Budgetary Surpluses of Telengana

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The purpose of this paper is not so much to give a precise estimate of Telengana surpluses as to attempt a clarification of some of the main issues relevant to this problem and to suggest a procedure for estimating the surpluses.

Limitations of data, especially those arising from the allocation of joint expenditures, will have to be overcome before the true figure of Telengana surpluses can be arrived at.

The analysis attempted in this paper does, however, suggest that the surpluses could be substantial. Even if a 20 per cent margin of error is applied to the estimate made here, the surpluses would amount to not less than 64 per cent of the Third Plan outlay for Telengana.

THERE have been complaints that the Telengana region has not got its due share in the public expenditure of Andhra Pradesh State ever since its formation in 1956. At the request of the State Chief Minister in January 1969 for an independent investigation, the Comptroller and Auditor General of India deputed K Lalit, an officer of the rank of Accountant General, for determining the exact quantum of Telengana surpluses for the period from 1-11-1956 to 31-3-1968. These surpluses (or the difference between the amount that ought to have been spent and the amount actually spent for Telengana) were to be computed on the basis of the principles agreed to by all the political leaders on January 19, 1969. Lalit submitted his Report in March 1969. Apart from his estimates of Telengana surpluses, Lalit's Report contains comprehensive data regarding annual receipts and disbursements under major heads for the 12-year period.

In the wake of widespread discontent in Telengana, the Government of India constituted a high-powered committee in April 1969, under the Chairmanship of Justice V Bhargava, to determine the Telengana surpluses for the period from 1-11-1956 to 31-3-1968; to determine the sum which ought to have been spent on the development of the Telengana region but remained unspent on March 31, 1968; and to evolve and recommend precise principles for determining such surpluses in future. The Committee is now working on the problem and is expected to submit its report shortly.

Meanwhile, sharp differences of opinion have persisted between the Government of Andhra Pradesh and the Telengana Regional Committee (also called the Andhra Pradesh Regional Committee consisting of the members of Legislature from Telengana) concerning the criteria for the allocation of receipts and expenditure between the Telengana and Andhra regions. Neither the Government nor the Telengana leaders scrupulously adhered to whatever understanding and agreements had been arrived at. The criteria have been revised frequently from both the sides.

This paper is primarily an attempt to examine these principles from the standpoint of an economist and to suggest a procedure for estimating Telengana surpluses. An attempt has also been made to estimate the magnitude of Telengana surpluses by using this procedure. The data used are those contained in Lalit's Report which has since been published by the Government of Andhra Pradesh.

We use the term 'Budgetary Surpluses' to include surpluses on Revenue as well as Capital account. These 'surpluses' should not be taken to mean amounts which have remained unspent in Andhra Pradesh and have been accumulated into reserves for the purposes of future developmental expenditure, for, no such accumulated reserves seem to exist in Andhra Pradesh now. Telengana surpluses are the amounts which ought to have been spent in Telengana but have been diverted for expenditure in the Andhra region. Therefore, these surpluses represent the difference between the *due* share of Government expenditure for Telengana and the *actual* share. It is clear that such surpluses, if any, represent over-expenditure in the Andhra region. These amounts would have to be reimbursed from the future budgetary share of Andhra region for purposes of expenditure in Telengana if the balance in public expenditure between the two regions is to be restored.

I
Telengana Surpluses on Revenue Account

For estimating Telengana surpluses on the Revenue account we follow the principle laid down in the Gentlemen's Agreement of 1956 that "the balance of (revenue) income from Telengana should be reserved for the expenditure on the development of Telengana area". We use the figures of revenue receipts and expenditure given in Lalit's Report. This means that the procedure followed by the Government of Andhra Pradesh for allocating receipts and expenditure to the Andhra and Telengana regions remains unmodified. This procedure is open to criticism in certain respects. It is free from criticism in regard to many items which are specific to each region: Land revenue receipts and expenditure on schools or minor irrigation are among such heads. The difficulty arises in regard to the receipts accrued and expenditure incurred jointly for the State as a whole. For instance, the State's share in Union Excise Duties, grants-in-aid from Central Government, etc, and the expenditure relating to general administration have been apportioned between the Andhra and Telengana regions in the 2 : 1 ratio. This is assumed to be the population ratio between the two regions and was affirmed time and again by the Government as well as the Telengana leaders.

However, according to the 1961 Census the population of Telengana constituted 35.3 per cent of the State population[1] as against 33.3 per cent implied in the above ratio. The discrepancy of 2 percentage points in the allocation of receipts and expenditure over a period of 12 years can make a significant difference to the magnitude of surplus or deficit. This will become clear later in this paper. The apportionment of capital expenditure on 2 : 1 (66.7 : 33.3) basis yields a deficit of Rs 14 crores for Telengana whereas apportionment on the basis of actual population (i e 64.7:35.3) turns this deficit into a surplus of about Rs 3 crores. The use of 2 : 1 ratio is, therefore, inequitous, especially because nearly 80 to 90 per cent of revenues accruing from the Central divisible pool and other Union taxes are distributed among the States strictly on the basis of population.

However, we had to use the figures as they are because there is no way of identifying from the available data all the heads, especially in regard to expenditure, which have been apportioned on the 2 : 1 basis. There is no doubt, however, that a reallocation of receipts and expenditure on the basis of *population* is called for in the interests of equity. Our estimate of revenue surplus would thus be subject to revision on this account.

A major point of controversy in regard to the allocation of receipts relates to the grants-in-aid from Central Government under Article 275 of the Constitution. Lalit has argued that "successive finance commissions had recommended the payment of grants to State Governments to cover revenue gaps. Strictly speaking, the amounts received from the Government of India under this head insofar as statutory grants are concerned should be allocated between the two regions, on the proportionate overall revenue gap existing between the two regions . . ."[2] However, Lalit followed the prevailing practice of apportioning these grants on 2 : 1 basis in view of the agreement to this effect between the Chief Minister and the Chairman of the Telengana Regional Committee. But the question as to how these grants-in-aid ought to be apportioned remains unresolved.

