

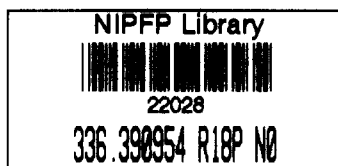


PUBLIC EXPENDITURE CONTROL IN INDIA

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ROLE OF THE STATE AND PUBLIC EXPENDITURE POLICY

1. Introduction:

Governmental interventions in resource allocation in market oriented economies are generally confined to the classic cases of market failure. Thus, provision of infrastructure and public utilities besides ensuring internal and external security, are the main functions of government, though, in cases where indicative planning is adopted as in France, resource allocation also is sought to be influenced through a system of incentives and directives. Government expenditure, in these countries is largely demand determined. In contrast, low levels of savings and investment, underdeveloped factor (particularly capital) and product markets, scarcity of skilled labour and virtual absence of an entrepreneurial class in the low income countries provide a strong supply-side rationale for the public sector to interfere in the allocation of resources. In these economies, allocating resources to cater to the prevailing demand pattern of the society is not necessarily an advisable goal, for, in a society with highly skewed income distribution, pursuit of such an objective would only result in the allocation of scarce resources for the benefit of higher income groups of population.

The socially desired allocation in an economy can be achieved (i) through the public sector participation in economic activities and/or (ii) by directing private sector allocation to desired channels through various regulatory devices and incentives. The physical, fiscal and financial controls are the instruments through which the pattern of private sector allocation can be influenced. Any analysis of the governmental role in the developmental process of an economy should, therefore, encompass not only the role of the public sector per se, but also the effect of various governmental regulations and controls¹.

This study, however, has a narrower focus. It is confined to the analysis of only government expenditures. Yet, the analysis is extremely important, for, it is through the public expenditure policy, the public sector allocation is predominantly determined in a planned economy. Besides, expenditure policy can be employed also to influence the resource allocation in the private sector. Even within the public expenditure analysis, the focus of the present study is to analyse the size, composition and growth of public expenditures in India with a view to review and evaluate the effectiveness of budgetary control and management procedures and practices.

2. Role of the State and Public Expenditure Policy:

As mentioned earlier, public expenditure analysis in mature market economies is primarily focused to identify the causal factors affecting its growth with a view to evolve appropriate measures to control the growth of government (Forte and Peacock, 1985). In these countries, as mentioned earlier, public expenditure is largely demand determined² (Peacock, 1985) and consist of mainly the public consumption expenditure and current transfers. Even after the Keynesian analysis brought to the fore the importance of public expenditure policy in maintaining high levels of employment and incomes, the emphasis has been to offset the deficiency in effective demand. Under normal full employment demand conditions or when supply bottlenecks exist, increase in government expenditure can only be at the cost of private consumption or investment and, therefore, controlling government expenditure growth assumes enormous significance. It is important to note that the emphasis in these countries is mainly to control the volume of government expenditure and not so much to alter its composition. Also, it is presumed that the expenditure control measures designed to limit overall spending are more likely to succeed than those which attempt to discriminate (Peacock, 1985).

In contrast, in developing economies, public expenditure is essentially determined by the government's urge to accelerate economic growth. Increase in the levels of expenditure, specifically, the investment expenditure - both physical and human, is imperative to enhance the rate of capital formation. The problem in these countries is not one of deficiency in consumption demand, but of low levels of saving and investment. Therefore, in these countries, it is not so much the growth of public expenditure as its composition that the policy makers should be concerned with. In other words, in a resource scarce economy, emphasis of expenditure policies should be on containing public consumption expenditure and current transfers so that a large volume of resources is released for capital formation. Again, given the high opportunity cost of scarce capital, the emphasis should be to obtain maximum returns from the investments made to ensure better cost-effectiveness of governmental investments and to generate higher rate of savings.

While the desirability of increasing investment expenditure to break the vicious cycle of low savings - low investment and low income economy can not be questioned, it would not be correct to presume that all consumption expenditures are unproductive. In fact, expenditures incurred on the maintenance of capital assets is as important as those on investing in capital expenditures themselves, for, the former enhances the productive life span of the capital assets, enables better utilisation of

these assets and thus, reduces the capital output-ratio in a capital scarce economy. Besides, the importance of expenditures on human capital formation, which is largely in the nature of current expenditures, in a developing economy has always been emphasised.

In India, sometimes, distinction is also made between development and non-development expenditures. The distinction has no relationship with current and capital expenditures, and refers only to broad functional classification adopted in the budgets. The expenditure on general service, which includes spending on administration, internal and external security and judiciary and interest payments are considered non-developmental whereas, expenditure on social, community and economic services are considered developmental. However, even the "the non-developmental" expenditure on public administration and defence can not always be considered 'unproductive', for, any developmental effort succeeds only in an environment of peace and internal and external security. Incurring the necessary expenditure for these purposes is, therefore, imperative.

In the Indian context, another distinction drawn is between 'Plan' and 'non-Plan' expenditures. While Plan expenditures represent spending on the new schemes taken up during the Plan, committed expenditures on all completed schemes are considered non-Plan. Sometimes, even some new schemes are taken

up outside the Plan. Any inferences on the productive nature expenditures on the basis of this distinction, therefore, may be misleading.

