karnataka, Maharashtra, Punjab, Rajasthan and Tamil Nadu, obtained an average growth rate of 6 per cent during the

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