It is true that successive Finance Commissions have recommended these grants to States for meeting a substantial portion of deficits in their Revenue budgets. The Third Finance Commission observed, for instance, that "the total amount of grants-in-aid should be of an order which would enable the States, along with any surplus out of the devolution, to cover 75 per cent of the revenue component of their plans".[3] Although Andhra Pradesh had a surplus of about 10 crores on Revenue Account over the 12-year period (see Table 3), it would show a significant deficit if we exclude grants-in-aid from revenue receipts. Therefore, a substantial portion of potential deficit has been covered by grants-in-aid.

However, these grants were intended to cover the *anticipated* deficits during the period of the Plan concerned and not the *actual* deficits incurred in the past. The anticipated deficits were worked out by the Finance Commissions largely on the basis of the projections of revenue and expenditure submitted by the State Governments. The estimates of budgetary gaps were governed by a number of factors such as "the liability arising out of the changed pattern of Central assistance for post-stage II community development blocks . . . grants to universities . . . revision of pay scales in several States, reorganisation of police and district administration, introduction and extension of Panchayati Raj, continuance of subsidised sale of foodgrains, special relief measures, etc".[4]

In their memoranda to the successive Finance Commissions the Government of Andhra Pradesh focused on the needs of the backward regions of the State. The following extracts bear this out :

> "The poverty and helplessness of the ryots in these areas (Rayalaseema and Telengana) is appalling. Irrigation facilities are poor . . . There are no major industries which could provide alternate employment for educated classes and labour in urban areas and the landless poor in the rural areas. Inadequacy of power supply is also coming in the way of development of small industries. Educational facilities, health services and communications are also very poor, particularly in the Telengana area. . . It is hoped that the Finance Commission will make suitable recommendations for special financial assistance by way of additional grants-in-aid to the States which are backward in the fields of industrial development, education, health services, communications, etc . . . This Government requests that besides continuing the grant-in-aid of Rs 4 crores per annum that is now being given by the Centre (under the Second Finance Commission Award) an additional grant-in-aid of at least Rs 6 crores per annum may be recommended for the Third Plan period to cover at least a part of the anticipated deficit."[5]

It is thus clear that the State Government requested for grants-in-aid in order to cover part of the *anticipated* deficit as a result of expenditures *planned* mostly for the development of backward regions. In practice, however, the expenditure pattern was such as to create a sizeable revenue deficit for the Andhra region and surplus for the Telengana region. Table 1 shows that whereas revenue receipts of Telengana (including one-third of grants-in-aid) constituted 41.7 per cent of State receipts, its revenue expenditure was only 36.8 per cent of State expenditure. Andhra region, on the other hand, showed a sizeable revenue deficit despite the fact that two-thirds of grants-in-aid are included in its revenue receipts. The distribution of grants-in-aid in proportion to the *actual* deficit is, therefore, unjust.

It may be argued that the areas whose

TABLE 1: REVENUE RECEIPTS AND EXPENDITURE OF ANDHRA PRADESH

(Rs crores)

Year	Receipts			Expenditure		
	Telengana	Andhra Pradesh	Per Cent of Col 1 to Col 2	Telengana	Andhra Pradesh	Per Cent of Col 4 to Col 5
	(1)	(2)	(3)	(4)	(5)	(6)
1956–57	10.94	25.44	43.0	6.45	22.98	28.1
1957–58	22.45	62.33	36.0	18.97	55.11	34.4
1958–59	26.67	67.52	39.5	22.43	63.42	35.4
1959–60	34.52	81.95	42.1	25.98	74.63	34.8
1960–61	33.52	85.28	39.3	30.00	84.98	35.3
1961–62	38.10	85.76	44.4	33.81	90.63	37.3
1962–63	45.07	105.34	42.8	38.38	100.80	38.1
1963–64	50.92	126.59	40.2	42.29	115.94	36.5
1964–65	53.76	131.57	40.9	47.65	127.13	37.5
1965–66	60.87	138.56	43.9	55.55	146.34	38.0
1966–67	70.44	157.25	44.8	63.76	169.67	37.6
1967–68	67.20	165.86	40.5	65.26	171.40	38.1
Total	514.46	1233.45	41.7	450.53	1223.01	36.8

Source: K Lalit: "Report on the Quantum of Telengana Surpluses", Section IV, Government of Andhra Pradesh, 1969.

per capita tax revenue is lower should be given preference for extending grants-in-aid, especially where the lower tax revenue is due to factors such as low per capita income or the introduction of prohibition. The Andhra region, one might argue, deserves consideration because prohibition was introduced in this area. The Third Finance Commission stated, for instance, that in determining the budgetary gap of each State, they had "taken full account of the impact of prohibition on the revenues of the States where this has already been introduced".[6]

It is, therefore, necessary to examine whether the grants-in-aid actually made to different States reveal any precise relationship with their per capita tax revenues. This is important because successive Finance Commissions regarded the tax effort of States as one of the basic considerations governing grants-in-aid. Summarising these principles, Asok Chanda, the Chairman of the Third Finance Commission observes. "Liberal assistance to a State which had not used its taxing power adequately to narrow its budgetary gap would prove to be an inducement to it not to increase taxation. Secondly, it would benefit the more affluent tax-paying section of the population and not the poorer sections for whom federal assistance should obviously be granted."[7]

Table 2 gives a comparison of grants-in-aid to different States during the four-year period covered by the Second Finance Commission (i e, from 1957-58 to 1960-61) with the State revenues (excluding grants-in-aid) and per capita income of the States. State revenues include the State's share in Central taxes, e g, excise duties, income tax and estate duties. These revenues are distributed among States largely on the basis of population. Therefore, State-wise differences in per capita revenues (col 3 of Table 2) reflect the disparities in the mobilisation of revenues by the States. There is no systematic relationship between per capita grants-in-aid on the one hand and per capita State revenues or per capita income on the other. The analysis given in the Appendix shows virtually no correlation between them. In view of this experience it would be difficult to argue that the Andhra region should be entitled to a larger per capita grants-in-aid than Telengana because of its low per capita revenues resulting from the introduction of prohibition. Nor can it be argued that the per capita grants-in-aid allocated to Telengana should have been larger because of its low per capita income. Population seems to be the only reasonable basis for apportioning grants-in-aid among the two regions. This procedure derives strength from the fact that among different States, there is a significant correlation between grants-in-aid and population (see Appendix).