Thus, although some of these distinctions serve certain specific purposes, they may not always be appropriate to infer the productivity and hence, desirability of increasing expenditures a priori. The desirability of growth of expenditure and its allocative pattern can be judged only on individual cases on the basis of the marginal social returns from the expenditure incurred. Therefore, it is important to keep in mind that higher allocation to some heads necessarily involves a cost in terms of lower allocation to other sectors. Public expenditure policies, in the absence of quantitative studies has to proceed on the basis of speculations or informed judgements about the marginal social productivities of alternative spending opportunities. Once such judgements are made, the budgetary control mechanisms and management procedures should help in containing the proliferation of expenditures and weeding out the wastages to render public expenditures 'cost-effective'. Thus, expenditure control has to deal with policy control, process control as well as efficiency control.

As stated above, the varied perception of the role of the State in itself imparts a qualitatively different meaning and content to public expenditure control and management in the two

types of economies. Besides, the difference in the electorates' awareness and educational levels, differences in the access to information and its quality and the nature and strength of political and bureaucratic influences could cause vast differences in government expenditure growth between developing and developed countries.

3. Development Planning and Public Expenditure Policy in India:

In India, the role of the State and in turn, the public expenditure policy, was largely guided by the material and ideological considerations that prevailed on the eve of independence. The enormous urge to rapidly improve the standard of living of the people and a strong feeling of patriotism and more importantly, anti-imperialism provided the impetus for active State participation in the self-reliant development strategy adopted during the post-independent era⁴. Given the low levels of saving and investment, weak industrial base, lack of infrastructure, obsolete technology, scarcity of skilled manpower and the virtual non-existence of entrepreneurial class, it seemed obvious that if the country had to rapidly progress without foreign dependence, active State participation in the developmental process was imperative. The strategy of rapid industrialisation with particular emphasis on the development of "basic and heavy" industries necessarily assigned a key role to the public sector. This was dictated as much by ideological

considerations as it was by necessity, for, when the country embarked on development planning, the private sector neither had the necessary funds nor the resources in terms of managerial or scientific skill to undertake the risks involved in the large investment with long gestation periods⁵. It was presumed that raising the level of domestic savings, creating a strong and diversified base of capital and intermediate goods industries, ensuring adequate physical and financial infrastructure, incurring huge research expenditures required to achieve technological self-reliance and its continuous upgradation, were possible only by assigning `commanding heights` to the public sector.

As public sector was to set the pace of development both in the Harrod-Damar type of model adopted for the First Plan and in the Mahalanobis's `heavy investment` strategy that followed subsequently, government expenditures, particularly the investment expenditures increased at a phenomenal rate during the first three five year plans. But the wars with Pakistan in 1965 and 1971, the two successive monsoon failures in the mid-sixties and the steep increase in the oil price in 1973 and 1979, brought to the fore the inherent weakness of the Mahalanobis's model - of ignoring the financial side of the Plan (Chakravarty, 1987). This highlighted an urgent need for matching material balances with a feasible financial Plan. With expenditures on wages and salaries, goods and services, subsidies and interest payments increasing at alarming rates and the fiscal sociology dictating the priority on

these current items of expenditure, public capital accumulation process received a serious set back. A severe constraint on the growth of public investment expenditures was posed by the inability of the public sector itself to generate the required level of savings (Chakravarty, 1987).

In such a situation, containing the rate of growth of current expenditures and making the expenditures purposive and cost-effective assumes immense significance.

4. Some Important Behavioral Hypothesis on the Growth of Government Expenditure

Understanding the behaviour of governmental expenditure is essential to formulate appropriate expenditure policies. Yet, behavioral analysis of public expenditure has not yet provided acceptable generalisations, though, various studies have thrown up a number of hypotheses which are helpful to speculate the possible reasons for public expenditure growth. The Wagner's law of increasing State activity has observed that generally, in all developing democracies the income elasticity of demand for public expenditures is greater than unity (Musgrave and Peacock, 1957). The determinants' studies have identified, in addition to income, a host of other factors such as population, its age and sex composition and urbanisation as other factors causing the growth of governmental activity (Bird, 1972, Burkhead and Miner, 1971, Pryor, 1968). The Peacock - Wiseman (1965) study, has emphasised

the importance of the supply constraint - the level of tolerable burden of taxation - and its upward shift during periods of social upheavals such as wars, depressions and inflationary periods as accelerating the growth of expenditures. Baumols' analysis shows that when the terms of trade move in favour of public services, that is, when the prices of public services increase faster than that of private goods mainly due to the lags in the adoption of new technology in the governmental sector (productivity), maintaining even the constant level of public expenditures in real terms could increase its share in the economy considerably.

Implicit in the above analysis is the assumption that the government, being a benevolent entity maximises the social welfare. The 'public choice' literature, which has emerged as an important branch of study in recent years, on the contrary, postulates that the government is at best, indifferent and at worst, even malevolent. Here, the government expenditure growth is explained in terms of the collusive behaviour of politicians and bureaucrats to maximise their gains (Downs, 1957, Breton, 1974, Niskanen (1971), Brennan and Buchanan, 1977). Another public choice explanation for the growth and changing composition of government expenditures is given in terms of the operation of various pressure groups in the polity (Olson, 1982). In the Indian context, Bardhan (1984), for example, explains the growth of subsidies in terms of the relative pressures exerted by the

three proprietary classes, namely, the rich farmers, the industrial capitalist class and the professionals including the white collar workers.

