

Chapter 7

State Finances in Uttar Pradesh, 1965-90

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In post-Independence India there has been a continuous expansion in the scale and scope of governmental budgetary operations, reflecting the expanding dimensions of state activity, particularly administrative and developmental functions. This chapter seeks to review the budgetary operations of the Government of Uttar Pradesh (UP) in the period 1965-1990, i.e. from the beginning of the Third Five Year Plan to the end of the Seventh Five Year Plan. This period witnessed accelerated growth in the aggregate budgetary transactions of the central government and in those of the states. Its inception also coincides with the introduction of the new economic classification of the Budget in UP in 1965-66. The first section of the chapter examines the structure and growth of receipts of the state government from tax revenue, nontax revenue (including the operations of the public sector) and central assistance for plan expenditure. Then the level and pattern of government expenditure and trends over time are analyzed. In order to even out annual fluctuations, the data have been presented in terms of five quinquennial periods. For the purpose of interstate comparisons, data from the annual surveys of state finances compiled by the Reserve Bank of India and the reports of successive Finance Commissions have been utilized.

BUDGETARY RECEIPTS

The receipts of the UP state government may be classified in four

broad categories: (1) current revenue, (2) capital receipts, (3) borrowings and (4) drawals from cash balances. Current revenue is derived from both tax and nontax sources. The former consists of taxes collected and retained by the state as well as taxes shared in by the state through transfers from the central government. Nontax revenues include interest receipts, royalties, fees and recoveries of fines and dividends from public enterprises, among others. An important component of nontax revenues is grants, of which central transfers are the main source. Capital receipts consist of the internal resources of departmental undertakings and grants received for investment purposes. Borrowings comprise loans raised through public issues in the open market, loans from the central government, the state's share of small savings receipts and provident fund contributions of state government employees.

Receipts can be divided into two broader categories: (1) revenues that are appropriated, earned or received and (2) borrowings of the state from the rest of the economy (including the central government). Unlike the Government of India (GOI), the states are not in a position to resort to deficit financing by borrowing from Reserve Bank of India (RBI). State governments may borrow from RBI only within pre-defined limits, essentially to bridge temporary excesses of expenditure over receipts. Deficits over a financial year are ordinarily made up by drawing down accumulated cash reserves. Alternatively, RBI can extend ways and means advances or temporary overdraft accommodation. In case of a persistent excess of disbursements over cash balances, RBI can and often does stop further payments to the state through agent banks and the Treasuries.

Trends in Receipts

Table 7.1 presents, in summary fashion, the state government's receipts during the period 1965-90. Aggregate receipts increased from Rs. 321 crores in 1965-66 to Rs. 9,213 crores in 1989-90, that is by over 28 times in 25 years, for an average annual increase of about 15 percent at current prices. The most significant component of receipts has been current revenue, whose contribution varied in the range of 73-75 percent in 1965-80 and declined to about 67 percent in the subsequent decade. Taxes constituted almost 56 percent of overall receipts in 1965-80 and about 54 percent in 1980-90. UP's share in central taxes accounted for 20.5 percent of total receipts in 1965-70, a figure that increased to 26.9 percent in 1970-75 and has since remained at about this level. On the other hand, the contribution of

state taxes in total revenue receipts declined from 35.5 percent in 1965-70 to 26.6 percent in 1985-90. Reflecting a similar trend, nontax revenue declined from 17 percent of total revenues in 1965-66 to 14 percent in 1980-85 and then fell further to approximately 11 percent in 1985-90. The state's dependence on borrowings rose markedly in the Seventh Plan. Net borrowings as a proportion of total receipts actually declined from 21 percent in 1965-70 to 17 percent in 1970-75, but subsequently the figure increased to around 22 percent in 1975-85. In the Seventh Plan (1985-90), net borrowings represented almost 27 percent of total receipts.

Table 7.2 provides information on the growth of average annual aggregate receipts in nominal and real terms and changes in their share of net state domestic product (NSDP) in 1965-85. Aggregate receipts showed an increasing trend, both in constant prices and in relation to NSDP.

Transfers from the Center on Current Account

Central revenue transfers include shared central taxes; statutory grants recommended by Finance Commissions; and other grants (plan and nonplan), including those for relief on account of natural calamities. Central transfers have consistently increased their share in total receipts, from about a third in 1965-70 to 45 percent in 1975-80 and 52 percent in 1985-90. UP's own revenues have correspondingly declined as a share of total revenue from 67 percent in 1965-70 to 48 percent in 1985-90. Table 7.3 provides details of central revenue transfers to UP.

Growth of Tax Revenues

Uttar Pradesh's own revenues consist of tax revenues (other than the state's share in central taxes) and nontax revenues (not including grants from the central government). Among the state's own revenues, tax revenue has been the predominant source of income. In 1965-70 tax revenue accounted for 68 percent of own revenues, increasing to 71 percent in 1985-90. The state's revenue effort in the period 1965-90 is summarized in Table 7.4. UP's annual tax revenue at current prices has registered impressive increases from Rs. 119.21 crores in 1965-70 to Rs. 1,510 crores in 1985-90, a fifteen-fold increase. Allowing for inflation, annual tax revenue at constant prices of 1970-71 increased from Rs. 133.59 crores in 1965-70 to Rs. 249 crores in 1980-85. The index of annual per-capita tax revenue at current prices increased about ten times, while per-capita tax revenue at constant prices increased by only 1.8 times in the period 1965-70 to

1980-85. Tax revenue as a proportion of NSDP increased from 3.21 percent to 5.66 percent between 1965-70 and 1985-90.

There is evidence that UP's tax effort was not as great as that of other states. The index of tax effort of all major states increased from 100 in 1960-61 to 3,167 in 1986, whereas UP's index rose only to 2,661. Per-capita annual tax revenue in UP in 1982-85 was Rs. 98, as compared to the all-states average of Rs. 172. The ratio of state taxes to NSDP in Uttar Pradesh was 5.7 percent in 1986-87. This was higher than the figures for Bihar and Orissa but lower than those in other states. Most of the richer states, including Tamil Nadu, Karnataka, Kerala, Gujarat, Maharashtra, Haryana, Andhra Pradesh and Punjab, were able to raise a higher proportion of taxes to NSDP than UP. Significantly, however, comparably backward states like Madhya Pradesh and Rajasthan also were able to do better than UP (Table 7.5).

Changing Taxation Structure

The overall growth of taxes has been accompanied by important changes in the structure of taxation in UP (Table 7.6). The relative importance of direct taxes on income and wealth (i.e. land revenue and agricultural income) has declined, even as indirect taxation has come to play a more important role. The share of these direct taxes in total tax revenue, 20.7 percent in 1965-70, declined to about 1.7 percent in 1985-90. The growth of indirect taxes between 1965-70 and 1985-90 was 19-fold, while direct taxes increased by only 74 percent. Since 1960, sales taxes (including taxes on motor spirit and sugarcane sales) have been the most important source of tax revenue for the state. Sales tax receipts increased by nearly 21 times between 1965-70 and 1985-90. Their contribution to total tax revenue increased from 38.4 percent in 1965-70 to 52.7 percent in 1985-90. The next most important source of state budget revenue has been excise duties. Their share in tax revenue was 16.7 percent in 1965-70 but declined to 14 percent in 1980-85 before subsequently rising to 19 percent in 1985-90. Other direct taxes increased 16 times between 1965-70 and 1985-90.

These trends appear to be similar to those in other states. In almost all major states, the share of direct taxes on agricultural income has significantly diminished in the last three decades. Only in Assam and West Bengal are direct taxes still an important source of state revenue, largely due to taxes levied on the plantation sector (tea estates). The share of direct taxes in total own tax revenues of all major states was 3.9 percent in 1982-87, somewhat higher than the corresponding figure for UP (2.5 percent). But this difference appears

to be mainly attributable to West Bengal and Assam.

Taxes on Agriculture

In UP the only significant direct tax on agriculture is land revenue. This is assessed on holdings of a minimum size of 3.125 acres and ranges between Rs. 10 and Rs. 20 per acre for irrigated land (Rs. 5-10 per acre for unirrigated land). A land development tax was introduced in 1972, also on holdings above 3.125 acres, but it was abolished in 1977. Receipts from direct taxation of agriculture constituted 1.05 percent of NSDP in 1965-70 but declined to only 0.40 percent in 1980-85 (Table 7.7). An important feature of land revenue collections is their high cost. The total expenditure incurred by the state Department of Revenue on district revenue administration was Rs. 49.31 crores in 1989-90. If only half of this cost is attributed to assessment, collection and accounting of land revenue, the costs are equivalent to around 80 percent of the yield from the land revenue.

The agricultural income tax was introduced in UP in 1948, payable by persons holding more than 30 acres of land and with income exceeding Rs. 3,000 (raised to Rs. 4,200 in 1954). This tax was levied on a graduated scale, ranging from one anna in a rupee on the lowest slab to 10 annas in a rupee on agricultural income exceeding Rs. 35,000 per annum. Agricultural income tax was replaced by a Large Land Holdings (LLH) tax in 1957. An additional direct tax on agriculture, the *Vrihat Jot Kar* (VJK) was introduced in 1963. The maximum collections from LLH were in the year of its inception (1956-57). From a level of Rs. 1.32 crores, receipts declined to Rs. 2,56,000 in 1979, when the tax was abolished. Collections from VJK continue but at insignificant levels.

In addition to land revenue, various other levies are collected from the agricultural sector, including purchase taxes on foodgrains and sugarcane and *mandi* (agricultural market) fees. Taking these levies into account, the contribution of the agricultural sector to state revenues increased from Rs. 77.66 crores in 1980-81 to Rs. 250.08 crores in 1990-91. The contribution of land revenue to this increase was marginal. Receipts from the purchase tax on sugarcane increased from Rs. 15.75 crores in 1980-81 to Rs. 41.75 crores in 1990-91. During the same period, fees collected from agricultural markets increased from Rs. 16.18 crores to Rs. 89.08 crores, while the sales/purchase tax on foodgrains increased from Rs. 23 crores to Rs. 90 crores. Nevertheless, the share of taxes on agriculture in the state's net domestic agricultural product remained at less than 1.5 percent (Table 7.8).

Sales Taxes

Sales taxes are by far the most important as well as the fastest growing source of state revenue. They include a General Sales Tax, Central Sales Tax (CST), purchase tax on sugarcane and tax on motor spirits. The general sales tax and motor spirit tax are levied and collected by the state. CST is levied by the Union Government (on commodities entering interstate trade) but is retained by the state. GST was introduced in 1948, initially as a multi-point levy. Subsequently, 30 commodities were subjected to a single-point levy at a lower rate. A number of commodities, including foodgrains, fertilizers and kerosene were exempted from the purview of GST. As the need for resources increased, the rates, coverage and features of the sales tax system have undergone many changes. By 1975, a complete shift to a single-point tax had been achieved, and tax rates on consumer durables had been increased to 12 percent of the price charged. Presently 104 commodities are subject to single point levies ranging from two percent to 26 percent. An additional tax on sales has also been introduced, primarily to compensate local bodies for the abolition of octroi, previously one of their primary sources of income.