Between different States, there is a significant positive correlation between per capita State revenues and per capita income. The statistical analysis shows that, on an average, an increase in per capita income by one rupee is associated with an increase of 4 paise in per capita tax revenues (see Appendix). In other words, a 1 per cent rise in per capita income is associated with 0.73 per cent increase in per capita tax revenues. If this All-India experience is taken as a norm, then per capita tax revenues of the Andhra region should

TABLE 2: GRANTS-IN-AID AND STATE REVENUES
(Annual Average of the four-year period, 1957-58 to 1960-61, covered by the Second Finance Commission)

(Rs per capita)

State	Per Capita Grants-in-Aid	Per Capita State Revenues Excluding Grants-in-Aid	Per Capita Income 1960-61
(1)	(2)	(3)	(4)
Assam	9.06	19.08	333.34
Orissa	4.70	11.62	276.22
Mysore	4.70	25.31	304.71
West Bengal	4.02	19.93	464.62
All States	*3.67*	*18.05*	*334.54*
Rajasthan	3.40	14.98	267.43
Kerala	3.38	18.38	314.86
Andhra Pradesh	3.20	17.14	287.01
Madhya Pradesh	3.12	16.12	285.35
Bihar	2.89	11.00	220.69
Punjab	2.85	23.48	451.31
Tamil Nadu	2.77	20.01	334.09
Uttar Pradesh	1.87	14.99	297.35
Bombay	1.76	22.66	468.54*

* The figure relates to Maharashtra.

Sources: (1) Government of India, "Report of the Finance Commission", 1961 pp 101, 104-107.
(2) National Council of Applied Economic Research, "Distribution of National Income by States 1960-61", p 9.

TABLE 3: TELENGANA SURPLUSES ON REVENUE ACCOUNT

(Rs crores)

Year	Revenue Surplus (+) / Deficit (—)			37.5 Per Cent of Col 3	Net Surplus (+) / Deficit (—): Col 2 — Col 4
	Andhra	Telengana	Andhra Pradesh		
	(1)	(2)	(3)	(4)	(5)
1956-57	— 2.03	+ 4.49	+ 2.46	+0.92	+ 3.57
1957-58	+ 3.74	+ 3.48	+ 7.22	+2.71	+ 0.77
1958-59	— 0.14	+ 4.24	+ 4.10	+1.54	+ 2.70
1959-60	— 1.22	+ 8.54	+ 7.32	+2.75	+ 5.79
1960-61	— 3.22	+ 3.52	+ 0.30	+0.11	+ 3.41
1961-62	— 9.16	+ 4.29	— 4.87	—1.83	+ 6.12
1962-63	— 2.15	+ 6.69	+ 4.54	+1.70	+ 4.99
1963-64	+ 2.02	+ 8.63	+10.65	+3.99	+ 4.64
1964-65	— 1.67	+ 6.11	+ 4.44	+1.67	+ 4.44
1965-66	—13.10	+ 5.32	— 7.78	—2.92	+ 8.24
1966-67	—19.10	+ 6.68	—12.42	—4.66	+11.34
1967-68	— 7.48	+ 1.94	— 5.54	—2.08	+ 4.02
Total	—53.49	+63.93	+10.44	+3.90	+60.03

TABLE 4: CENTRAL ASSISTANCE TO STATES FOR THIRD PLAN IN RELATION TO STATES' CONTRIBUTION AND INCOME

(Rs per capita)

State	Central Assistance	State's Contribution	State Income 1960-61
(1)	(2)	(3)	(4)
Jammu and Kashmir	171.60	0.73	289.02
Assam	84.23	27.27	3 3.34
Rajasthan	80.12	24.46	267.43
Orissa	77.82	49.73	276.22
Kerala	72.12	35.49	314.86
Madhya Pradesh	67.76	21.25	285.35
Mysore	66.46	40.00	304.71
Punjab	66.21	59.04	451.31
Andhra Pradesh	61.29	34.54	287.01
All States	*58.33*	*38.25*	*334.54*
Tamil Nadu	55.51	46.23	334.09
Gujarat	54.12	61.14	393.39
Uttar Pradesh	48.30	27.66	297.35
Bihar	46.47	24.94	220.69
West Bengal	44.36	41.57	464.62
Maharashtra	42.22	67.54	468.54

Sources: (1) Government of India, Fourth Five-Year Plan, 1969-74, Draft, p 75 (for cols 2 and 3).
(2) Government of India, Report of the Finance Commission, 1961, p 101 (for population figures).
(3) National Council of Applied Economic Research, "Distribution of National Income by States, 1960-61" (for col 4) p 9.

TABLE 5: NET OUTPUT PER CAPITA AND AGRICULTURAL WAGE RATES

(Rs

	Telengana	Rayalaseema	Delta
Annual net output per capita	146.56	103.26	479.45
Agricultural wage rates			
(i) Permanent labour (per annum)	225.00	415.00	500.00
(ii) Casual labour (per day)	0.93	1.25	1.25

TABLE 6: TELENGANA SURPLUSES ON CAPITAL ACCOUNT

(Rs crores)

Year	Capital Expenditure		37.5 Per Cent of Col 2	Surplus (+)/ Deficit (—): Col 3—Col 1
	Telengana	Andhra Pradesh		
	(1)	(2)	(3)	(4)
1956-57	5.84	22.48	8.43	+ 2.59
1957-58	25.20	73.72	27 65	+ 2.45
1958-59	20.42	57.79	21.67	+ 1.25
1959-60	36.50	89.96	33 74	— 2.76
1960-61	36.60	96.80	36.30	— 0.30
1961-62	39.95	105.37	39.51	— 0.44
1962-63	33.44	97.99	36.75	+ 3.31
1963-64	50.60	132.96	49.86	— 0.74
1964-65	42.49	112.06	42.02	— 0.47
1965-66	55.52	168.53	63.20	+ 7.68
1966-67	107.16	302.07	113.28	+ 6.12
1967-68	73.14	204.69	76.76	+ 3.62
Total	526.86	1464.42	549.17	+22.31

Source: K Lalit: "Report on the Quantum of Telengana Surpluses", Section IV, Government of Andhra Pradesh, 1969.

have been higher than in Telengana because per capita income of Andhra is higher. If we assume that per capita income of the Andhra region is higher by 25 per cent when compared to that of Telengana (this is substantiated later), then the per capita tax revenues in Andhra should have been higher by 18.25 per cent (0.73 x 25).