The phenomenon of government expenditure growth is not a matter of serious concern if there are natural limits to its size. Natural limits are set by the public consciousness and sensitivity regarding the costs of public services. The "Laffer curve" phenomenon of taxes is one such factor which sets natural limits. However, consumption of most of the public services is not linked to their costs, and, in fact, are consumed unconsciously. The cost-consciousness is lower if public services are financed predominantly by indirect taxes, borrowing and money creation than if they were to be financed by direct taxes or earmarked levies. (Schmidit, 1985, Peacock, 1985). One method of limiting the level of government expenditure therefore, is to strengthen the relationship between taxes and benefits to awaken public sensitivity regarding the cost of public services. This may not be always possible and may not even be desirable from other points of view. In any case, it is difficult to envisage at what level, the natural limit would be effective and therefore conscious effort at expenditure control and management is essential (Frey, 1985).

Sometimes, attempt to limit the growth of government spending is made by setting specific limits on certain fiscal aggregates such as deficit-GDP ratio, or ratio of revenue or expenditure to GDP or a combination of the two or all the three. Such an exercise has been made from time to time in a number of countries. However, in the United States, the experience of Gramm-Rudman law of balancing the federal budget by 1991 has seen much of its promise go unfulfilled. A study of smaller industrial countries showed that, the growing efforts to reduce fiscal imbalances have met with only limited successes (Bl'ondal, 1986). In the Indian context too, the targets set by the Long Term Fiscal Policy, (India, 1985) on the volume of borrowing and deficit financing during the Seventh Plan period could not be realised. Even the broad targets on the deficit in the revenue account set by the Ninth Finance Commission for the period 1990-95, cannot be realised in the absence of a mechanism to enforcing it. In other words, controlling expenditure by limiting the fiscal aggregates can succeed only when there is political will to undertake it.

As stated earlier, expenditure control has to operate at three levels, viz., policy control, process control and efficiency control. Policy control is basically directed at the size of the public expenditure and its allocation among competing claims. Being a policy matter, these have to be decided mainly at the political level. Once the size and composition is determined, the

process control should satisfy that the moneys are spent according to the mechanics and the guidelines set out and efficiency control should ensure the fulfillment of the objectives in a cost-effective manner. In short, the objective of budgetary control is to employ budgets "..... as instruments of national economic management, enunciating the resource constraints to spending departments, reducing the gaps between planned and actual expenditure, and achieving better control over open-ended transfers" (Premchand, 1983, p. xx).

An important prerequisite for evolving an effective budgetary control mechanism and management procedure is to have a better understanding of the dynamics of government expenditure growth and changes in its composition. For this, it is necessary to analyse the size and growth of public expenditures in India and changes in its composition over time. This is the focus of Chapter II. It would also be helpful to analyse how far the existing control mechanisms and administrative measures have been able to stem the undesirable trends. With this in view Chapter III reviews the institutional structure and various components of the mechanics of budgetary control. Chapter IV evaluates the effectiveness of the control mechanisms and management procedures and summarises the main findings.

Notes

1. See Peacock, (1985).
2. Of course, some studies, particularly Peacock and Wiseman (1965) highlight the supply constraints in the growth of government expenditures. But by and large, it is not without reason that a large body of literature on the determinants of expenditures concentrates on the demand side influences. See, Burkhead and Miner (1971).
3. The literature on public expenditure is rich with rationalisation of the above `phenomenon`. The Wagner's Law, (Gandhi, 1971), the displacement hypothesis, (Peacock and Wiseman, 1965) various determinants studies (Pryor, 1965 Musgrave, 1969) and Baumol's (1967) terms of trade hypothesis, are the main strands in the literature explaining this phenomenon.
4. Toye (1981) calls this "Mimetic Nationalism".
5. On this see, Bhagwati and Desai (1970), Chapter 9.

II. GOVERNMENT EXPENDITURE IN INDIA: EMERGING TRENDS AND ISSUES

As mentioned in the previous chapter, in a country where the State assumes primary responsibility for economic development, a systematic behavioral analysis of the growth of government expenditure is important to enable a socially desired pattern of resource allocation and cost-effectiveness in spending. In the Indian context, an additional motivation arises from the concern of increasing fiscal imbalance in recent years having adverse macroeconomic and balance of payments implications.

A sustainable fiscal condition requires that the revenue receipts of the government should at least cover its current expenditures. However, in India, since the early eighties, the revenue receipts have consistently fallen short of revenue expenditures¹. The deficit in the revenue account which first appeared in 1982-83, has grown at an accelerating pace to reach chronic proportions. By 1988-89, the revenue deficit formed almost 3.4 per cent of GDP.

The rising level of revenue deficit which had to be financed through deficit financing and borrowings at high costs has led to several adverse consequences on the economy. The excess demand created by the growing money supply in the absence of commensurate growth in domestic output spills over into higher inflation and/or growing balance of payments deficit. The

increasing drawals on private savings for public consumption purposes on the one hand crowds out private investment and on the other, exerts upward pressure on the structure of interest rates including the regulated rates. The resulting growing burden of interest payments feeds back into the growth of current expenditures to form a vicious cycle of growing deficit, increasing stock of debt and higher interest expenditure and, to the extent that debt has an external component, this also worsens the balance of payment (Mundle and Rao, 1990).

It is important to note that the difficult fiscal situation described above has arisen in spite of a reasonably high growth of tax revenues. The overall tax-GDP ratio showed an impressive growth from around 7 per cent in the fifties to over 14 per cent by 1980-81 and a further three percentage points to over 17 per cent by 1987-88. Of course, this impressive performance has been mainly due to the high buoyancy of indirect taxes as, the direct tax to GDP ratio stagnated at less than 3 per cent during the period. Even if some improvement in revenue collection performance is presumed, it is important that in the near future noticeable reversal in fiscal imbalance can not be achieved without decelerating the growth of revenue expenditure. A systematic behavioral analysis of government expenditure in India is, therefore, necessary to (i) identify the fast growing items of

expenditure and (ii) examine whether the pattern of expenditure growth witnessed in the past has been on the desired lines. In this chapter, we attempt to address these issues in some detail.