Under the Constitution, the tax jurisdictions of the central government and the states are mutually exclusive in the legal sense. Nevertheless, there is considerable overlap between Union excise duties and state sales taxes. Both are indirect taxes and are important sources of revenue. The relatively high incidence of central excise duties inhibits the ability of states to raise sales tax rates. It is also essential for a state to harmonize its tax rates in order to avoid diversion of trade to other states. For these reasons the maximum rates of sales tax cannot be very high, and the scope for variation across commodities is limited.

A state taxation review committee in 1984-85 sought to estimate the burden of sales taxes in UP on the basis of a household consumption expenditure survey covering ten expenditure groups of households in rural and urban areas. The results of the study are shown in Table 7.9. According to the survey, the share of indirect taxes in household consumption expenditure was 4.4 percent, of which sales tax accounted for 2.58 percent. In the two highest expenditure groups, the overall impact of all indirect taxes was in the range of 5.30-7.71 percent and that of state sales tax 2.9-3.96 percent. The data also indicate that sales and indirect taxes have been less progressive in rural areas than in urban areas.

Excise Duties and Other Taxes

Excise duties on liquor are next only to sales tax as a source of revenue in Uttar Pradesh. Collections have varied according to the prevalent state policy on prohibition. In years when prohibition on sale of liquor was either relaxed or lifted, excise receipts have shown considerable growth. In 1977, as a consequence of the introduction of prohibition in 21 districts, receipts from this source declined sharply. In 1978-79 excise receipts were Rs. 51.45 crores. After a relaxation of prohibition policy in 1980, excise receipts increased sharply to Rs. 119.26 crores in 1981-82 and to Rs. 130.78 crores in 1982-83. By 1987-88 revenue from state excise duties had increased to Rs. 500 crores.

Other important taxes in the state are stamps and registration fees, motor vehicles taxes (MVT) and entertainment tax. These accounted for 11.9 percent, 9.3 percent and 3.2 percent respectively of total tax receipts in 1985-90. MVT is a specific tax, related to the type of vehicle and in the case of buses to the number of seats per vehicle. The major impact of this tax falls on public transport vehicles. Revenues from stamp duties and registration fees are derived from the sale of immovable property. Rates are a percentage of the registered sale value of properties concerned. There is considerable evasion owing to underreporting of property values. This not only directly reduces state revenues (stamp duties and municipal property taxes) but also offers opportunities for evasion of taxes on income, wealth and capital gains. The entertainment tax is mainly a levy on the exhibition of films in cinema halls, charged ad valorem on the price of cinema tickets. Outside the major towns, however, it has been compounded with reference to the size of the town and the number of seats in a cinema house. With the growth of alternative, often unregulated, entertainment, revenues from this source have declined in relative terms, from 5.24 percent of total tax receipts in 1970-75 to 3.2 percent in 1985-90. The professions tax was introduced in UP in 1966 but was abolished in 1971. Successive state taxation enquiry committees have recommended the reimposition of this tax. Although the tax ceiling of Rs. 250 per taxpayer per annum has been raised to Rs. 2500 per annum by an amendment to Article 274 of the Constitution, UP has not yet restored this tax.

Buoyancy and Elasticity¹

The UP taxation enquiry committee in 1984-85 sought to assess the

1. Buoyancy measures the responsiveness of taxes to changes in aggregate economic activity. Elasticity, on the other hand, is the measure of responsiveness of the tax revenue at constant rates to changes in aggregate economic activity.

buoyancy and elasticity of state taxes for the period 1971-72 to 1982-83. Buoyancy measures the ratio between the percentage increase in tax revenue and that of NSDP at current prices, whereas elasticity excludes that part of the increase in tax revenue which is due to changes in tax rates. Estimates of buoyancy and elasticity of various UP taxes for the period from 1971-72 to 1982-83 are given in Table 7.10. Sales tax was the most buoyant and elastic major category of taxes, whereas land revenue and electricity duty had slightly lower than unitary buoyancy.

Comparative data show that the buoyancy coefficients of tax revenue in UP were higher than in most neighbouring states, except for Madhya Pradesh (Table 7.11).² The elasticity of total tax revenue in UP was the highest of any neighboring state by a considerable margin, implying that rate increases have played a relatively insignificant role in contributing to revenue growth, as compared to the situation in other states. Of the individual taxes, the performance in terms of buoyancy of sales tax, stamp duties and registration fees was satisfactory. The buoyancy of sales tax in UP was 1.56, compared with 1.72 in Bihar, 1.65 in West Bengal and 1.61 in Madhya Pradesh. In the case of state excise duties, UP had the lowest buoyancy except Rajasthan.

We have computed buoyancy and elasticity coefficients for various state taxes levied in UP for the period 1981-89 (shown in Table 7.10), using the new state domestic products series introduced from 1981-82. The estimates indicate that state excise and electricity duties have shown the highest responsiveness to the increase in NSDP in this period (1.5 and 1.52 respectively).³ Stamp duties and registration fees also were buoyant. The buoyancy of state sales taxes was 1.19. Excepting land revenue and entertainment tax, all taxes had greater than unitary buoyancy. However, the elasticity of all taxes declined from 1.34 in the 1970s to 0.97 in the 1980s, which means that high buoyancy coefficients resulted from upward revisions in tax rates (unlike in the earlier period). Moreover, the buoyancy of sales taxes taken as a whole declined from 1.56 to 1.19.

Transfers from the Center on Current Account

Revenue transfers from the central government consist of (1) the

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2. West Bengal also had a somewhat higher buoyancy coefficient for total tax revenue than UP.
 3. Both excise duties and electricity duty were much less buoyant in the 1970s.

state's share of central taxes, (2) statutory grants awarded by successive Finance Commissions, and (3) other grants for plan or nonplan purposes, the latter being principally on account of natural calamities such as floods and droughts. Central transfers comprised about one third of total state revenue in 1965-70. Their contribution increased to about 45 percent in 1975-80 and further to 52 percent in 1985-90. UP's share in income tax and union excise duties (including additional duties in lieu of sales tax on certain commodities) have become the dominant form of central transfers, contributing about eight percent and 11 percent respectively in 1965-70. In subsequent years, the contribution of income tax in total revenue transfers remained at about same level but that of union excise duties increased significantly on account of greater buoyancy of tax collection. This trend was accentuated when the Seventh Finance Commission (1979-84) doubled the share of states in Union excise duties from 20 to 40 percent. The share of the states was increased further to 45 percent by the Eighth Finance Commission. Central transfers currently are equivalent to 109 percent of UP's own revenues.

The share of Uttar Pradesh in central taxes is determined by the criteria for distribution adopted by successive Finance Commissions. In the case of income tax, population was given the dominant weight by the first seven Finance Commissions (1952-84). The formulae adopted for the sharing of excise duties have included economic backwardness, measured in terms of specified indicators or with reference to state per-capita income. Up to the Seventh Finance Commission, the share of income tax distribution to Uttar Pradesh was lower than the state's share of India's total population. Up to the Fourth Finance Commission, the share of excise duties also was lower than the proportion of population residing in the state. This trend changed from the award of Fifth Finance Commission, however.

Per-capita transfers of central taxes have not been less in UP than the all-India average. The situation changes, however, if grants recommended by Finance Commissions under Article 275 of the Constitution are included. These grants (also known as gap grants) are intended to cover estimated deficits in the nonplan revenue accounts of states, to the extent that these gaps are not covered by tax sharing. Transfers to Uttar Pradesh from this source were less than one third of the average for all major states. This is attributable to the fact that UP was able to a greater extent than other states to meet its nonplan revenue gap on the basis of its own revenue performance, supplemented by tax sharing.

NONTAX REVENUES AND PUBLIC ENTERPRISES

Nontax revenues of states consist of grants from the central government and the states' own nontax revenues. The latter include interest receipts, loan advances, forest and irrigation receipts, fees from educational and medical institutions and dividends from public sector enterprises. We have seen that the relative contribution of nontax revenue to total receipts has sharply declined. The structure of nontax revenue in UP during the past decade is shown in Table 7.12. The major source of nontax revenue is interest receipts, followed by departmental receipts. The latter include charges for services rendered, sale proceeds, fees and fines. Dividends of public enterprises contribute an insignificant amount, less than one percent of total nontax revenue. Since UP does not possess large mineral resources, royalties do not contribute significant revenue, unlike in Assam, Bihar, Orissa and Madhya Pradesh.

UP's total outstanding borrowings were Rs. 11,617.12 crores at the end of 1989-90. Interest payments during the year on these borrowings were Rs. 1,095.50 crores, or 9.43 percent of debt outstanding. On the other hand, interest payments received by the state in 1989-90 amounted to only Rs. 306.43 crores. Rs. 284.02 crores of this represented a purely accounting adjustment from departmental undertakings (mainly irrigation projects). Cash interest receipts were only Rs. 22.41 crores, representing 0.37 percent of the total value of loans advanced by the state as of March 31, 1990 (Rs. 5,995.47 crores). The difference between the unit cost of borrowing and of lending is substantial and is not likely to be sustainable in the long run.

UP State Electricity Board

The poor performance in recovery of interest on loans is largely attributable to the Uttar Pradesh State Electricity Board (UPSEB), the largest public sector undertaking in the state. At the end of 1987-88 its capital and current assets were about Rs. 5,000 crores. Investments in UPSEB have largely been financed by loans, grants, subventions and subsidies from the state government. It has been the largest single recipient of loans from the state government (approximately Rs. 3,900 crores outstanding at the end of the 1987-88).

The financial performance of UPSEB is shown in Table 7.13. UPSEB had operating surpluses from 1959-60 to 1986-87. These were not, however, adequate to cover interest payments and depreciation

provisions. In 1987-88 it incurred operating losses of over Rs. 32 crores. The losses after interest payment and depreciation increased nearly four times in the period 1980-81 to 1987-88, reaching Rs. 400 crores annually. Among the factors responsible for losses at UPSEB are the following:

- (1) The share of thermal generation has been steadily increasing at UPSEB, from 52 percent in 1961-62 to 72 percent in 1987-88; the share of power purchased from NTPC and other sources also has increased, from about 7.4 percent in 1970-71 to 23.1 percent in 1987-88.
- (2) Cost escalation on account of increases in prices of coal, oil, and freight have increased operating expenditures.
- (3) Efficiency parameters are low and in need of considerable improvement; the plant load factor (a measure of the capacity utilization of power stations) ranged between 33.5 percent and 45.9 percent in 1980-88.
- (4) High transmission and distribution losses further contribute to loss of revenue; such losses reached about 27 percent in 1987-88.
- (5) Overstaffing and low productivity have contributed further to the deterioration in the finances of UPSEB.