Actually, however, the per capita tax revenue (excluding grants-in-aid) in Andhra for the 12-year period under study was Rs 260 compared to Rs 352.35 for Telengana, i e, it was lower by 26 per cent. Ignoring the differences in per capita income, if Andhra had the same per capita revenue as Telengana, Andhra region would have mobilised Rs 92 more per capita or Rs 214 crores over 12 years. If we take into account the higher per capita income of Andhra and apply the all-India experience, the per capita tax revenue in Andhra should have been 18.25 per cent higher than in Telengana. This would have added another Rs 148 crores bringing the total additional revenues to Rs 362 crores.

There is no reason to believe that the tax revenues foregone in Andhra owing to the introduction of prohibition could not have been made good, at least in part, by other tax measures. Prohibition does not reduce the incomes of the people at large but only diverts the part of incomes either for savings or for expenditure on other goods and services. But assuming that the loss of revenues due to prohibition could not have been made good, what is the probable extent of loss on this account? The net revenue from excise duties in Telengana (after deducting revenue expenditure on this head) works out to Rs 102.41 crores or Rs 80.64 per capita for the 12 years. Assuming that excise duties would have yielded the same per capita revenues in Andhra, the total amount works out to Rs 187.80 crores. If we deduct from this the actual excise revenues (net) in Andhra of about 5 crores, the probable extent of loss due to prohibition amounts to Rs 182.80 crores. This estimate, based as it is on the excise revenues of Telengana, is likely to be on the high side because part of the Andhra demand for the prohibited commodity is now satisfied in Telengana which raises the per capita excise revenue of this region.

It is clear from the above, that even when full allowance is made for the loss of revenue owing to prohibition and no adjustment in tax revenues is made for higher per capita income, it was possible to mobilise Rs 31 crores (214—183) more in Andhra. If adjustment is made for higher per capita income and full allowance is made for the loss due to prohibition, about Rs 179 crores (362—183) could have been mobilised from the Andhra region which is more than sufficient to cover its revenue deficit of Rs 53 crores during the 12-year period.

The Telengana Regional Committee has been insisting ever since 1959 that "half of the overspent amount in Andhra revenue account should be added to the Telengana surpluses as the Government ought to have spent more in Telengana than its income".[8] At one stage, the State Government also committed itself to this principle. In their letter to Lalit dated 28-2-1969 the Government "clarified that the Telengana surpluses of each year should be computed by adding to the net revenue surpluses of Telengana region of that year half of the revenue deficit of Andhra area".[9] However, on second thoughts, the Government clarified further on 6-3-1969 that "what was meant by revenue deficit in their letter of 28-2-1969 was that where capital receipts like loans from Government of India, etc, had been diverted to fill in the revenue gap of Andhra, half of the capital receipts so diverted should be added to the Telengana surpluses".[10] Consequently, Lalit decided to ignore the Andhra deficit altogether while computing Telengana surpluses on the ground that "it was not possible from the accounts to specify from what particular source the revenue deficit has been met".[11]

However, this question cannot be ignored as it has a direct bearing on the method of computing the net revenue surpluses of Telengana. Andhra Pradesh has a composite budget and the revenue surplus or deficit for the State as a whole represents the net position after the surplus or deficit of each of the two regions have been adjusted. Table 3 shows that during the 12-year period under study Andhra Pradesh had a revenue surplus of Rs 10.44 crores after adjusting the Andhra deficit (Rs 53.49 crores) against the Telengana surplus (Rs 63.93 crores). This implies that a good part of the Telengana revenue surplus has been diverted to Andhra for meeting its revenue deficit. The remaining part (Rs 10.44 crores) being the revenue surplus of the State can be considered to have been diverted to the capital account of the State. Since a part of this amount has been spent for Telengana on capital account, adjustments needs to be made for this, before arriving at net Telengana surpluses on revenue account. For reasons discussed later in this paper, we are allocating 37.5 per cent of the capital expenditure of the State for Telengana instead of the prevailing practice of allocating 33.3 per cent. Therefore, 37.5 per cent of the revenue surplus of the State (i e, 3.90 crores) will have to be deducted from the revenue surplus of Telengana (Rs 63.93 crores) as estimated by Lalit, for arriving at the net revenue surplus (Rs 60.03 crores).

This is the overall picture for 12 years. But what does this principle imply for the years when the State has a revenue deficit? Revenue deficit incurred for the State as a whole can be considered to have been covered by diverting the capital receipts or amounts from any other sources which could alternatively be used for expenditure on capital account. That is to say, revenue deficit of the State represents the expenditure sacrificed on capital account. Therefore, Telengana's share in the amount foregone (i e, 37.5 per cent of the State's deficit) needs to be added to the revenue surplus of Telengana of that year for arriving at the net revenue surplus (see Table 3). Indeed, this appears to be the meaning of the suggestion contained in the Government's letter to Lalit mentioned above.