1. Growth of Government Expenditure in India

For a meaningful analysis of government transactions, proper classification of public expenditure is necessary. There is no unique system of classifying the information on government transactions which would bring out all economic implications of government expenditure growth. However, the analysis in terms of economic-cum-functional classification suggested in the U.N. Manual (1958) provides very useful insights into economic implications of growth of public expenditure. On the other hand, from the viewpoint of budgetary control, it is the analysis of expenditures classified on functional lines as prescribed in the budget that is more relevant. Besides, data on the economic-cum-functional classification of the budgets done by the Central Statistical Organisation (CSO) are available only upto 1985-86 and therefore, the examination of more recent trends is possible only by analysing of the budgetary data. As our objective is both to bring out economic implications of emerging trends in expenditure growth and to identify fast growing items of expenditure to help in budgetary control, we have analysed the growth of expenditures in terms of both economic-cum-functional and budgetary classifications.

2. Trend in Economic and Functional Expenditure Categories

Comparable data on public expenditure at Central and State levels classified into economic and functional categories are not available in a published form. We have, therefore, based our analysis on the unpublished data classified by the CSO for estimating national income from the public sector. The information is available for the period from 1971-72 to 1985-86. In order to analyse the growth and composition of expenditures in real terms, each of the components has been deflated by an appropriate deflators².

a. Economic Categories: A useful starting point for the examination of emerging trends in public expenditure is to analyse its growth and composition. The growth rates of various economic categories of expenditure estimated on the basis of semi-log trend equations summarised in Table 2.1 bring out some notable features. First, public expenditure in India during the period, 1971-72 to 1985-86, has grown at a very high rate of over 14 per cent per year in current prices and at about 5 per cent in constant (1981-82) prices. The growth has been faster than that of GDP resulting in the significant increase in the expenditure-GDP ratio from about 23 per cent in 1971-72 to about 25 per cent in 1985-86. This, of course, is consistent with the Wagner's law of increasing State activity³. What is, however, more important is the second important feature, namely, that the growth of current expenditures

during the period was much faster than that of capital expenditure. Current expenditure increased at an annual rate of 15.8 per cent in nominal and almost 7 per cent in real terms and as a proportion of GDP, it increased from about 12 per cent in 1971-72 to about 17 to 18 per cent in both current and constant prices in 1985-86. In contrast, the growth of capital expenditure in constant prices was only 11.8 per cent and capital expenditure as a ratio of GDP showed appreciable decline at both current and constant prices. During this period, as increasing proportion of expenditure was financed by indirect taxes and even more through budgetary deficits, faster increase in current expenditure lends some evidence to the hypothesis that the soft budget constraint tends to accelerate non-developmental spending (Kornai).

Of the various items of expenditure, the fastest growth was on subsidies (22.6 per cent in current prices and 13.9 per cent in constant prices) and other current transfers (17.2 per cent in current prices and 8.3 per cent in constant prices). Growth of consumption expenditure has also been much faster than GDP resulting in the increase in expenditure-GDP ratio by about 3 percentage points.

3. Functional Categories

Table 2.2 presents the growth rates of different functional categories of expenditure and their proportion to GDP. It is seen that expenditure on social services recorded the highest growth at the annual rate of 16.7 per cent in current prices and at 7.7 per cent in constant prices. Each of the items under social services, viz., education, health, social welfare and housing and community services experienced very high growth rates during the period.

An important issue of concern is that although expenditures on total economic services grew faster than GDP, capital expenditure under economic services at constant prices grew at only 1.1 per cent and, as a proportion of GDP, declined by over three percentage points (from 8.6 per cent in 1971-72 to 5.2 per cent in 1985-86). In fact, capital expenditures in all sub-sectors under economic services excepting `energy, gas and water supply` and `mining, manufacturing and construction` experienced negative growth rates in real terms. Growth of capital expenditures at constant prices in agricultural and allied activities was the lowest at (-) 7.2 per cent. It is also necessary to note that the growth of capital spending even on basic infrastructural items like transport and communication was

negative. Thus, it is not a mere coincidence that over the years the constraint posed by the infrastructural sectors, such as railways has become quite severe.

Tables 2.3 and 2.4 present the estimated growth rates of economic and the functional categories of expenditure respectively, in both current and constant prices during the two sub-periods, 1971-80 and 1981-86⁴. Some important inferences that can be drawn from the two tables are:

- (i) expenditure growth during the eighties (9.2 per cent) showed a significant acceleration by almost 7 points over the seventies, (2.3 per cent) in constant prices. Considering the fact that this does not include the effect of salary revision undertaken in 1986, the acceleration in the subsequent years would be of a much higher order.
- (ii) the acceleration in the growth of capital expenditure was more than that of current expenditures. This perhaps is the result of greater awareness to spend on creating productive assets with the constraint posed by the infrastructural sectors becoming more and more severe. However, in spite of this, the growth of capital expenditure was much lower than that of current expenditure.

(iii) of the functional categories, the highest acceleration was seen in general administrative services, the annual average rate of growth in constant prices increasing from 0.6 per cent during the seventies to over 9 per cent during the first half of the eighties. Given the predominant wage component in the expenditure on these services, the salary revision in 1986 surely must have led to the increase in the growth even to a higher rate.