Table 7.14 shows the average per-unit cost of generation and distribution and the average tariff rate and average sales realization of UPSEB for 1987-88. As against an average cost of 95.56 paise per unit, the average rate charged per unit of electricity consumption was 63.32 paise. Clearly, tariff revisions have not kept pace with cost increases. Moreover, the gap between the average realization and average cost has widened. In 1989-90 the average tariff is estimated to have increased to 71.61 paise per unit, against an estimated per unit cost of 107 paise. The per-unit gap between cost and realized revenue, which was 21.45 paise per kwh in 1980-81, increased to 32.24 paise per kwh in 1987-88, and it is estimated to have reached about 35.39 paise in 1989-90. In the period 1980-87, the increase in the average tariff rate for all consumers was 87 percent. It was 175 percent for industrial consumption and 80 percent for low-tension industrial consumption, but only 31 percent for consumers in the agriculture sector. Subsidized power to agriculture has had a severe adverse impact on the revenues of UPSEB. Almost 40 percent of total power consumption is in rural areas, which contribute only 14.5 percent of total revenue. Table 7.15 shows estimates of losses incurred due to

low tariffs charged for agricultural operations. The yearly loss was about Rs. 103 crores in 1980-81 and increased to Rs. 430 crores in 1987-88. The average annual loss per pumpset amounted to Rs. 3,952 in 1980-88.

UP State Road Transport Corporation (UPSRTC)

UPSRTC was established in 1972 under the Road Transport Corporation Act of 1950. It was intended to provide efficient, economic and organized road transport services in the state. The number of buses owned by UPSRTC increased to nearly 8,000 by March 1990. The number of nationalized routes rose from 1,123 in 1971-72 to 2,380 in 1988-89. The route length covered by UPSRTC buses rose from 1,22,000 km in 1971-72 to 4,56,000 km in 1988-89, and the distance covered by these buses increased from 22.89 crores km to 44.65 crores km. The number of passengers carried by state-owned buses increased from 25.13 crores in 1971-72 to about 43 crores in 1987-88.

The total capital of UPSRTC, which was Rs. 142 crores in 1984-85, increased to Rs. 352 crores in 1989-90. The contribution of the state government was Rs. 180 crores, Railways Rs. 59 crores and Financial Institutions Rs. 113 crores. UPSRTC has been incurring substantial losses in its operations. Accumulated losses reached Rs. 144.31 crores by the end of 1989-90, of which Rs. 68 crores was incurred in the Seventh Plan period alone. There was, however, some improvement in the operational efficiency of UPSRTC during the Seventh Plan. Fleet utilization increased from 72 percent in 1984-85 to 89 percent in 1989-90; vehicle utilization, 158 km per bus per day in 1984-85, increased to 222 km per bus per day in 1989-90. However, trends in the occupancy ratio of the transport fleet have been uneven; it was 66 percent in 1984-85, rose to 74 percent in 1986-87, and fell to 66 percent in 1989-90. Productivity per worker per day improved from 24.06 km in 1984-85 to 30.45 kms in 1989-90. The financial performance of UPSRTC in the Seventh Plan period is shown in Table 7.16.

Other Public Sector Corporations

Despite the proliferation of corporations and public sector enterprises in UP in the last two decades, their contribution to state revenues has been almost negligible. In 1970, there were 11 state public sector undertakings (PSUs). In the next five years 28 additional PSUs were created, raising their number to 39 by the end of 1975. By 1990, their number had increased to 63 (excluding UPSEB). The total paid-up share capital of UP's PSUs (excluding UPSEB) on March 31,

1990 was Rs. 1,182.06 crores. Of this, the state government had contributed Rs. 1,069.75 crores or 90.4 percent. In addition, the state government advanced loans amounting to Rs. 1,076.64 crores. State government funds employed accounted for 44.4 percent of total investment in enterprises other than UPSEB at the end of 1989-90. The financial performance of state PSUs in the period 1987-90 is given in table 7.17. Of the 63 enterprises, 19 regularly earned profits during the three years ending in 1987-88, 15 in 1988-89 and the same number in 1989-90. Regularly loss making enterprises during the previous three years numbered 24 in 1987-88, 23 in 1988-89 and 26 in 1989-90. The cumulative loss of the 63 PSUs reached Rs. 905.61 crores in 1989-90. Of the eight manufacturing enterprises, seven incurred losses in 1987-88 and 1988-89 and six in 1989-90. The state government had contributed Rs. 496.92 crores to these PSUs' capital stock. By 1989-90 their entire equity had been lost, as cumulative losses that year reached Rs. 512.58 crores.

Of the 15 PSUs in the industrial sector, seven are of a promotional nature. The rest are engaged in manufacturing cement, textiles, sugar, electronic goods and brassware. Manufacturing enterprises account for most of the accumulated and current losses of industrial PSUs. There are 12 public enterprises in agriculture and allied sectors, covering a wide range of activities including agroprocessing, horticulture, animal husbandry/fisheries, forests and irrigation. As many as eight of these corporations continuously incurred losses in the period 1980-83. The welfare sector comprises 20 corporations, including 12 area development corporations, the *Jal Nigam*, *Panchayati Raj*, *Anusuchit Jati Vitta*, *Anusuchit Janjati* and Employees Welfare Corporations. The financial performance of these entities and their returns on investment have also been poor. The major losses in this category are accounted for by the *Jal Nigam*, which incurred average annual losses of Rs. 1.43 crores in 1980-83 and had accumulated losses of Rs. 10.23 crores at the end of 1982-83.

State PSUs, which were set up with the objective of manufacturing essential goods or promoting sectoral or area development, have by and large failed to attain desired objectives. Barring the promotional enterprises, they were reasonably expected to function on commercial lines and to provide a minimum return on state government investments. Instead, they are incurring losses and have accumulated large, generally unwarranted deficits. The negative contribution of state PSUs, in the context of the current precarious resource environment, has further eroded the resource base of the state government. Among the key problems are overstaffing and poor

managerial capabilities. Specific reasons for poor financial performance include policies of deliberate underpricing or subsidized pricing, obsolete equipment and outdated technologies, and a lack of clarity in institutional objectives. In particular, the non-economic objectives of PSUs are not explicitly articulated, and no attempt is made to reconcile these with the issue of institutional viability.

State Irrigation Works

Irrigation has been an important area of public investment in Uttar Pradesh. Considerable expenditure has been incurred on surface irrigation and on the construction of public tubewells. The state also has a wide network of private tubewells that use diesel or electric power. Excluding private tubewells, almost all forms of irrigation works are exclusively constructed and maintained by the state government. Public irrigation works in UP are classified in two categories:

- (1) Commercial works, mainly canal irrigation including pumped canals and state public tubewells. For these, water charges are expected to yield a return on investment after covering maintenance expenses.
- (2) Noncommercial works consisting largely of drainage works, where no such return is expected.

Water charges are levied in the state on a per-acre basis according to the nature of crops grown and the number of waterings required. For public tubewells, water rates are fixed on a volumetric basis irrespective of the crop grown by the farmer. No betterment levy is charged from the beneficiaries of irrigation.

Table 7.18 shows the financial flows related to irrigation in the period 1983-88, for commercial and noncommercial projects. The total receipts from state canals and state tubewells contributed only 17.4 percent of the actual maintenance expenses (including interest). Receipts from noncommercial irrigation works were negligible. The aggregate subsidy for commercial irrigation, i.e. canals and tubewells, amounted to Rs. 256 crores annually, or Rs. 455.67 per hectare of irrigated land. The subsidy on state tubewells was Rs. 122.47 crores annually, which was equivalent to Rs. 1,144.57 per net hectare. The subsidy per hectare is substantially higher for state tubewells because of the higher cost of maintenance than in the case of canal irrigation. Successive committees and commissions have noted that the actual maintenance expenditure on canals and state tubewells falls far short of what is required for their proper upkeep. If allowances are made for

this, the additional expenditure required for the maintenance of the existing state irrigation system would be significantly higher.

In addition to the financial losses involved, the irrigation potential created in the state through canals and tubewells has not been utilized adequately. In the period 1980-89, an additional irrigation potential of 18 lakh hectares was created, of which only five lakh hectares have been utilized. As against the increase of 21 percent in irrigation potential in the period 1980-89, the actual irrigated area registered an increase of only nine percent. In addition, the utilization rate of irrigation potential declined from 64 percent in 1980-81 to 57 percent in 1988-89.

BUDGETARY OUTLAYS

Governmental outlays may be classified in the following broad categories: (1) current expenditures on wages and salaries of employees, purchase of goods and transfer payments (including interest payments, grants and subsidies); (2) capital expenditure, including net capital formation and renewals and replacements; and (3) loans, for capital formation, working capital or consumption. Table 7.19 shows the pattern of net outlays for UP in 1965-90, i.e. gross outlays less receipts of repayments of loans advanced by the state government.

Consumption outlays include current expenditures and loans for consumption, while capital outlays comprise capital expenditures and loans for capital formation. The ability to finance the latter depends on the availability of current savings and of capital resources, the latter including capital receipts, net borrowings, loan repayments and withdrawals from accumulated cash balances. In recent years, particularly in the Seventh Plan period, consumption outlays have shown a rising trend at the expense of capital outlays. This is brought out in Table 7.20, which shows the breakdown of gross outlays as between consumption and capital formation.

Almost 21 percent of current outlays in the period 1980-90 went into general services, such as general administration, police and judicial establishments (Table 7.21). Spending on education accounted for almost 30 percent of total current outlays, and those on agriculture and allied activities for 16 percent. On the other hand, economic services accounted for over 75 percent of capital outlays, largely on irrigation and power (23 percent), agriculture and allied activities (27 percent) and transport and communication (15 percent). These figures need to be interpreted with some caution, however. They understate capital investments, for instance in education, where grants-in-aid to

autonomous bodies may be utilized partly for capital formation.

Average annual per-capita budgetary outlays in UP were lower than the average for all major states in 1982-87, which was Rs. 489. In fact, at Rs. 378 per capita, expenditures in UP were lower than in all of the major States except Bihar. On the other hand, the share of direct capital expenditures in total expenditures of UP was 15.5 percent, that of loans 15.5 percent, both higher than the averages for major states of 12.7 percent and 9.6 percent respectively. Consequently, the revenue component of expenditure in UP (72.9 percent), was lower than the average for major states (77.7 percent).

Establishment Costs

The single most important component of current outlays has been compensation of employees, in the form of salaries, wages and pensions. State budgetary data show a decline in the share of compensation to employees, from 41 percent of total current outlays in the period 1965-70 to about 33 percent during 1985-90. Budgetary outlays, however, increasingly present only a partial picture, since a substantial part of government grants-in-aid are spent on salaries and wages. For instance, grants-in-aid to local bodies in the urban and rural sectors and in the education sector are largely spent on salaries and maintenance of establishments. If these are taken into account, the establishment component of current outlays is estimated at around 65 percent in 1985-90.

In fact, the number of employees per 100 sq. km. in UP (544.5) is significantly higher than the major-states average of 358.15 in 1985-90. The UP figure of 12 employees per thousand of population is marginally lower than the average for major states of 13 employees per thousand. Emoluments of state government employees in UP have been recently revised and are presently comparable to and in some respects better than those of central government employees. In 1987-88, 69 percent of nonplan expenditure in the health sector was on pay and allowances, whereas in 1989-90 the figure stood at 78 percent. Of the total value of grants-in-aid to educational institutions, it is estimated that over 80 percent is spent on salaries and allowances.

Direct Subsidies

These are an important element of current expenditure and in fact comprise its fastest growing component. From Rs. 64 crores in 1965-70, direct subsidies increased to Rs. 2,596 crores in 1985-90. They are most significant in economic services, where subsidies for agriculture

and allied activities predominate. (Of the direct subsidies for economic services, almost 92 percent were utilised in this sector.) Direct subsidies in social and community services amounted to less than one percent of current outlay.