Net revenue surpluses of Telengana thus worked out represent overspending in Andhra. This should be so unless the revenue surpluses of Telengana have been accumulated into reserves which are available for expenditure now. Since no such accumulation has been in evidence, this amount needs to be reimbursed from the share of Andhra receipts in future, if the balance of expenditure between the two regions is to be restored. To the extent this amount is reimbursed from the future share of the Andhra region, the latter will cease to have the benefits of overspending in the past. Therefore, the contention of the Telengana Regional Committee that half of the revenue deficit (or overexpenditure) of Andhra should be added to Telengana surpluses is unreasonable.

However, Telengana's claim would stand to reason if its surpluses are not reimbursed from the future share of Andhra but are met from the third source, say, Central Government. But in such an event, it is not the half of Andhra deficit on revenue account alone that needs to be added to the Telengana surpluses. The aggregate of Telengana surpluses on revenue as well as capital account along with any interest that is agreed upon, would represent overspending in Andhra and, therefore, half of this amount should be added to Telengana surpluses, if the balance in public expenditure between the two regions is to be restored. If the correct population ratio for Telengana (35.3 per cent) is used, then the aggregate of surpluses should be raised by 54.5 per cent instead of 50 per cent only. The same procedure needs to be followed if Telengana surpluses are to be set aside from the receipts of the State first before apportioning the remaining receipts between the two regions. This is necessary, if the amount of Telengana surpluses is to remain the same as when it is set aside from Andhra's share of the State receipts.

II

Telengana Surpluses on Capital Account

Following the accord of January 19, 1969, mentioned earlier, Lalit worked out Telengana surpluses (or deficits) on capital account as the difference between one-third of the total capital expenditure of the State and the actual capital expenditure in Telengana. In the gentlemen's agreement of 1956, however, there was no reference to the ratio to be applied while allocating capital expenditure. The Government and the Telengana leaders are agreed that capital receipts are not to be taken into account while calculating surpluses on this account, presumably because the bulk of the capital expenditure is met from loans and assistance from the Central Government and overdrafts from the Reserve Bank.

Since the allocation of capital expenditure in the 2:1 ratio between the Andhra and the Telengana regions is based on the population ratio, it is only proper that the correct population ratio (64.7 : 35.3) is used, especially because the bulk of Plan asistance to States from the Central Government is allocated on the basis of population. There is, for instance, a very high correlation between the population of the States and the Central assistance to them for the Third Plan. The inter-State variation in population explains as much as 86 per cent of variation in Plan assistance from the Centre for the Third Plan (see Appendix).

Apart from the population, economic backwardness of the region as indicated by its per capita income may be an important criterion for allocating capital expenditure. The ability of the region to mobilise its own resources has been regarded as yet another factor favouring more Central assistance. The Telengana Regional Committee has often pleaded for the distribution of Central assistance to the Andhra and Telengana regions in proportion to the own resources of these regions. But whereas the planners have been explicit on population and backwardness or per capita income as factors governing Central assistance, the position has by no means been straightforward in regard to the own resources of the States determining Plan assistance. The Third Five-Year Plan clearly states that "in assessing needs and problems, such factors as population, area, levels of income and expenditure, availability of certain services, e g, roads, schools, hospitals . . . were taken into account".[12] On the question of own resources, however, the approach was flexible: "care was taken to see that States whose resources were unavoidably small did not have to limit development to a scale which was altogether insufficient, merely because of paucity of resources. At the same time States which were able to make a larger effort in mobilising their own resources could undertake development on an appropriate scale."[13]

Table 4 shows that among 9 States whose per capita Central assistance for Third Plan was above the average (of all States), as many as 8 States had per capita income below the average. Out of the 6 States with below average Central assistance only 2 States have per capita incomes significantly below the average. The statistical analysis of these figures given in the Appendix shows that, on an average, a one rupee increase in per capita income is associated with a decline in per capita Central assistance to the extent of about 7 paise. In other words, a 1 per cent increase in per capita income is associated with a 0.36 per cent decline in per capita Central assistance.

There is no positive correlation between per capita Central assistance and State's per capita contribution (see Appendix). On the other hand, there is a mild negative association between per capita Central assistance and per capita State's contribution. However, this may not imply that per capita Central assistance was lower because of higher per capita contribution of own resources. This relationship arises because per capita contribution is generally higher in States where per capita income is higher and higher per capita income is associated with lower per capita Central assistance.

A strong positive relationship exists between per capita income and own contribution of resources: A one per cent increase in per capita income of the State is associated with a 1.18 per cent increase in own contribution. In view of this experience the own contribution of the Andhra region can be regarded as poor when compared to Telengana's. The own resources of Telengana constituted 42.6 per cent of State resources for the Third Plan[14] (much higher than its population ratio of 35.3 per cent) despite its per capita income being lower than the Andhra region's. However, we are ignoring this factor in the allocation of capital expenditure between the two regions in view of the absence of any significant relationship between per capita contribution and Central assistance among States for the Third Plan. The experience of Central assistance to States discussed above strongly suggests the fairness of population and per capita income as the criteria for allocating capital expenditure between the Andhra and Telengana regions.

There are no separate estimates of per capita income for these regions. It is, however, possible to make a reasonable assumption as to the probable differences in the per capita incomes of these regions on the basis of the data on irrigation facilities, agricultural incomes and agricultural wages, etc.