(iv) Acceleration in the growth of economic services too in constant prices was about four times from 2.1 per cent in the seventies to 8.3 per cent in the eighties, the acceleration has occurred in every sub-sector under economic services except `energy, gas and water supply`. In spite of this, expenditure on `transport and communication` during the eighties grew only at 3.4 per cent in real terms.

Another dimension of the growth of expenditure that needs to be analysed is by the levels of government. Tables 2.5 and 2.6 present growth of economic and functional categories of expenditure at current and constant prices in Central and State governments. These tables bring out some salient features.

- (i) although during the entire period covered by us, the expenditure at the State level grew much faster than at the Centre, during the more recent period of the eighties, the growth at the Centre was substantially higher. At the State level, expenditure grew steadily at around 7 to 8 per cent in real terms (around 17 per cent in current prices) throughout the period, whereas, the growth at the Centre accelerated significantly from - 2.6 per cent in the seventies to almost 10.8 per cent during the eighties (6.1 per cent to 20.8 per cent at current prices);
- (ii) at the State level, there was a marked deceleration in the growth of capital expenditures at constant prices from 8.3 per cent in the seventies to 3.9 per cent in the eighties (18.9 per cent to 15.1 per cent at current prices). However, at the Centre, exactly the opposite trend was observed as the growth of capital expenditures significantly accelerated from - 8.8 per cent to 10.2 per cent during the two sub-periods;
- (iii) at both Central and State levels, growth rates of current expenditure show significant acceleration over time, but the acceleration was greater at the Centre than at the State level; and

(iv) the deceleration in the growth of expenditure at the State level was mainly on economic services and on this, the highest acceleration was observed at the Centre.

Although the above analysis is extremely useful to understand expenditure growth, it does not cover the period subsequent to 1985-86 and, therefore, to understand emerging trends in more recent years, it is necessary to supplement this with the analysis of the budgetary data. Besides, from the point of view of budgetary management and control, the analysis of budgetary categories has much greater relevance. We have, therefore, analysed the growth of expenditures from 1980-81 to 1988-89 as given in the budgets.

4. Growth of Government Expenditures According to Budgetary Classification

The growth rates of various budgetary items of expenditure aggregated for Central and State budgets presented in Table 2.7, reinforce the inferences drawn above. First, during the eighties, government expenditures in India grew at the annual average rate of 16.7 per cent in current prices. This implies that in real terms, expenditure grew at about 8 per cent per annum as the general price level increase during the period was a little over 8.5 per cent. Second, it is also seen that the growth of capital expenditure at 12.4 per cent in nominal terms was much

lower than that of current expenditures (18.4 per cent). In fact, in real terms, the growth of capital expenditures at even less than 4 per cent was below the growth of GDP, which for the decade approximated 5 per cent. Third, the growth of non-developmental expenditure items (administrative expenditures, defence, interest payments and subsidies) at about 19.7 per cent was much higher than the 15.8 per cent observed in the case of development expenditures. In fact, of various items of expenditure, the growth of interest payments was the fastest (23.5 per cent), followed closely by subsidies (21.2 per cent)⁵ and defence expenditure (18.6 per cent). Fourth, economic services recorded the lowest growth rate and this is particularly true of capital expenditure under this functional head. Even the absolute amount of capital expenditure on economic services in real terms was virtually stagnant as the growth rate at 10.4 per cent at current prices as only marginally higher than the inflation rate. Capital expenditure on agricultural and allied industries grew at only 1.9 per cent in nominal terms which implies a substantial decline in the public sector capital formation in the sector. The growth rates of capital expenditure in other infrastructural sectors such as transport and communication (9.6 per cent), industry and mineral (7.4 per cent) and irrigation and power (12.8 per cent) too were much below the growth of GDP. Thus, the emerging trends in the growth of government expenditure and its pattern of

allocation in terms of both current and capital components and general social and economic services are, matters of immediate concern.

The important inferences that follow from the analysis of the growth of government expenditure are:

- (i) the growth of government expenditure in the recent past has been extremely high, resulting in the rapid increase in the expenditure-GDP ratio. What is more, the emerging trends show significant acceleration in the rate of growth of government expenditure in the eighties as compared to the seventies;
- (ii) the current expenditure has grown at a much faster rate than the capital expenditure. The latter was more or less stagnant and consequently, its share in GDP has shown significant decline. In spite of attempts to increase capital outlay during the eighties, the growth of capital expenditure was lower. It is also seen that the growth rate of non-development expenditure was much higher than that of development expenditure.
- (iii) the stagnancy in capital expenditure was particularly marked in the case of economic services. In fact, the lowest growth rate was observed in the transport and

communication sector. Thus, it is not a mere coincidence that bottleneck in this infrastructural sector has, over the years, posed severe constraint on the growth of the economy.

(iv) The very high growth rate observed in both non-development expenditure and in social services point towards greater degree of inflexibility in the control of government expenditures. These are employment intensive activities, and as this proportion increases, the maneuverability of changing the form and composition of expenditures decreases. Besides interest payments, which has been increasing at very high rates also add to the committed part of expenditure.