Other Subsidies

The state government has been playing an important role in providing various public services, including education, medical and health services, water supply, sanitation and housing. The difference between the receipts earned from providing such services and the resources expended in their delivery can broadly be classified as subsidy. The total revenue expenditure on the provision of general, social and economic services in 1989-90 in UP was Rs. 8,641.39 crores. Of this, about Rs. 4,500 crores was incurred for providing general services, Rs. 2,167 crores on social services, Rs. 1,960 crores on economic services, and Rs. 42.65 crores as compensation and assignment to local bodies. The total nontax revenue of the state government was only about Rs. 746 crores -- less than nine percent of the total expenditure on these services (Table 7.22).

It would not be reasonable to expect all revenue expenditure to be recovered through fees and other charges. Activities like provision of general administrative services, expenditures on law and order and relief for natural calamities are part of the normal activities of the state, the cost of which has to be recovered from tax revenues. Expenditures on direct subsidies according to the economic and functional classification (discussed above) are estimated at about Rs. 2,600 crores in 1985-90. This is an underestimate of total subsidies, as it covers only direct subsidies, of which losses on account of irrigation works constitute the most important component.

Table 7.23 shows estimates of subsidies for education and cost recovery per student per year. The state government is spending about Rs. 440 per student in primary schools. At the pre-university and university levels the cost increases to Rs. 1,815 per student. As hardly any recovery is made from students, almost the entire expenditure is a subsidy.

Plan Outlays

The five year plans provide a framework for reviewing capital formation, in the context of incremental development expenditures undertaken in successive plan periods. Per-capita plan expenditure in UP has increased from Rs. 25 in the First Five Year Plan (1951-56) to Rs. 822 in the Seventh Plan (1985-90). The average per-capita plan

expenditure for the major states increased from Rs. 39 in the First Plan to Rs. 980 in the Seventh Plan, indicating that UP Plan expenditures have risen in relative terms to more closely approximate the average for major states.

The main determinants of the level of plan outlays in a state are the state's own resources and plan assistance extended by the central government. Per-capita plan assistance from the center to UP has increased from Rs. 13 in the First Plan to Rs. 58 in the Fourth Plan and to Rs. 284 in the Seventh Plan. Prior to the Fourth Plan, plan assistance to UP was consistently below the average for all major states, but it subsequently moved above the average and remained there. This is largely attributable to the operation of the "Gadgil formula" since 1968 for determination of interstate allocations of plan assistance. The Gadgil formula is weighted in favor of states with per-capita incomes below the national average.

The primary constraint to large plan outlays in UP has been the limitations of its own resources. Table 7.24 shows the pattern of plan financing for the major states from the Fourth to the Seventh Five Year Plans. UP's contribution of its own resources to plan outlays has been consistently lower than average in per-capita terms. Gujarat, Haryana, Maharashtra and Punjab have contributed significantly to their own plans, enabling them support higher plan outlays. This is also true of Andhra Pradesh, Karnataka and Madhya Pradesh from the Fifth Plan onwards.

Plan spending presently accounts for over a third of UP's total expenditures (38 percent in the Sixth Five Year Plan). Of total plan expenditures, over two-fifths are revenue expenditures (42 percent in the Sixth Plan). UP's plan expenditures comprise a higher proportion of overall expenditures than in most major states, the average being 32 percent. On the other hand, the revenue component of the UP Plan is somewhat lower than the average for major states (44 percent).

Table 7.25 shows the sectoral composition of plan outlays from the First Plan onwards. Expenditures on agriculture and allied activities rose from an initial level of 25 percent in the First Plan to around 30 percent in the Second and Third Plans. Thereafter, this category registered a continuous decline, to 14 percent in the Sixth Plan. This trend was reversed in the Seventh Plan, when the share of agriculture and allied activities rose to 19 percent. Expenditure on social and community services declined from an initial figure of 29 percent in the First Plan to around 23 percent in the Fourth and Fifth Plans. This category has since shown a rising trend. Spending on transport and communications has risen consistently and in fact more than doubled

from four percent in the First Plan to 10 percent in the Seventh Plan. These increases, particularly in the 1980s, have been partly at the expense of power sector outlays, which dropped from 38 percent in the Fourth Plan to 25 percent in the Seventh Plan.

Centrally Sponsored Schemes

Centrally Sponsored Schemes (CSS) play an important role in central transfers as well as in plan expenditures. The states as a group have favored their reduction, partly on the assumption that an increase in allocations through the divisible pool of plan resources would result. Individually, however, states and their departments have sought to maximise their access to such schemes. An important issue in this context is the longer-term impact of CSS on states' current expenditures. Most schemes are sponsored for a specified period of time, normally the duration of a Plan. After that the states are expected to meet the full costs of the maintenance of these schemes. It is politically difficult for states to refuse centrally sponsored schemes, and even more difficult to terminate them at the end of the period of central sponsorship. This places a sizable burden on state finances.

This problem was of much lesser magnitude prior to the Sixth Plan. In the last three years of the Fifth Plan, CSS outlays (including central sector scheme outlays) averaged around Rs. 150 crores annually, with the central government meeting over 80 percent of the cost. In the Sixth Plan (1980-85) expenditures on CSS doubled, to an annual average of Rs. 330 crores. In the Seventh Plan (1985-90), annual CSS expenditures have exceeded Rs. 825 crores. Table 7.26 provides information on centrally sponsored (including central sector) schemes in the Seventh Plan. It is clear that in the Eighth Plan, UP will need to meet large nonplan liabilities on this account, in addition to the continuing legacy of CSS of preceding Plans. This is likely to further constrain the budgetary resources of the state government and to limit its ability to finance additional developmental expenditures.

FINANCING AND BALANCE SHEET

Debt and Financing of Capital Formation

The sources of borrowing for the state government are (1) loans from GOI; (2) loans raised through bond issues in the open market; (3) loans negotiated with public financial institutions; (4) state provident funds and other deposits; (5) floating loans such as ways

and means advances; and (6) overdrafts from RBI. GOI loans provided the main source of borrowing and represented 52.2 percent of UP's debt at the end of 1987-88. Next in order of importance were market loans (17 percent) and small savings loans (15 percent). Provident fund and other deposits represented 13.3 percent of the total state debt, while institutional loans accounted for only two percent. GOI borrowings (including small savings loans) have declined in relative importance, from 88 percent of gross borrowings in 1965-70 to 77 percent in 1985-90. On the other hand, market loans have increased their share from 10 percent in 1965-70 to 19 percent in 1985-90. Indebtedness in UP was relatively low in comparison with that of many other states. The Ninth Finance Commission (Second Report) estimated the outstanding debt per capita for UP in 1988-89 to be Rs. 754, and debt as a proportion of State Domestic Product to be 48.7 percent. Among the major states, UP's per-capita debt was almost the same as that of Andhra Pradesh and higher than only Bihar, Karnataka, Madhya Pradesh and Tamil Nadu. This is partly explained by the relatively low levels of per-capita central plan assistance, and also by limited access to market borrowing. The average level of per-capita debt in the major states was Rs. 824.

Assets and Liabilities

Net borrowings may be utilized for a variety of purposes: (1) to bridge current account deficits, (2) for direct capital expenditures and (3) for loans for capital formation, working capital or consumption. In the period 1965-85, UP had a current account surplus (including tax transfers from GOI in current receipts) and did not need to cover current deficits with borrowings. Debt financing was therefore wholly deployed for capital expenditures and for relending to enterprises and others. At the end of 1989-90, such "assets", in the form of cumulative capital expenditures, loans advanced by government, and other investments, amounted to Rs. 15,737 crores. This was far in excess of the "liabilities", measured in terms of outstanding debt, of Rs. 11,617 crores. This comparison, however, is misleading, for a number of reasons. First, not all loans have resulted in productive assets. A large proportion of the loans have been extended either specifically for consumption or to cover losses of public undertakings. Second, the "assets" of the state government have rarely generated cash flows to amortize the capital invested in them. As a result, "assets" have not generated surpluses to offset "liabilities" incurred by the government in their creation.

Capital formation (capital expenditures and loans for capital

formation) is financed from (1) current savings and (2) capital resources, i.e. net borrowings, loan repayments to the state government, capital receipts, and drawals from cash balances. Current savings represent the excess of current revenues over current outlays (current expenditures and loans for consumption). Table 7.27 shows the pattern of financing of capital formation in 1965-90. Current revenues excluding tax transfers from GOI have consistently been inadequate to finance current outlays. In fact the deficit on this account has shown an increasing trend in the period 1965-90. At the same time, tax transfers from GOI have steadily increased; in each successive five-year period they more than doubled. The ratio of current savings to current revenues increased from 15.5 percent to 19.5 percent in the period 1965-80, but dropped sharply to 9 percent in 1980-85 and to negative levels in 1985-90. Table 7.28 shows the incremental availability and use of resources in different five year periods. In 1975-80, the current deficit was partly contained and increases in tax shares and capital resources helped to achieve a significant step-up in capital formation. In the 1980s, however, the current deficit increased sharply. Despite the substantial increases in tax shares and capital resources, the increment to capital formation was more or less stagnant in 1980-90.

In the longer term, capital formation is likely to depend to a greater extent, in comparison with earlier periods, on the level of current savings. As repayment burdens accumulate, the rate of growth of net borrowings will tend to decelerate. It is also unlikely that revenue transfers from GOI will continue to grow at the rates at which they have increased in the preceding two decades. Under these circumstances, the task of increasing current savings will have to depend mainly on (1) increases in the state's own tax and nontax revenues and (2) containment of current outlays. Otherwise a decline in real capital formation will be likely.

SUMMARY AND FUTURE PERSPECTIVES

In the period 1965-90, there has been an unprecedented expansion in the scope and scale of budgetary operations in UP. In nominal terms, there has been manifold growth of net final outlays (from about Rs. 320 crores in 1965-66 to over Rs. 4,000 crores in 1989-90) and in receipts to finance them. A significant part of this increase is undoubtedly accounted for by inflation. But government spending, on developmental activities, in support of its regulatory functions, and on itself, has vastly increased.

It is in this context that the sustainability of a path of continued expansion and the efficiency of the investments made assume particular significance. In the face of mounting expenditures and the need to maintain the momentum of development, the UP state government made considerable efforts to mobilize and secure additional resources. Overall resources have risen from about 10 percent of NSDP in 1965-70 to over 16 percent in 1980-85. The state's efforts have been facilitated by impressive increases in central revenue transfers. Further real growth of the latter is, however, likely to be constrained by the center's own growing resource limitations and by budgetary pressures, as well as by competing demands from other states.

In the absence of recourse to deficit financing, the state will perforce have to concentrate its efforts on its own current (tax and nontax) revenue and on its access to borrowings. Current revenues have grown much faster than borrowings. Most of the growth in the former is attributable to increases in tax revenues. The tax structure is dominated by indirect taxes; the contribution of direct taxes to the state's total tax revenue is marginal. In fact, the share of direct taxes on agriculture has declined to insignificance from initially low levels. Among indirect taxes, sales taxes and excise duties on liquor currently contribute about 73 percent of revenues. The prospects for continued increases in receipts from these sources are limited, partly on account of the high level of central impositions. An additional inhibiting factor is the need to harmonize rates with those prevailing in neighbouring states to prevent trade and revenue diversion. A further widening of the tax base, particularly with respect to sales taxes, would also need to be weighed against the need to mitigate the regressive characteristics of the present tax structure. It is likely, however, that in addition to structural changes, there would be benefits from rationalization of rules and procedures and from increases in the efficiency of tax collection.