Whereas Telengana accounted for 35.3 per cent of State's population and 41.8 per cent of State's area,[15] its share in irrigated acreage was only 27.9 per cent in 1965-66.[16] Thus irrigated acreage per capita was higher in Andhra to the extent of 41.5 per cent when compared to that in Telengana. A study made by this writer in 1958-59 revealed the position as shown in Table 5 in regard to the net agricultural output and wages.[17] Even if equal weight is given to the Rayalaseema and the Delta regions, the net agricultural output per head works out to be Rs 291.40 in the Andhra region or 100 per cent higher than in Telengana. The same holds true in regard to the wages of permanent labour while the wage rates of casual labour work out to be 34.4 per cent higher. Since agriculture is a major sector in the State contributing as much as 60 per cent to the State income,[18] it would be reasonable to assume that the per capita income of the Andhra region would be at

TABLE 7: PUBLIC CORPORATIONS — TELENGANA SURPLUSES ON REVENUE ACCOUNT

(Rs crores)

Year	Revenue Surplus (+)/Deficit (—)			37.5 Per Cent of Col 3	Net Revenue Surplus (+)/ Deficit (—): Col 2—Col 4
	Andhra	Telengana	Andhra Pradesh		
	(1)	(2)	(3)	(4)	(5)
1958-59	+ 0.03	+0.35	+ 0.38	+0.14	+0.21
1959-60	— 1.00	+0.05	— 0.95	—0.36	+0.41
1960-61	— 1.11	—0.21	— 1.32	—0.50	+0.29
1961-62	— 1.47	—0.32	— 1.79	—0.67	+0.35
1962-63	— 2.80	—1.62	— 4.42	—1.66	—0.04
1963-64	— 1.02	—0.49	— 1.51	—0.57	+0.08
1964-65	— 1.31	—0.85	— 2.16	—0.81	—0.04
1965-66	— 2.74	—1.74	— 4.48	—1.68	—0.06
1966-67	— 4.05	—1.87	— 5.92	—2.22	+0.35
1967-68	— 0.58	+0.36	— 0.22	—0.08	+0.44
Total	—16 05	—6 34	—22.39	—8.41	+2.07

Source: K Lalit: "Report on the Quantum of Telengana Surpluses", Section IV, Government of Andhra Pradesh, 1969.

least 25 per cent higher than that of Telengana.

If we apply the experience of Central assistance for State plans, *viz*, a 1 per cent increase in per capita income should be associated with a 0.36 per cent decline in per capita Central assistance, the per capita assistance for the Andhra region should be 9 per cent (0.36 x 25) lower than for Telengana. By weighting the population ratio (35.3 : 64.7) with the ratio of per capita Central assistance (1 : 0.91) we get the allocation ratio between the two regions as 35.3 : 58.9. On this basis the shares of Telengana and Andhra regions in the capital expenditure of the State would be 37.5 per cent and 62.5 per cent respectively. Thus the additional share for Telengana due to its low per capita income amounts to 2.2 per cent of State expenditure. In other words, the weight of per capita income in the allocation of capital expenditure for Telengana is about 6 per cent. This is considerably less than 10 per cent, proposed to be allocated to States on account of low per capita income during the Fourth Plan period.[19]

We have computed the Telengana surpluses on capital account as the difference been 37.5 per cent of State's capital expenditure and the actual capital expenditure for Telengana. The actual capital expenditure includes a few items, e g, capital outlay on Electricity Schemes, Payment of Commuted Value of Pensions, Floating Debt and Other Loans and appropriation to the Contingency Fund, the expenditure on which is jointly incurred and has, therefore, been apportioned by the Government on 2 : 1 basis between the Andhra and Telengana regions. We have reapportioned this expenditure on a 62.5 : 37.5 basis, because much of this joint expenditure may have to be borne in proportion to population. Failure to reapportion this expenditure would result in an overestimation of Telengana surpluses. It is possible that there are a few more items of this nature requiring reapportionment. Insofar as the reapportionment ratio for Telengana (37.5 per cent) is higher than its population ratio, this may provide a corrective to the possible overestimation arising from our failure to account for some of these items. Needless to say, our estimate of surpluses would have to undergo revision if some more items of this nature are still left unidentified.

There may be certain other cases of reapportionment resulting in a clear upward revision of our estimate. For instance, the Telengana Regional Committee has argued that the existing allocation of the cost of Nagarjunasagar Dam on a 2 : 1 basis should be altered because the utilisation of water including the Krishna basin under this project would be in the ratio of 207 : 87 between the Andhra and Telengana regions. The Committee has suggested further that the expenditure on the Left Canal of this project should be shared between the Andhra and the Telengana regions in proportion to the actual benefits derived (44.4 : 87) instead of the present practice of allocating the entire expenditure to Telengana.

Lalit's method of allocating capital expenditure in the 2 : 1 ratio would show a deficit or overexpenditure for Telengana to the extent of Rs 14.16 crores. If the correct population ratio (i e, 35.3 per cent) is applied and the expenditure on joint items is reapportioned accordingly, then the actual capital expenditure on Telengana would be less than the desired expenditure yielding the surplus of Rs 3.30 crores. If low per capita income of Telengana is also taken into account, i e, if 37.5 per cent of capital expenditure is allocated to Telengana with corresponding reapportionment of expenditure on joint items, the Telengana surpluses on capital account would go up to Rs 22.31 crores (see Table 6).

TABLE 8: PUBLIC CORPORATIONS — TELENGANA SURPLUSES ON CAPITAL ACCOUNT
(Rs crores)

Year	Capital Expenditure		37.5 Per Cent of Col 2	Surplus (+) / Deficit (—): Col 3—Col 1
	Telengana	Andhra Pradesh		
	(1)	(2)	(3)	(4)
1958-59	0.66	1.50	0.56	— 0.10
1959-60	2.00	6.67	2.50	+ 0.50
1960-61	2.76	7.71	2.89	+ 0.13
1961-62	4.67	10.59	3.97	— 0.70
1962-63	4.43	10.17	3.81	— 0.62
1963-64	5.72	15.95	5.98	+ 0.26
1964-65	8.41	24.53	9.20	+ 0.79
1965-66	12.04	34.60	12.98	+ 0.94
1966-67	12.95	33.66	12.62	— 0.33
1967-68	9.33	26.34	9.88	+ 0.55
Total	62.97	171.72	64.39	+ 1.42

Source: K Lalit: "Report on the Quantum of Telengana Surpluses", Section IV, Government of Andhra Pradesh, 1969.