(v) it can perhaps be speculated that the very high and accelerating rate of growth observed in the case of current expenditure was a consequence of consistent preference shown towards adopting 'soft' options as increasingly larger proportion of expenditures was financed through indirect taxes, borrowed resources and deficit financing. Yet the resource constraint had differential impact on the expenditure at Central and State levels. At the Centre, the attempts to increase capital outlay on infrastructural sectors did result in

the acceleration in the growth during the eighties. The Centre could finance them from borrowed resources and by resorting to deficit financing. On the contrary, at the State level, the constraint on resources was much more binding. Here as the current expenditure gets the first charge and as capital spending is only a residual, significant deceleration in the growth of capital expenditure, particularly on economic services during the eighties was inevitable.

5. Financing Pattern of Seventh Plan Outlay: Targets and Achievements

A direct implication of the fast increasing current expenditure on non-developmental heads is the dwindling budgetary contribution to the plan outlay. In this connection, it is instructive to analyse the policy intent of the government with the actual achievements. Table 2.8 compares the intended pattern of plan financing with the pattern that actually materialised during the seventh plan period. Although the actual resources for the public sector plan exceeded the original estimates albeit marginally, by 4.5 per cent, the resource problem manifested in a number of other important ways. First, the budgetary contribution to the Plan in terms of balance from current revenue (BCR) and additional resource mobilisation (ARM) which was supposed to contribute 22 per cent of the outlay actually contributed only one half of its original share, i.e.,

11 per cent. Second, the actual contribution of public sector enterprises to plan outlay at Rs 231 billion was only a little over 12 per cent; it fell much short of the original estimates of Rs 354 billion or 19.7 per cent. Third, the shortfall in budgetary contribution and contribution from public enterprises in financing the plan outlay had to be made good through higher borrowing by issuing bonds by public sector enterprises, incurring higher market loans, term loans from financial institutions and more importantly, resorting to deficit financing. Thus, deficit financing which was originally intended to finance only Rs 140 billion or 7.8 per cent of the plan outlay, in fact financed twice the original estimate, i.e., Rs 284 billion or over 15 per cent of the outlay.

Concerned at the emerging fiscal trends, the government announced the Long Term Fiscal Policy in December, 1985, drawing up a plan to reduce market borrowing and deficit financing and to increase the extra-budgetary support through enhanced contribution from public enterprises. However, as shown in Table 2.9, the dependence on market borrowing and deficit financing did not come down, the balance from current revenue and contribution of public enterprises fell much short of the targeted. Clearly, the budgetary control measures were not found adequate to achieve the plan of increasing public savings.

In the medium term context, in a planned economy, the effectiveness of the public expenditure policy is evaluated in terms of not only spending the targeted volume of resources on various activities but also of physical achievements to match financial outlay. While a comprehensive analysis on these issues would require much more detailed study, we have attempted only a selective examination to enable us to make certain qualitative judgements.

Let us first take up the targets and achievements of financial outlay on various sectors during the seventh plan period. As already pointed out earlier, and also as shown in table 10, in the aggregate the targeted public sector plan outlay was in fact achieved in constant (1984-85) prices⁸. However, it is important to note that the achievement was not uniform and there were substantial shortfalls in the actual allocation to certain important sectors as compared to the planned allocation. The shortfall in absolute amounts was particularly severe in irrigation and flood control, energy and social service sectors. As a percentage of targeted outlay, the maximum shortfall was in irrigation and flood control (18.0 per cent) followed by social services (8.6 per cent). This can be explained in terms of the changing priorities even within the medium-term context necessitated either by the immediate constraints posed by the infrastructural sectors like industries, and transport and communication, or the increased political concern towards poverty

alleviation in rural areas diverted larger than targeted allocations these programmes at the cost of others. What is, however, important to note is that such changing priorities tend to negate the efficacy of planning strategy itself and there exist no budgetary control mechanisms to minimise such diversions.

6. Performance Budgeting in India

The concern of the traditional budget is essentially to provide financial inputs according to the accountability and control procedures laid down. On the contrary, planning is concerned more with the achievement of specified goals through financial allocations made in the budget. In fact, on the eve of launching the five year plans, in India, the budgetary procedure had remained unaltered for over a century and did not go beyond the legislative control on the overall revenues collected and expenditure incurred. Considering the inadequacy of the traditional budgetary practice in a planned economy, performance budgeting was introduced in India. Although the Estimates Committee recommended in 1958, the decisive factor that led to its adoption was the backing of the Administrative Reforms Commission in 1967. The three men cell established in the budget division for the purpose assumed the responsibility of its introduction in stages and by 1975, the system covered almost 2/3rds of Central government's development expenditure.

Performance budget was introduced in India with a view to provide an effective internal management tool. The system enables monitoring of both financial and physical achievements and the experience gained by performance budgeting helps in evolving suitable norms and standards and costing of various projects and services. However, even the performance budgeting has not in practice helped much to strengthen the link between the budget and the plan, as will be shown in Chapter 4.

Nor is it possible to escape the impression that the performance budgets had little impact on budget formulation. First, the manner in which they are prepared and presented discourages their use. They are prepared in a mechanical manner literally according to the guidelines issued and in 1984-85, for example, the performance budgets of 39 ministries consisted of 2200 pages. When the annual reports of similar length is also presented containing relevant facts to the legislators, it virtually becomes impossible to sieve out the important and relevant facts. Besides, hardly do the legislators have the time to debate the performance budgets. If at all they are debated, it is in the detailed discussion of the demands for grants, large parts of which are generally subject to a guillotine (Dean, 1989).

Of course, this is not to belittle the inherent merits of the system which lends itself to proper quantification and hence evaluation. Somehow, from the beginning, this was never

conceived as an instrument to bring about a coordination between the budget and the plan and, therefore, the system can hardly be faulted on this ground. However, even as an internal management tool, there is little evidence to show that Performance Budgeting has had any appreciable impact. On the whole, it appears that the system holds much greater promise of benefit than that has been actually realised hitherto.