As in many other states, the quest for rapid industrial development has led to the adoption of incentive-based industrial policies. One of the key elements of the package offered to entrepreneurs is sales tax exemption for up to seven years and options for sales tax deferment. This is beginning to adversely affect the growth of tax revenues; an objective assessment of the benefits vis-a-vis revenue foregone is imperative. Tax deferment in addition tends to strain the capacity of tax administration systems. It is unlikely that a single state would now be able to rationalize its approach to tax-based industrial incentives. This would need a coordinated approach at least among

neighbouring states.

Indirect taxes other than sales taxes and state excise duties have exhibited only moderate rates of growth. It should be possible to increase yields particularly from stamp duties and registration fees. It is estimated that considerable evasion occurs as a result of the underreporting of property values in sales transactions.

In the field of direct taxes, a promising course of action, from many viewpoints, would appear to be to increase direct taxation of agriculture and of rural and urban wealth. This may not be easy, even given the requisite level of political fortitude. Rates, structures and exemptions would need to be in conformity with central direct taxation. There is little evidence to show that the central government is prepared for any substantive initiatives in this respect; in fact, recent signals have been to the contrary. In addition, long practised and well-established methods of evasion may hamper attempts to achieve progressivity in direct taxes at the state level. The UP state government's Taxation Review Committee (1985) recognized the desirability of increasing direct taxes on agriculture, however. It recommended that land revenue be revised through simplified and quick settlement operations. It suggested that the circle rate of basic land revenue for each of the soil classes in an assessment circle be computed at 1.5 percent of the gross value of output. The land revenue payable on individual holdings would be 50 percent of basic land revenue for holdings below 3.125 acres, rising to 150 percent on holdings above 12.5 acres. Interim hikes in the ceilings on land revenue payable and withdrawal of exemptions for land revenue also were recommended. Such measures are likely to be feasible and possible to implement, given the outreach and organization of the land revenue administration in the state.

Even as tax revenues have shown relative buoyancy (partly supported by successive changes in prohibition policy), nontax revenues have remained sluggish. Among the major reasons for this are significant indirect subsidies, including those which are reflected in low recovery rates on investments. Irrigation charges have stagnated and now cover only part of operating and maintenance costs. Interest collected on loans extended by the state government covers only a small fraction of the interest payments due. User charges and fees for many community and welfare services have been lowered or even waived in the 1980s. Collections on reduced rates have not been encouraging. Other major contributory factors are related to the inadequate performance of public sector enterprises, where returns have been low, even negative.

It is evident that the costs of subsidies in different sectors go far beyond the budgetary statistics. Undoubtedly, in an environment characterized by social and economic inequity, there will need to be some subsidization. Many of the subsidies, however, are not targeted. Some are even unintended but have established themselves over the years. Most of them have been inadequately conceived, partly because the resource perspective is insufficiently factored into the planning, implementation, and subsequent maintenance of investments. With respect to targeted subsidies, concerns relate to the actual extent of coverage of the target group and of diversions outside the target group. Subsidy overlap is another issue, particularly where incentives or grants are provided for the same purpose by different departments and agencies. Such areas include education, social welfare and industry. The burden of inadequately targeted and administered subsidies falls on the general taxation and revenues of the state. The combined overall effect of the present framework of taxes-cum-subsidies needs to be carefully evaluated. In several critical social service sectors like education, health and water supply, the quality of subsidized services and the delivery mechanisms are poor. In these areas it may be desirable to increase cost recovery to provide resources for upgradation of quality.

There is sufficient evidence to suggest that a significant proportion of subsidies may actually represent transfers to the nonpoor. Agricultural subsidies, which comprise a major part of overall subsidies, tend to benefit affluent farmers. These subsidies include non-recovery of water charges, below-cost pricing of power, procurement premia and subsidised provision of fertilizers and seeds. The benefits on this account accrue to relatively well-off farmers, since they have better access to land, water and pumpsets and produce a larger marketable surplus. In the industrial sector, major subsidies are related to the incentives for investment in backward areas, handloom rebates and fiscal exemptions. These incentives mainly benefit large and medium entrepreneurs, not small entrepreneurs. Similarly, handloom rebates tend to benefit traders and master weavers, not artisans and consumers.

The second major area for increasing nontax revenues lies in raising returns from the public sector. The present financial malaise of many state PSUs can be ascribed in part to initial uneconomic investment decisions, relating to location, product scale and technology. Some PSUs would require capital and managerial resources for their revival which are not presently available. A partial beginning was made, however, with decisions by the previous state

government to close down or sell two such enterprises (subsequently called into question by the new state government). It would require much more along these lines, including a decision to restrict state public enterprises to activities which are either catalytic or demonstrably add to infrastructure, in an efficient manner. Several specific areas need attention, including augmentation of management and professional capacities, reduction in overstaffing, an appropriate product and input pricing policy, and a reduction in working capital and general purpose subsidies.

On expenditure priorities, there has been a substantial shift from capital outlays, notably on irrigation and power, to current outlays, in agriculture and social services. Outlays for capital formation have shown a declining trend, and this should be a cause of concern. At the same time, the committed liabilities of the state have increased dramatically, to the point where they have seriously constrained allocative flexibility. There has been a noticeable "crowding out" effect on capital expenditures, particularly in the Seventh Plan. Continual accretions to nonplan expenditures are one of the major reasons for UP's relatively low balances from current revenues. As a result of growing nonplan expenditures, smaller amounts of funds have been available for project completion (resulting in higher costs and delayed benefits) and for initiating new programmes.

An area which has tended to be neglected is local body finances and capabilities. Both in urban and rural areas, local bodies have grown increasingly dependent on state government transfers. Without an adequate resource base of their own, and dependent on irregularly sequenced flows of funds, their contribution to development has faltered. These bodies can play an important role, particularly in the provision of basic services such as education, health, nutrition and water supply. The provision of incentives, in the form of an assured system of devolution, and enhanced powers of resource mobilization, could facilitate the emergence of a grassroots framework for developmental activities in these sectors.

Escalating salary and establishment costs, most of them effectively indexed against inflation, will need to be reviewed. Emoluments of government employees are already at relatively high levels in comparison with those in many other major states. The expansion in the numbers of employees and the growth of their remuneration has not been accompanied by commensurate increases in productivity. Even as it is necessary to contain further growth in the numbers of employees, their deployment, the pattern of governmental organization, training and professional skills would need to be attended to.

One other aspect of the phenomenal growth of budgetary operations has received insufficient attention. There has been little effort to incorporate systematic improvements in the management of a vastly increased scale of funds and transactions. This has adversely affected the efficiency of the system and its ability to deliver on assigned tasks in several ways. In the first place, planning and evaluation capabilities have lagged. This has resulted in an emphasis on the aggregate and on allocation without prioritization and without an objective assessment of costs and benefits. Secondly, financial, budgetary and accounting processes and procedures have remained largely unchanged. At different operational levels, from field directorates to expending entities, transaction volumes, intersectoral linkages and sectoral complexity have increased, without significant enhancement of capabilities. The combined effect on system accountability and on the quality of delivery has been adverse. In the longer term, the efficiency of state investments will in part rest on the ability to enhance planning and management capabilities, at the state and operational levels.

Table 7.1

Structure of Receipts, 1965-90

	(Rs. crores)				
	1965-70	1970-75	1975-80	1980-85	1985-90
Current revenues	1367.70 (72.6)	2482.06 (73.7)	5325.32 (75.3)	10324.92 (67.4)	20630.13 (62.1)
Of which:					
Tax revenues	1054.31	1892.27	4049.95	8254.45	204.64
Share of central taxes	385.72	904.99	1717.59	3934.48	8759.17
State direct taxes	108.70	216.21	175.82	112.94	138.71
State indirect taxes	559.89	771.07	2156.54	4207.03	8306.76
Nontax revenues	313.39	589.79	1275.37	2070.47	3433.49
Profits and dividends	85.82	90.51	162.20	159.89	161.66
Interest receipts	125.98	165.21	115.00	135.33	191.59
Other nontax revenue	101.59	334.07	998.17	1775.25	3080.24
Capital receipts	115.55 (6.1)	225.92 (6.7)	409.55 (5.8)	1257.65 (8.2)	2515.62 (7.9)
Internal resources of departmental undertakings	19.52	27.89	27.30	53.69	101.74
Capital transfers	96.03	198.03	382.25	1203.96	2413.88
Borrowings (net)	394.67 (21.0)	556.44 (16.5)	1583.50 (22.4)	3517.82 (23.0)	8451.01 (26.6)
Of which:					
Market loans (net)	17.46	71.82	151.64	527.04	1453.58
Loans from GOI (net)	265.77	354.74	1248.75	1691.93	5083.36
Other loans (net)	111.44	129.88	183.11	1298.85	1914.07
Drawals from cash	5.29 (0.3)	105.75 (3.1)	-247.99 (-3.5)	224.18 (1.5)	117.15 (0.4)
Total receipts	1883.21 (100.0)	3370.17 (100.0)	7070.38 (100.0)	15324.57 (100.0)	31721.91 (100.0)

Note: Figures in brackets represent percentages of total receipts.

Source: Economic and Functional Classification of the UP Budget.

Table 7.2

Growth of Receipts, 1965-85

	<i>(annual averages)</i>			
	1965-70	1970-75	1975-80	1980-85
1. Total receipts in current prices (Rs. crores)	376.64 (100)	674.03 (179)	1414.08 (375)	3064.91 (814)
2. Total receipts in constant prices of 1970-71 (Rs. crores)	423.67 (100)	576.32 (136)	866.46 (205)	1119.26 (264)
3. Per capita receipts in current prices (Rs.)	45.38 (100)	73.99 (163)	138.91 (306)	266.98 (588)
4. Per capita receipts in constant prices of 1970-71 (Rs.)	51.06 (100)	63.26 (124)	85.11 (167)	97.52 (91)
5. Receipts (as percent of NSDP)	10.14 (100)	12.23 (121)	15.82 (156)	16.90 (167)

Note: Figures in parentheses are index numbers with 1965-70 = 100.
NSDP = net state domestic product.

Source: Economic and Functional Classification of the UP Budget.