TABLE 9: OVERALL BUDGETARY SURPLUSES OF TELENGANA
(Rs crores)

Year	Overall Surpluses: as Computed in Tables 3,6,7 and 8	Interest at 6 Per Cent Per Annum (compound) on Surpluses in Col 1	Cumulative Surplus with Interest
	(1)	(2)	(3)
1956-57	+ 6.16	0.37	6.53
1957-58	+ 3.22	0.59	10.34
1958-59	+ 4.06	0.86	15.26
1959-60	+ 3.94	1.15	20.35
1960-61	+ 3.53	1.43	25.31
1961-62	+ 5.33	1.84	32.48
1962-63	+ 7.72	2.41	42.61
1963-64	+ 4.24	2.81	49.66
1964-65	+ 4.72	3.26	57.64
1965-66	+ 16.80	4.47	78.91
1966-67	+ 17.48	5.78	102.17
967-68	+ 8.63	6.65	117.45
Total	+ 85.83	31.62	117.45

III

Telengana Surpluses on Account of Public Corporations

The All-Party Accord of January 19, 1969 laid down that "statutory or other boards, corporations, etc, functioning on a State-wide basis financed by the State Government would be, for the purpose of computing Telengana surpluses treated as if they were State-wide Government departments and as if their receipts and expenditure were booked in Government accounts."[20] Lalit took into account only those corporations and boards, etc, in which the money invested by the State Government formed 51 per cent or more of the share capital.

These corporations show a revenue deficit of Rs 6.34 crores for Telengana over the 12 year period (Table 7). Lalit deducted this amount from the Telengana surpluses on Revenue Account for arriving at the overall surpluses. Lalit ignored the revenue deficit of these corporations in the Andhra region, just as he ignored the Andhra deficit on Revenue Account while calculating Telengana Surpluses. Since Andhra Pradesh has a composite budget and since these corporations are to be treated "as if their receipts and expenditure were booked in Government accounts", it would be illogical to ignore the revenue deficit of corporations in the Andhra region. This is also unfair to Telengana because the Andhra region does not have revenue surpluses to meet the losses of public corporations. These losses in Andhra have to be met from other sources and Telengana should be entitled to meet its losses in a similar manner.

As argued earlier, any revenue deficit of Andhra Pradesh represents a draft on capital outlay and Telengana's share in this amount will have to be added to its surpluses (or deficit) for arriving at the overall surpluses. We, therefore, follow the same procedure now as we did in calculating Telengana surpluses on Revenue Account. Table 7 shows a surplus of Rs 2.07 crores for Telengana on the revenue account of public corporations. This is because the losses in Andhra amount to more than its proportionate share of losses in the State.

Lalit worked out the Telengana surpluses (or deficits) on the capital account of these corporations as the difference between the actual capital outlay of these corporations in Telengana and one-third of the State's outlay. This procedure yields a deficit of Rs 5.73 crores which he deducted from the Telengana surpluses on Revenue Account for arriving at the overall surpluses.

For reasons discussed earlier, we consider the desired capital outlay of these corporations in Telengana to be 37.5 per cent of State outlay instead of 33.3 per cent. Accordingly we compute the Telengana surpluses on the capital account of these corporations as the difference between the 37.5 of capital outlay of these corporations and the actual outlay for Telengana. This estimate would be subject to revision because part of the capital outlay of these corporations represents joint investment and may have to be reapportioned according to the correct population ratio. While such a reallocation may lower our estimate, there may need to be some other reallocations which raise Telengana surpluses. For instance, the Telengana Regional Committee has been arguing with some justification that the original capital investment of

Appendix†

The following regression equations have been estimated :

(i) Grants-in-Aid to States :

(1) $X_1 = 680.40 + \underset{(3.61)}{9.96^*} X_2$ $R^2 = 0.41$ $N = 13$

(2) $X_3 = 4.17 - \underset{(0.007)}{0.002} X_5$ $R^2 = 0.004$ $N = 13$

(3) $X_3 = 3.25 + \underset{(0.128)}{0.023} X_4$ $R^2 = 0.003$ $N = 13$

(4) $X_4 = 4.77 + \underset{(0.012)}{0.040^*} X_5$ $R^2 = 0.49$ $N = 13$

Where X_1 = Grants-in-aid (Rs in lakhs: average of 1957-58, 1958-59, 1959-60 and 1960-61)

X_2 = Population of the State in millions (1961)

X_3 = Grants-in-aid in rupees per capita (average of four years)

X_4 = Own revenues in rupees per capita (average of four years).

X_5 = Per capita income in rupees (1960-61).

Elasticity of own resources with respect to per capita income

$$= b. \frac{\bar{X}_5}{\bar{X}_4} = .04. \frac{328.2}{18.1} = 0.73$$

(ii) Central Assistance to States for the Third Plan :

(1) $X_1 = 73.81 - \underset{(0.25)}{0.30} X_2$ $R^2 = 0.10$ $N = 14$

(2) $X_1 = 84.46 - \underset{(0.047)}{0.067^{**}} X_3$ $R^2 = 0.15$ $N = 14$

(3) $X_2 = -7.22 + \underset{(0.037)}{0.14^*} X_3$ $R^2 = 0.55$ $N = 14$

(4) $X_1 = 84.79 - \underset{(0.391)}{0.079} X_2 - \underset{(0.074)}{0.059} X_3$ $R^2 = 0.155$ $N = 14$

(5) $X_4 = 68.36 + \underset{(0.44)}{3.79^*} X_5$ $R^2 = 0.86$ $N = 14$

Where X_1 = Per capita Central assistance (in Rs) for the Third Plan.

X_2 = Per capita State contribution (in Rs) for the Third Plan.

X_3 = Per capita State income (in Rs) in 1960-61.

X_4 = Central assistance (Rs in crores) for the Third Plan.

X_5 = Population of the State (millions) in 1961.

Elasticity of State's own contribution with respect to per capita income

$$= b. \frac{\bar{X}_3}{\bar{X}_2} = 0.141. \frac{335.6}{40.1} = 1.18$$

Elasticity of Central assistance with respect to per capita income

$$= b. \frac{\bar{X}_3}{\bar{X}_1} = 0.067. \frac{335.6}{61.9} = 0.36$$

* Significant at 5 per cent level.