Notes

1. "Revenue expenditure" is a budgetary concept which closely corresponds to "current" expenditure.
2. For details, see, Rao and Tulasidhar (1990).
3. For different interpretations of Wagner's Law, see, Gandhi (1971).
4. In order to obtain growth rates during the two sub-periods consistent with the overall rates of growth, we have estimated them using the kinked exponential model (Boyce, 1986).
5. The figures of 1988-89 taken for the analysis are revised estimates. For all other years actuals are taken.
6. This item should not be confused with the `subsidy` given in economic classification. The expenditure figures under this head are only open subsidies given in the budgets of the Central and State governments.
7. Such an inference has been made also by Toye (1981, p. 101) when he states ".... after 1965-66, neither capital formation nor development expenditure nor plan development expenditure was a priority in the government budget. On the contrary, in effect, capital expenditure has been the residual component in the total government sector operations".
8. There is some difference in the figures of aggregate plan outlay given in the table on plan financing (Table 2.8) and on sectoral allocation (Table 2.9). These would have to be reconciled later when actual figures for 1988-89 and 1989-90 become available.

Table 2.1
Public Expenditure by Economic Categories : Growth rates and Proportion to GDP
INDIA

(Per cent)

Expenditure Categories	Growth of Expenditure (1971-72 To 1985-86)		Ratio To GDP at Market Prices (Current Prices)								Ratio To GDP at Market Prices (1970-71 Prices)							
	Current Constant Prices (1970-71) Prices		1971-72	1975-76	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1971-72	1975-76	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
A. Current Expenditure :	15.81	6.94	12.02	11.57	13.36	13.27	14.15	14.35	15.06	17.36	11.96	11.31	14.38	14.05	14.94	14.70	15.65	17.85
I. Consumption Expenditure	14.74	5.82	7.76	7.84	8.28	8.34	8.90	8.83	8.66	10.48	7.73	7.56	8.95	8.79	9.36	8.97	8.95	10.64
a. Compensation to employees	14.19	6.15	4.96	4.99	5.06	5.00	5.41	5.41	5.56	6.19	4.98	5.01	6.11	5.91	6.35	6.05	6.30	7.03
b. Net maintenance expenditure	15.65	5.14	2.80	2.85	3.22	3.34	3.49	3.42	3.11	4.29	2.75	2.54	2.84	2.88	3.01	2.92	2.65	3.61
II. Transfers	14.92	6.18	3.11	2.56	2.99	2.94	3.12	3.12	3.28	3.60	3.08	2.60	3.20	3.13	3.27	3.19	3.39	3.68
a. Subsidies	22.66	13.85	1.15	1.16	2.08	1.98	2.14	2.39	3.11	3.27	1.14	1.16	2.22	2.13	2.30	2.54	3.31	3.53
b. Current transfers to local bodies	11.01	2.55	1.56	0.87	0.95	0.88	0.91	0.93	0.94	0.97	1.54	0.84	1.04	0.94	0.98	0.95	0.97	1.00
c. Other Current transfers	17.21	8.34	1.55	1.69	2.04	2.06	2.20	2.19	2.35	2.63	1.54	1.76	2.16	2.19	2.29	2.24	2.42	2.68
B. Capital Expenditure	11.76	1.59	11.09	7.13	7.45	7.39	7.80	7.22	7.66	6.35	11.11	6.48	6.84	6.73	6.85	6.23	6.48	6.90
I. Gross Fixed Capital Formation	16.71	6.80	1.70	1.19	1.72	1.77	1.85	1.85	1.86	2.13	1.65	1.17	1.74	1.81	1.70	1.72	1.64	1.82
II. Financial Outlay	14.09	3.66	1.67	1.44	1.35	1.64	1.64	1.65	1.75	1.84	1.67	1.29	1.21	1.44	1.42	1.39	1.46	1.50
III. Total Capital Transfers	22.31	11.13	0.47	0.27	0.70	0.69	0.72	0.62	0.89	0.84	0.47	0.24	0.62	0.60	0.63	0.52	0.75	0.69
a. Capital transfers to local bodies	24.38	13.01	0.15	0.09	0.27	0.26	0.28	0.28	0.40	0.37	0.15	0.08	0.24	0.23	0.23	0.22	0.33	0.30
b. Other Capital transfers	21.06	9.99	0.32	0.17	0.43	0.43	0.46	0.37	0.49	0.48	0.32	0.16	0.38	0.37	0.40	0.31	0.41	0.39
IV. Total Advances	11.38	1.19	4.24	3.75	3.65	3.32	3.69	3.18	3.17	3.46	4.22	3.35	3.25	2.91	3.19	2.69	2.65	2.83
a. Advances to local bodies	11.72	1.50	0.47	0.30	0.34	0.32	0.42	0.22	0.18	0.27	0.47	0.27	0.30	0.28	0.36	0.19	0.15	0.22
b. Advances to others	8.00	-1.88*	3.77	3.45	3.31	3.00	3.27	2.96	2.99	3.19	3.75	3.08	2.95	2.63	2.83	2.50	2.50	2.61
C. Total Expenditure	14.21	4.96	23.10	18.89	20.60	20.65	21.95	21.57	22.72	25.71	23.07	17.79	21.22	20.78	21.78	20.93	22.13	24.76

Note : All Growth Rates except those marked (*) are significant atleast at 10 % level of significance.