Table 7.3

Central Revenue Transfers and UP's Own Revenues, 1965-90

	(Rs. crores)				
<i>Source</i>	<i>1965-70</i>	<i>1970-75</i>	<i>1975-80</i>	<i>1980-85</i>	<i>1985-90</i>
Share in central taxes	331.55 (19.1)	852.45 (28.7)	1708.29 (27.3)	3763.29 (30.1)	8239.91 (32.9)
Of which,					
Share in income tax	138.57 (8.0)	367.14 (12.4)	555.06 (8.9)	857.50 (6.9)	2199.34 (8.8)
Share in Union excise duties	188.97 (10.9)	479.62 (16.1)	1146.27 (18.3)	2902.03 (23.2)	6037.74 (24.2)
Share in estate duties	4.01 (0.2)	5.69 (0.2)	6.96 (0.1)	3.76 (0.0)	2.83 (0.0)
Central grants	236.88 (13.7)	379.75 (12.7)	1130.44 (18.0)	2521.04 (20.1)	4802.78 (19.2)
Total central revenue transfers	568.43 (32.8)	1232.20 (41.4)	2838.73 (45.3)	6284.33 (50.2)	13042.69 (52.1)
State's own revenues	1162.70 (67.2)	1741.84 (58.6)	3428.06 (54.7)	6230.52 (49.8)	11973.27 (47.9)
Total revenues	1731.13 (100.0)	2974.04 (100.0)	6266.79 (100.0)	12514.85 (100.0)	25015.96 (100.0)
Central transfers per-capita (Rs.)	68	135	279	547	1026

Note: Figures in brackets represent percentages of total revenues.

Source: UP State Budget documents.

Table 7.4

UP's Own Tax Revenues: 1965-90

	(Rs. crores)				
Taxes	1965-70	1970-75	1975-80	1980-85	1985-90
Direct Taxes	123.61	96.91	175.39	145.79	153.29
Land Revenue	116.72	95.77	173.43	145.68	153.14
Agricultural Income Tax ^a					
Urban Land Tax	6.89	1.14	1.96	0.11	0.15
Indirect Taxes	472.44	912.54	2210.35	4383.72	8844.54
Sales Taxes	229.06	462.40	1272.24	2473.23	4745.86
State Excise Duties	99.67	168.36	308.23	650.91	1714.63
Stamp Duties (Gross) and Registration fees	51.53	95.93	239.83	494.82	1067.71
Motor Vehicles Tax	57.89	110.40	238.84	479.49	836.62
Entertainment Taxes	23.56	52.90	113.62	222.28	287.93
Other Indirect Taxes	10.73	22.55	37.59	62.99	191.79
All Taxes	596.05	1009.45	2385.74	4529.51	8997.83
Index	100	169	400	760	1510
Index in constant prices	100	128	238	NA	NA
Memorandum Items					
Per-capita tax revenues	71.81	110.81	234.36	394.55	NA
Index	100	154	326	549	NA
Index in constant prices	100	117	194	NA	NA
Tax revenue to NSDP (percent)	3.21	3.66	5.34	5.23	NA

^aNominal annual receipts are about Rs. 20 lakh, which is shown under the head Land Revenues.

Source: UP State Budget documents.

Table 7.5

Interstate Comparisons relating to Own Tax Revenues

State	Index of own tax revenue in 1986-87 (1960-61 = 100)	Average per capita own tax revenue in 1982-87 (Rs.)	Tax to NSDP ratio (percent)			
			1976-81	1980-81	1984-85	1986-87
Andhra Pradesh	3881	206.15	7.8	8.1	10.0	11.2
Assam	1997	83.61	3.9	2.7	4.2	4.9
Bihar	2109	66.47	4.4	4.2	4.1	4.6
Gujarat	5997	269.42	7.5	8.0	9.0	9.4
Haryana	1630	302.98	7.6	7.8	8.8	9.6
Karnataka	4938	229.09	8.4	8.9	10.3	10.9
Kerala	4035	226.35	8.9	9.6	10.9	12.2
Madhya Pradesh	3580	131.16	6.5	6.3	7.4	8.1
Maharashtra	4345	311.59	7.9	8.1	9.1	10.5
Orissa	3956	86.72	4.5	4.3	4.8	5.7
Punjab	NA	339.27	7.2	8.0	7.7	9.0
Rajasthan	3619	133.68	5.5	5.6	6.3	7.5
Tamil Nadu	4415	262.14	8.6	10.0	11.6	12.1
Uttar Pradesh	2661	97.92	5.1	4.6	5.3	5.7
West Bengal	2365	159.00	5.7	5.8	6.2	6.7
All major states	3167	172.37	6.7	6.8	7.7	8.5

Source: RBI Bulletin; SDP estimates as published by various states.

Table 7.6

Structure of UP's Own Tax Revenue, 1965-90

Tax	(percent)				
	1965-70	1970-75	1975-80	1980-85	1985-90
Direct Taxes	20.74	9.60	7.35	3.22	1.70
Land Revenue and agricultural income tax	19.58	9.49	7.27	3.22	1.70
Urban land tax	1.16	0.11	0.08	0.0	0.0
Indirect Taxes	79.26	90.40	92.65	96.78	98.30
Sales taxes	38.43	45.81	53.33	54.60	52.74
State excise duties	16.72	16.68	12.92	14.37	19.06
Stamp duties (gross) and registration fees	8.65	9.50	10.05	10.92	11.87
Motor vehicles tax	9.71	10.94	10.01	10.59	9.30
Entertainment taxes	3.95	5.24	4.76	4.91	3.20
Other indirect taxes	1.80	2.23	1.58	1.39	2.13
All Taxes	100.00	100.00	100.00	100.00	100.00

Source: UP State Budget documents.

Table 7.7

Agricultural Taxation in UP, 1965-85

(Rs. crores)

Quinquennium	Agricultural	Land revenue (annual average) ^a	Total direct	NSDP in agriculture (annual average)	Direct Taxes
	income tax (annual average)		taxes on agriculture (annual average)		on agricul- ture to NSDP in agri- culture (percent)
1965-70	-	23.34	23.34	2226.60	1.05
1970-75	-	19.15	19.15	3266.14	0.59
1975-80	-	34.69	34.69	4419.88	0.78
1980-85	-	29.14	29.14	7320.67	0.40

^aReceipts of "Vrihat Jot Kar" are nominal and are included under Land Revenue.

Source: UP State Budget documents; Department of Economics and Statistics publications for NSDP in Agriculture.

Table 7.8

Incidence of Agricultural Taxation

(Rs. crores)

Year	Land revenue	Purchase tax on sugarcane	Mandi tax	Sales tax/ purchase tax on foodgrain	Total taxes	NSDP in agriculture (current prices)	Ratio to NSDP in agriculture	
							Land revenue	Total taxes on agriculture
1980-81	2273	1575	1618	2300	7766	686013	0.33	1.13
1981-82	3556	2127	1732	2980	10395	683937	0.52	1.52
1982-83	2843	2132	1799	3215	9989	783492	0.36	1.27
1983-84	3485	2773	2176	3403	11837	850801	0.41	1.39
1984-85	2411	3045	2428	4117	12001	906672	0.27	1.32
1985-86	2791	2379	2826	4243	12239	1047020	0.27	1.17
1986-87	2948	3851	3166	3888	13853	1097065 ^a	0.27	1.17
1987-88	3575	3738	3363	5005	15681	1211188 ^a	0.30	1.29
1988-89	3000	2718	3779	5990	15487	1463346 ^b	0.21	1.06
1989-90 ^c	3000	3550	4454	8075	19079	169177 ^d	0.18	1.13
1990-91 ^c	3000	4175	8908 ^d	9000 ^d	25083	1955860 ^d	0.15	1.28

^aProvisional.^cRevised Estimates.^eBudget Estimates.^bQuick estimates.^dEstimated.Source: UP State Budget documents; *Bulletin No. 235*, Economics and Statistics Department of UP.

Table 7.9

Incidence of Indirect Taxation 1983-84
(as percent of consumer expenditure)

Expenditure Group (monthly per capita expenditure in Rs.)	Rural		Urban		Rural and Urban	
	State Indirect Taxes	State Sales Taxes	State Indirect Taxes	State Sales Taxes	State Indirect Taxes	State Sales Taxes
0-50	1.95	1.34	5.71	4.08	2.22	1.54
50-60	2.10	1.38	5.85	4.13	2.50	1.68
60-70	2.19	1.45	5.65	4.16	2.62	1.78
70-80	2.44	1.49	6.24	4.49	2.99	1.93
80-100	2.73	1.62	6.58	4.67	3.42	2.16
100-125	2.97	1.72	6.86	4.62	3.84	2.37
125-150	3.80	1.84	7.20	4.71	4.55	2.48
150-200	3.89	1.99	7.27	4.66	4.74	2.66
200-250	4.17	2.20	8.11	4.72	5.30	2.92
250 and above	4.80	2.79	12.93	6.10	7.71	3.96
All Groups	3.32	1.87	8.33	4.95	4.47	2.58

Source: UP Taxation Review Committee Report, 1985.

Table 7.10

Buoyancy and Elasticity of UP Taxes

	1971-72 to 1982-83		1981-89	
	Buoyancy	Elasticity	Buoyancy	Elasticity
Land revenue	0.99	NA	0.24	NA
Stamps and registration fees	1.56	1.22	1.40	1.13
State excise taxes	1.16	0.83	1.59	0.81
Taxes on vehicles, passenger, goods	1.29	1.00	1.08	0.63
General sales tax (including motor spirit sales tax)	1.59	1.36	1.21	1.04
Total sales tax	1.56	1.38	1.19	1.03
Entertainment tax	1.31	1.06	0.72	0.59
Electricity duty	0.93	0.27	1.52	1.07
Total taxes ^a	1.40	1.34	1.24	0.97

^aIncluding land revenue for the earlier period but not for the later period.

Source: UP Taxation Review Committee Report 1985, pp. 278-279.

Table 7.11

Buoyancy and Elasticity of Major Taxes in UP and Neighbouring States, 1971-72 to 1982-83

State	Agricultural tax		State tax		Taxes on Vehicles ^a		General Sales Tax including motor spirit sales tax		Total Sales Tax	
	Buoyancy	Elasticity	Buoyancy	Elasticity	Buoyancy	Elasticity	Buoyancy	Elasticity	Buoyancy	Elasticity
Bihar	0.4571	-0.7536	0.1356	-1.6229	1.3715	1.2312	1.8364	1.6108	1.7222	1.5384
Delhi ^b	0.1379		1.7282	0.8777	1.0879	1.4000	1.31025	1.1422	1.4403	1.3181
Haryana	0.8785	0.3870	1.2375	1.2076	1.4490	1.3751	1.7596	1.4763	1.5054	1.3623
Madhya Pradesh	0.3097	0.1835	1.3386	1.1470	1.9417	1.5812	1.6325	1.5619	1.6155	1.3538
Punjab	0.4351	-0.0122	1.1813	1.0390	1.0390	1.0159	1.2903	0.9315	1.3099	1.0329
Rajasthan	0.4234	0.4234	0.7921	0.2901	0.2901	1.2882	1.5630	1.3668	1.5626	1.3983
Uttar Pradesh			1.1606	0.8342	0.8342	1.0043	1.5892	1.3630	1.5634	1.3822
West Bengal	0.9133	-0.7536	1.2279	0.8385	0.8385	1.1575	1.6568	1.3093	1.6512	1.3542

Table 7.11 (Contd.)