** Significant at 20 per cent level.

† Y Satyanarayana assisted me in preparing this Appendix.

the Road Transport Corporation whose activities were later extended to the Andhra region should be apportioned between the two regions and the "excess investment of Telengana should also be treated as Telengana surpluses".[21]

Table 8 shows that the actual capital outlay of public corporations in Telengana is less than the desired outlay by Rs 1.42 crores which should be regarded as Telengana surplus on this account.

IV
Present Value of Telengana Surpluses

The overall budgetary surpluses of Telengana, i e, on Revenue and Capital Accounts as well as on account of public corporations amount to Rs 85.83 crores over the 12-year period. This figure of budgetary surpluses is an insufficient measure of the real value of economic loss for the Telengana region. The investment postponed implies the loss of several direct and indirect benefits in terms of income and employment and public revenues.[22] The Third Five-Year Plan states that "even a comparatively small delay in completing a project and putting it into productive use can make a significant difference to the resources available for investment. The point is that as an economy develops, even marginal improvements in planning and execution over a number of points can yield a large return in the aggregate."[23] Owing to the steep rise in the general price index and in the construction costs during this period, the real value of the estimated surpluses has gone down significantly.

The real measure of loss from the investment foregone would be given by the social rate of return on investment which could be very high for our economy, say, 20 per cent.[24] However, we are suggesting a modest compensation by treating the Telengana surplus of each year as a loan for the Andhra region payable at a compound interest rate of 6 per cent per annum (see Table 9). The interest works out to Rs 31.62 crores raising the overall Telengana surpluses to Rs 117.45 crores.

V
Telengana Securities

Telengana inherited securities worth Rs 13.59 crores as its share in the former Hyderabad State. The Government of Andhra Pradesh agreed to treat them as Telengana surpluses. The Telengana Regional Committee has demanded frequently that these securities be sold and the proceeds utilised for the development of Telengana. These securities are presumably intact and it may not be in the interests of Telengana to sell these securities until the surpluses or the overspent amount in Andhra is reimbursed and spent for the development of Telengana. These securities in Reserve Bank may prove to be highly beneficial for Telengana, in the long run, in terms of an easy access to much needed investible funds.

VI
Conclusions

Our objective in this paper was not so much to give a 'precise' estimate of Telengana surpluses as to attempt a clarification of some of the main issues relevant to this problem and to suggest a procedure for estimating these surpluses. The limitations of data, especially those arising from the allocation of joint expenditures, will have to be overcome before the 'true' figure of surpluses can be arrived at. Our analysis suggests, however, that the Telengana surpluses could be sizeable. Even if 20 per cent margin of error is applied to our estimate, the surpluses would amount to not less than 64 per cent of the Third Plan outlay for Telengana.[25]

NOTES

1 Bureau of Economics and Statistics, Government of Andhra Pradesh, "Handbook of Statistics, Andhra Pradesh, 1966-67", p 17.
2 K Lalit: "Report on the Quantum of Telengana Surpluses", Government of Andhra Pradesh, p 17.
3 Government of India, "Report of the Finance Commission", 1961, pp 31-32.
4 *Ibid*, p 12.
5 Government of Andhra Pradesh, Memorandum Submitted to the Third Finance Commission, 1961, pp 24, 30, 31 and 32.
6 Report of the Finance Commission, *op cit*, p 12.
7 Asok Chanda: "Federalism in India — A Study of Union State Relations", Allen and Unwin, 1965, pp 200-201.
8 Andhra Pradesh Regional Committee, Report of the *Ad Hoc* Committee on Planning on the Report Given by Sri K Lalit on the Quantum of Telengana Surpluses, (Report I), 1969, p 7.
9 Lalit, *op cit*, p 5.
10 *Ibid.*
11 *Ibid.*
12 Planning Commission, Government of India, Third Five-Year Plan, p 60.
13 *Ibid.*
14 Andhra Pradesh Regional Committee, Supplementary Report to the Tenth Report of the Subcommittee on Development on Implementation of Plan and Non-Plan Schemes in Telengana Area, 1967, p 4.
15 Bureau of Economics and Statistics, Government of Andhra Pradesh, "Handbook of Statistics, Andhra Pradesh, 1966-67", pp 16-17.
16 *Ibid*, p 60.
17 C H Hanumantha Rao: "Taxation of Agricultural Land in Andhra Pradesh", Asia, 1966, pp 41, 156.
18 "Handbook of Statistics", *op cit*, p 10.
19 Planning Commission, Government of India, Fourth Five-Year Plan, 1969-74, Draft, p 53.
20 Lalit, *op cit*, p 3.
21 Andhra Pradesh Regional Committee, Report of the *Ad Hoc* Committee on Planning on the Report Given by Sri Lalit on the Quantum of Telengana Surpluses (Report I) 1969, p 5.
22 For a discussion of this aspect in relation to Telengana see Gautam Mathur: "The Estimation of Telengana Development Fund", *The Graduate Monthly*, Vol II, No 8, Hyderabad. (This note was presented by Mathur to the Bhargava Committee on Telengana Surpluses.)
23 Government of India, Third Five-Year Plan, p 116.
24 Mathur, *op cit*.
25 The Third Plan outlay for Telengana was Rs 146.60 crores. See Government of Andhra Pradesh, "Facts about Telengana".

TELCO

TATA Engineering and Locomotive proposes to implement a few diversification and expansion schemes during the next few years. These schemes include manufacture of a new direct injection type of engine and a synchromesh gear-box for commercial vehicles, substantial expansion of capacity for production of spare parts, and expansion of TELCO's press tool division at Poona which now works to near capacity. In addition, it is intended to implement several minor schemes of diversification, and to expand the engineering research facilities. Of the total capital expenditure requirement of Rs 14.09 crores estimated for these schemes, Rs 5 crores are proposed to be raised through issue of 7.75 per cent debentures of Rs 1,000 each and Rs 3.60 crores through a foreign exchange loan from ICICI. The balance will come from internal cash generation. The debenture issue is fully underwritten. The subscription list will open on October 10 and close on October 22 or earlier, but not before October 14.