State	Entertainment Tax		Electricity duty		Stamps and registration fees		Total tax revenue	
	Buoyancy	Elasticity	Buoyancy	Elasticity	Buoyancy	Elasticity	Buoyancy	Elasticity
Bihar	0.3201	0.1986	0.5010	0.4633	0.7330	0.3555	1.2385	0.9013
Delhi ^b	0.5515	0.5515			0.6216	0.6381	1.2713	1.1344
Haryana	0.9805	0.9269	1.7596	1.4763	1.1035	0.9869	1.3660	1.2533
Madhya Pradesh	1.3559	0.9675	1.7366	0.8900	1.4045	1.0716	1.5141	1.2580
Punjab	1.1391	0.7372	1.4688	1.3987	1.1923	0.8144	1.2441	1.1259
Rajasthan	1.4792	0.9894	1.4966	1.4966	1.3186	0.6331	1.3463	0.9338
Uttar Pradesh	1.3106	1.0653	0.9269	0.2792	1.5575	1.2239	1.3974	1.3425
West Bengal	1.1611	1.1004	0.6520	0.4592	1.1849	0.7331	1.4794	1.1199

^aMotor vehicles tax and passengers and goods tax.

^bElasticity estimates for Delhi pertain to the period 1973-74 to 1981-82.

Source: *UP Taxation Review Committee Report, 1985, page 278-279.*

Table 7.12

Structure of Nontax Revenues in Uttar Pradesh

	<i>Annual average in 1980-85 (Rs. crores)</i>	<i>Percentage of total</i>	<i>Annual Average in 1985-90 (Rs. crores)</i>	<i>Percentage of total</i>
Interest receipts	122.04	35.9	243.11	40.8
Dividends from public enterprises	1.75	0.5	5.25	0.9
Others	2.46	0.7	2.71	0.4
Receipts from general services	40.76	12.0	113.39	19.1
Receipts from Social and community service	43.16	12.7	41.98	7.1
Receipts from Economic Services	130.03	38.2	188.65	31.7
Of which:				
Agricultural receipts	5.85	1.7	8.22	1.4
Forest receipts	56.17	16.5	76.46	12.8
Others	68.01	20.0	103.97	17.5
Total	340.20	100.0	595.09	100.0

Source: UP State Budget documents.

Table 7.13

Financial Performance of UPSEB, 1959-88

(Rs. crores)

Year	Gross revenue ^a	Operating expenditure	Operating surplus	Surplus after interest payments and depreciation provision	Subsidy from government
1959-60	6.76	3.61	+3.15	-0.59	-
1960-61	7.36	4.17	+3.19	-0.78	-
1961-62	8.75	4.43	+4.32	-0.22	-
1962-63	11.75	5.73	+6.02	+0.96	-
1963-64	13.15	7.35	+5.80	-0.23	-
1964-65	16.30	9.35	+6.95	+0.95	-
1965-66	22.67	12.20	+10.47	-1.83	-
1966-67	29.63	15.88	+13.75	-3.86	-
1967-68	34.39	19.48	+14.91	-7.97	-
1968-69	46.67	24.52	+22.15	-6.34	-
1969-70	54.69	31.66	+23.03	-10.13	3.30
1970-71	61.86	36.66	+25.20	-15.52	-
1971-72	67.44	38.13	+29.31	-8.55	-
1972-73	83.98	48.65	+35.33	-9.71	-
1973-74	79.98	55.16	+24.82	-30.63	-
1974-75	110.39	86.36	+24.03	-9.24	-
1975-76	166.08	120.19	+45.89	-12.03	-
1976-77	192.41	129.58	+62.83	-0.25	-
1977-78	176.27	145.59	+30.68	-18.53	-
1978-79	224.82	175.47	+49.35	-6.43	-
1979-80	256.70	216.58	+40.12	-83.50	101.00
1980-81	284.11	263.53	+20.58	-118.49	144.57
1981-82	347.85	319.43	+28.42	-124.97	159.40
1982-83	456.05	419.45	+36.60	-134.99	175.13
1983-84	558.57	499.22	+59.35	747.48	204.80
1984-85	613.87	549.20	+64.67	-264.56	222.50
1985-86	674.11	661.24	+12.87	-359.48	254.90
1986-87	891.10	661.24	+12.87	-359.48	254.90
1987-88	977.52	1009.79	-32.27	-383.87	424.70

^aExcluding subsidy for rural electrification.

Source: UPSEB accounts; UP Plan documents.

Table 7.14

Costs, Tariffs and Sales Realization in 1987-88*(Paise per kwh)*

<i>Consumer Category</i>	<i>Cost of generation and distribution</i>	<i>Average charges for electricity</i>	<i>Average sales realization^a</i>
Domestic	NA	65.80	83.87
Commercial	NA	83.42	104.50
Industry: Low tension	NA	96.34	101.40
Industry: High tension	NA	102.75	101.40
Agriculture			
Small Farmers	NA	23.99	22.32
Other Farmers	NA	23.99	22.32
All consumers	95.56	63.32	68.76

^aRevenue from sale of power plus electricity duty and other state levies divided by the number of units sold.

Source: *Annual Plan 1990-91*, page 25; Schedule-3 of *Statement of Accounts 1987-88*.

Table 7.15

Impact of the Agricultural Power Tariff, 1980-88

Year	Agricultural consumption (Million units)	Cost of supply to agriculture (paise ^a)	Total cost of supply to agriculture (Rs. crores)	Sales realisation from agriculture (Rs. crores)	Difference between cost and realisation (Rs. crores)	Number of electrified pump sets (Lakhs)	Shortfall in realisation per pumpset (Rs.)
1980-81	2773	55.30	153.35	50.65	-102.70	4.03	2548
1981-82	2818	63.44	178.77	61.98	116.79	4.35	2685
1982-83	3398	66.15	224.78	76.37	-148.41	4.61	3219
1983-84	3506	73.47	257.58	96.51	-161.07	4.85	3321
1984-85	3611	78.71	284.22	100.62	-183.60	5.09	3607
1985-86	3723	85.05	316.64	103.68	-212.96	5.38	3958
1986-87	4938	85.38	421.61	135.05	-286.56	5.70	5027
1987-88	5869	95.56	560.84	130.99	-429.85	5.93	7249
1980-88 (Average)					-205.24		3952

^aAs the category-wise cost of electricity is not available, the average cost for all consumer has been applied to agriculture category also.

Source: UPSEB accounts.

Table 7.16

Financial Performance of UPSRTC, 1985-90

	(Rs. crores)					
	1985-86	1986-87	1987-88	1988-89	1989-90	VII Plan Total
Net Profit/loss	-17.52	-8.23	0.04	-17.57	-24.75	-68.03
Depreciation						
Reserve Fund	18.29	23.76	34.23	40.49	42.20	158.97
Internal Resources	0.77	15.53	34.27	22.92	17.45	90.94
Repayment of term loans	8.45	31.04	17.43	22.88	25.34	105.14
Contribution to the Plan	-7.68	-15.51	16.84	-0.04	-7.89	-14.20

Source: UP Plan documents.

Table 7.17

UP State Enterprises other than UPSEB

	(Rs. lakh)		
<i>Particulars</i>	<i>1987-88</i>	<i>1988-89</i>	<i>1989-90</i>
INVESTMENT	356,050.06	422,056.68	483,590.43
State government funds:	156,884.32	180,195.46	214,635.86
Equity	69,690.17	95,144.50	106,975.12
Loans	87,194.15	85,050.96	107,660.74
External Resources:	115,292.02	144,385.91	159,266.56
Equity	5,907.86	8,734.41	11,231.14
Loans	109,384.16	135,561.50	148,035.42
Grants/Subsidy	83,873.72	97,475.31	109,688.01
CAPITAL EMPLOYED	171,171.07	201,527.12	293,530.45
Net fixed assets	42,927.40	48,582.35	113,182.50
Net working capital	128,243.67	152,944.77	180,347.95
TURNOVER	131,606.86	156,489.20	174,428.31
GROSS PROFIT/LOSS	9,130.74	4,804.13	6,495.90
DEPRECIATION	6,985.57	8,198.78	13,078.93
PROFIT/LOSS AFTER TAX	-6711.04	-13,520.65	-15,009.86
Profit earned	2,890.52	1,910.56	6,065.51
Number of enterprises	23	25	31
Loss incurred	-9,601.56	-15,431.21	-21,075.37
Number of enterprises	37	35	31
CASH PROFIT/LOSS	274.53	-5,321.87	-1,930.93
INTEREST ON			
GOVERNMENT LOANS	4,169.49	3,912.63	6,970.36
CUMULATIVE DEFICIT	55,723.34	70,220.53	90,561.66
INTERNAL RESOURCES	51,286.18	60,600.47	77,607.65
Reserves and surplus	16,791.01	18,421.97	23,654.50
Depreciation (cumulative)	34,495.17	42,178.50	53,953.15
Number of Enterprises:			
a. Regularly profit making during the last 3 years	19	15	15
b. Regularly loss making	24	23	26
c. Making either profit or loss during last 3 years	17	22	21
Number of Employees	145,736	149,003	156,810

Table 7.18

**Receipts and Expenditure for State Irrigation
Works, 1983-88**

		<i>(Rs. crores)</i>	
<i>Receipts</i>	<i>1983-88 Annual Average</i>	<i>Expenditure</i>	<i>1983-88 Annual Average</i>
Commercial canals		Commercial canals	
Irrigation component in land revenue		Maintenance	58.12
Water charges	48.40	Interest	124.10
Other receipts			
Total	48.40	Total	182.22
Commercial state tube wells	5.74	Commercial state tubewells	
		Maintenance	95.24
		Interest	32.97
		Total	128.21
Noncommercial drainage		Noncommercial drainage	
Irrigation component in land revenue	0.02	Maintenance	0.27
Other receipts			
Total	0.02	Total	0.27
Total of commercial and Non-commercial irrigation	54.16	Total of commercial and non commercial irrigation	310.70

Source: UP State Budget documents.

Table 7.19

UP Final Net Outlays, 1965-90

<i>(Rs. crores)</i>					
<i>Item</i>	<i>1965-70</i>	<i>1970-75</i>	<i>1975-80</i>	<i>1980-85</i>	<i>1985-90</i>
Current expenditure	1124.41	2063.79	4274.63	9356.11	22415.70
Compensation of Employees	460.76	804.38	1477.47	3005.61	7357.02
Purchase of goods and services	192.57	314.92	677.20	1432.93	2086.55
Interest	124.77	184.71	301.06	653.79	2456.23
Grants	248.53	568.76	1246.00	2765.32	7248.25
Subsidies	64.03	130.50	420.00	984.46	2595.73
Other transfers	33.75	60.52	152.90	514.00	671.92
Capital expenditure	366.80	825.25	1708.18	4063.80	7359.24
Net capital formation	308.70	731.99	1430.81	3347.25	6125.12
Renewals and replacements	15.14	30.62	46.09	203.22	401.42
Other capital transfers	42.96	62.64	231.28	513.33	832.70
Loans and advances (net)	392.00	481.13	1087.57	1904.66	1946.97
For capital formation (gross)	466.33	635.60	1194.00	2206.22	2253.24
For current consumption (gross)	31.78	28.06	9.78	24.52	276.17
Deduct repayments	106.11	182.53	116.21	326.08	572.44
Final outlay (net)	1883.21	3370.17	7070.38	15324.57	31721.91

Source: Economic and Functional Classification of the State Budget of UP.

Table 7.20

Outlays on Consumption and Capital Formation (Gross), 1965-90

(Rs. crores)

<i>Outlays</i>	<i>1965-70</i>	<i>1970-75</i>	<i>1975-80</i>	<i>1980-85</i>	<i>1985-90</i>
Consumption outlays^a					
In current prices	1156 (58.12)	2092 (58.88)	4284 (59.62)	9381 (59.94)	22692 (70.28)
In constant prices of 1970-71	1261 (56.09)	1821 (60.60)	2859 (66.32)	N.A.	N.A.
Outlays on capital formation^b					
In current prices	833 (41.88)	1461 (41.12)	2902 (40.38)	6270 (40.06)	9602 (29.73)
In constant prices of 1970-71	987 (43.91)	1184 (39.40)	1452 (33.68)	N.A.	N.A.
Total gross outlays					
In current prices	1989 (100.00)	3553 (100.00)	7186 (100.00)	15651 (100.00)	32294 (100.00)
In constant prices of 1970-71	2248 (100.00)	3005 (100.00)	4311 (100.00)	N.A.	N.A.

^aCurrent expenditure plus loans for consumption.

^bCapital expenditure plus loans for Capital formation.

Note: Figures in parentheses are percentages to respective Column totals.

Source: Table 7.19 and price deflators.

Table 7.21

Functional Classification of UP Outlays, 1980-90

(Rs. crores)^a

Sector	Current Outlays	Capital Expenditure including loans ^b	Total
General Services	6697.96 (21.08)	412.18 (2.55)	7110.14 (14.83)
Social and Community services	14201.94 (21.08)	3408.51 (36.73)	17610.45 (44.70)
Education	9453.28 (29.75)	369.59 (2.29)	9822.87 (20.49)
Medical, health and sanitation	1868.48 (5.88)	247.70 (1.53)	2116.18 (4.41)
Housing, urban and community development	946.49 (2.98)	2548.40 (15.76)	3494.89 (7.29)
Social welfare	1746.70 (5.50)	172.92 (1.07)	1919.62 (4.00)
Others	186.99 (0.59)	69.90 (0.43)	256.89 (0.54)
Economic services	7529.32 (76.02)	12295.58 (41.35)	19824.90 (23.70)
Agricultural and allied	5119.25 (16.11)	4410.72 (27.27)	9529.97 (19.88)
Industry and minerals	475.56 (1.50)	1422.30 (8.79)	1907.86 (3.96)
Water, power development and water supply	689.81 (2.17)	3699.89 (22.88)	4389.70 (9.15)
Transport and communication	875.35 (2.76)	2368.79 (14.65)	3244.14 (6.77)
Others	369.35 (1.16)	393.88 (2.43)	763.23 (1.59)
Other purposes	3342.59 (10.52)	56.92 (0.35)	3399.51 (7.09)
Total	31771.81 (100.00)	16173.19 (100.00)	47945.00 (100.00)

^aFigures in parentheses represent percentages of total outlays of the relevant category (current, capital, total).

^bExcluding repayment of debt.

Source: Economic and Functional Classification of the UP Government Budget.

Table 7.22

**Cost Recovery for Services provided by the UP Government
(1989-90^a)**

(Rs. crores and percent)

<i>Services</i>	<i>Revenue expenditure</i>	<i>Nontax revenue</i>	<i>Unrecovered cost</i>	<i>Cost recovery rate</i>
General Services	4472.64	215.02	4257.62	4.81
Social Services	2166.49	48.53	2117.96	2.24
Education (including technical education, sports and youth welfare and art and culture)	1325.02	30.16	1294.86	2.28
Medical and public health	307.12	11.00	296.12	3.58
Family planning	73.51	0.13	73.38	0.18
Water supply and sanitation	129.90		129.90	-
Housing	5.77	2.45	3.32	42.46
Social security and welfare	101.24	1.16	100.08	1.15
Other social services	223.93	3.63	220.30	1.62
Economic Services	1960.11	482.29	1477.82	24.61
Agriculture and allied services	363.25	93.17	270.08	25.61
Industries and minerals	76.23	11.76	64.47	15.43
Other economic services	1520.63	377.36 ^b	1143.27	24.82
Compensation and assignment to local bodies and Panchayat Raj institutions	42.65		42.65	
Total	8641.89	745.84	7896.05	8.63

^aBudget estimates.^bThis includes receipts from irrigation also.

Sources: UP Budget, 1989-90, Volume-II.

Table 7.23

Per-Unit Subsidies at Different Educational Levels**(Rs. crores and Rs. per student)*

<i>Level of education</i>	<i>Total Outlay^b</i>	<i>Nontax revenue^c</i>	<i>Enrol-ment (Lakhs)^d</i>	<i>Outlay per student</i>	<i>Recovery per student</i>	<i>Subsidy per student</i>
Primary Education	690.24	3.50	156.66	440.60	2.23	438.37
Secondary Education	447.38	23.79	46.36	965.01	51.32	913.69
Pre-University and Higher Education	107.97	0.95	5.95	1814.62	15.97	1798.65

*Based on 1989-90 Budget Estimates.

^bThis does not include expenditures on adult education, technical education, training and research.

^cThis does not include receipts of special education, technical education and general receipts.

^dIn respect of recognised educational institutions only.

Source: *Budget in Brief-1989-90*; Budget 1989-90 Volume 4; and Education Directorate figure for 1988-89 increased by five percent.

Table 7.24

Plan Financing in Different States, 1969-90

(Rs. per capita)^a

State	Fourth Plan		Fifth Plan		Sixth Plan		Seventh Plan	
	Plan Expenditure	Own Resources						
Andhra Pradesh	98	45	338	200	740	508	1195	822
Bihar	85	27	210	92	523	268	905	499
Gujarat	204	146	516	402	1453	1212	2247	1854
Haryana	357	281	675	498	1563	1272	2889	2502
Karnataka	128	71	369	255	910	717	1195	896
Kerala	156	76	313	168	771	544	984	452
Madhya Pradesh	114	53	345	266	928	668	1681	1230
Maharashtra	199	152	527	434	1294	1082	2083	1731
Orissa	114	43	291	122	712	367	1230	708
Punjab	316	244	694	547	1396	1146	2424	2080
Rajasthan	120	37	336	186	829	548	1164	722
Tamil Nadu	134	86	279	156	870	686	1396	1047
Uttar Pradesh	132	74	329	185	738	488	1183	775
West Bengal	82	34	283	176	549	377	931	657
All States	137	79	356	229	864	628	1392	1002

^aPopulation of 1971 was used in calculating per-capita outlays and own resources.

Source: *Statistical Statements on Finances and Plans*, Ministry of Finance, July-1988 Issue.

Table 7.25

Sectoral Composition of Plan Expenditures in Uttar Pradesh, 1951-90

(Rs. crores)^a

	1st Plan (51-56)	2nd Plan (56-61)	3rd Plan (61-66)	Annual Plans (66-69)	4th Plan (69-74)	5th Plan (74-80)	6th Plan (80-85)	7th Antici- pated (85-90)
Agriculture and allied activities	3918 (25.5)	7156 (30.7)	16414 (29.3)	13370 (29.4)	24193 (20.8)	57208 (15.3)	90107 (13.6)	229151 (19.0)
Social and community services	4474 (29.2)	4601 (19.7)	10335 (18.4)	4922 (10.8)	14846 (12.7)	49051 (13.2)	125871 (19.2)	24438 (20.3)
Irrigation	3291 (21.5)	2543 (10.9)	6168 (11.0)	5200 (11.4)	18476 (1.59)	73806 (19.7)	139582 (21.2)	209672 (17.4)
Power	2331 (15.2)	5675 (24.3)	15701 (28.0)	17536 (38.5)	44651 (38.2)	137425 (36.8)	186217 (28.2)	302444 (25.1)
Industry and minerals	637 (4.2)	1292 (5.5)	2084 (3.7)	1824 (4.0)	4177 (3.6)	22165 (5.9)	43077 (6.5)	66980 (5.6)
Transport and communication	686 (4.4)	1537 (6.6)	2814 (5.0)	1689 (3.7)	7796 (6.7)	33234 (8.9)	67790 (10.3)	124216 (10.4)
Others	--	532 (2.3)	2547 (4.6)	991 (2.2)	2418 (2.1)	921 (0.2)	6785 (1.0)	26113 (2.2)
Total	15337	23336	56063	45532	116557	373810	659429	1202894

^aFigures in parentheses represent percent of total plan spending in the period concerned.

Source: *Plan Expenditure in Uttar Pradesh* (Published by State Planning Commission, Uttar Pradesh) and draft Annual Plan, 1986-87, Vol. II.

Table 7.26

Centrally Sponsored Schemes in UP (1985-90)*(Rs. crores)*

<i>Sector</i>	<i>Total outlays</i>	<i>Central share</i>	<i>as percent of total outlay</i>
Agriculture and allied activities	819	479	58.5
Rural and area development	1492	1133	75.7
Irrigation	12	7	58.3
Power	45	45	100.0
Industry	122	81	66.4
Transport and communications	86	66	76.7
Social and community Services	1553	1429	92.0
Others	5	3	60.0
Total	4134	3243	78.5

Source: UP Plan documents, 1985-86 to 1989-90.

Table 7.27

Financing of Capital Formation 1965-90

	(Rs. crores)				
Item	1965-70	1970-75	1975-80	1980-85	1985-90
Current revenues net of shared taxes	1036.15	1577.07	3607.73	6390.44	11878.96
Current outlays ^a	1156.19	2091.85	4284.41	9380.63	22691.87
Current deficit	-120.04	-514.78	-676.68	-2990.19	-10812.91
Share of central taxes	331.55	904.99	1717.59	3934.48	8759.17
Current surplus after taking into account shared taxes	211.51	390.21	1040.91	944.29	-2053.74
Capital resources ^b	621.62	1070.64	1861.27	5325.73	11656.22
Outlays on capital formation ^c	833.13	1460.85	2902.18	6270.02	9602.48
Ratio of:					
Current savings to current revenues (percent)	15.5	15.7	19.5	9.1	-10.0
Contribution of current savings to capital formation (percent)	25.4	26.7	35.9	15.1	-21.4

^aCurrent expenditure and loans for consumption.

^bNet borrowings, loan repayments, capital receipts and drawals from cash balances.

^cCapital expenditure and loans for capital formation.

Source: Economic and Functional classification of the UP Government Budget; UP State Budget documents.

Table 7.28

Incremental Financing of Capital formation, 1970-90

<i>Item</i>	<i>Increase over previous quinquennium in Rs. crores</i>			
	<i>1970-75</i>	<i>1975-80</i>	<i>1980-85</i>	<i>1985-90</i>
Current revenue net of shared taxes	540.92	2030.66	2782.71	5488.52
Current outlays	935.66	2192.56	5096.22	13311.24
Deficit	-394.74	-161.90	-2313.51	-7822.72
Shared central tax	573.44	812.60	2216.89	4824.69
Current surplus after taking into account shared taxes	178.70	650.70	-96.62	-2998.03
Capital resources	449.02	790.63	3464.46	6330.49
Outlays on capital formation	627.72	1441.33	3367.84	3332.46

Source: Derived from Table 7.27.