Source : Estimated from unpublished data collected from Central Statistical Organisation, Ministry of Planning, Government of India.

Table 2.2
Public Expenditure by Functional Categories : Growth Rates and Proportion to GDP
INDIA

(Per cent)

Expenditure Categories	Growth of Expenditure (1971-72 To 1985-86)		Ratio to GDP at market Prices (Current Prices)								Ratio to GDP at market Prices (1970-71 prices)							
	Current Prices (1970-71) Prices	constant Prices	1971-72	1975-76	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1971-72	1975-76	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
1. GENERAL SERVICES	12.940	3.922	6.79	5.89	5.45	5.70	6.55	5.88	5.74	7.30	6.77	5.62	5.76	5.83	6.59	5.83	5.80	7.18
a.General Administration	12.496	3.771	3.62	2.59	2.44	2.62	3.34	2.68	2.83	3.16	3.61	2.49	2.68	2.78	3.42	2.73	2.91	3.23
b.Defence	13.357	4.079	3.17	3.30	3.01	3.08	3.21	3.20	2.91	4.13	3.15	3.13	3.09	3.05	3.17	3.10	2.88	3.95
2. SOCIAL SERVICES	16.720	7.659	4.46	4.24	5.26	5.37	5.71	5.81	6.25	6.76	4.44	4.22	5.66	5.71	5.96	5.89	6.32	6.76
a.Education	15.451	6.849	2.49	2.57	2.86	2.86	3.07	3.06	3.19	3.39	2.48	2.60	3.17	3.14	3.32	3.20	3.36	3.87
b.Health	17.346	8.375	0.53	0.57	0.72	0.73	0.77	0.78	0.81	0.87	0.53	0.55	0.78	0.78	0.81	0.80	0.84	0.89
c.Social welfare, Culture,religion etc.	16.747	7.543	0.91	0.48	0.77	0.84	0.95	1.05	1.09	1.02	0.92	0.48	0.80	0.86	0.96	1.03	1.08	1.00
d.Housing & community services	20.895	10.463	0.52	0.62	0.91	0.94	0.92	0.92	1.16	1.48	0.51	0.59	0.90	0.93	0.87	0.86	1.04	1.30
3. ECONOMIC SERVICES																		
Capital Expenditure	11.287	1.105*	8.59	5.99	6.14	5.85	5.68	5.68	5.91	6.31	8.61	5.43	5.60	5.28	4.97	4.88	4.97	5.21
Total	14.091	4.538	10.89	8.39	9.87	9.47	9.54	9.65	10.61	11.34	10.91	7.79	9.59	9.12	9.07	8.99	9.89	10.52
a.Agriculture, Forestry & Fishing																		
Capital Expenditure	2.45*	-7.18	2.93	1.04	0.78	0.69	0.67	0.59	0.59	0.54	3.01	0.95	0.72	0.63	0.59	0.51	0.50	0.44
Total	11.467	2.662	4.02	2.21	2.68	2.39	2.41	2.25	2.76	2.58	4.09	2.11	2.77	2.46	2.47	2.26	2.79	2.63
b.Mining,Manufacturing and Construction																		
Capital Expenditure	12.01	1.79	2.65	2.50	2.35	2.32	2.19	2.22	2.53	2.44	2.63	2.23	2.10	2.03	1.90	1.88	2.12	2.00
Total	15.041	5.283	2.79	2.77	2.78	2.84	2.91	3.13	3.65	3.89	2.77	2.50	2.56	2.60	2.68	2.84	3.31	3.56
c.Energy,Water supply and Gas																		
Capital Expenditure	21.02	10.11	0.88	1.09	1.69	1.66	1.84	1.83	1.82	2.07	0.87	0.99	1.53	1.49	1.60	1.57	1.53	1.72
Total	20.504	9.865	1.17	1.26	1.97	1.90	2.12	2.08	2.17	2.38	1.16	1.15	1.83	1.74	1.90	1.82	1.89	2.03
d.Transport and communication																		
Capital Expenditure	9.33	-0.41*	1.60	1.02	1.00	0.92	0.82	0.82	0.82	1.01	1.59	0.95	0.86	0.89	0.73	0.73	0.70	0.84
Total	10.835	1.103	1.89	1.32	1.41	1.34	1.21	1.18	1.17	1.38	1.87	1.23	1.35	1.29	1.11	1.06	1.02	1.17
e.Other Economic Services including administration																		
Capital Expenditure	5.91	-3.63*	0.52	0.34	0.31	0.26	0.17	0.23	0.15	0.25	0.52	0.31	0.29	0.23	0.14	0.20	0.12	0.22
Total	13.611	4.952	1.02	0.83	1.03	1.00	0.90	1.00	0.86	1.11	1.02	0.80	1.07	1.03	0.93	1.02	0.88	1.13
4. Relief on calamities	7.358	-1.466*	0.69	0.14	0.19	0.10	0.14	0.16	0.12	0.23	0.68	0.14	0.19	0.10	0.14	0.15	0.11	0.22
5. Other Miscellaneous services	-4.040	-12.327	0.27	0.04	0.02	0.01	0.01	0.07	0.01	0.07	0.27	0.04	0.02	0.01	0.01	0.06	0.01	0.07
6. TOTAL EXPENDITURE																		
Capital Expenditure	11.76	1.59	11.09	7.13	7.45	7.39	7.80	7.22	7.66	8.35	11.11	6.48	6.84	6.73	6.85	6.23	6.48	6.90
Total	14.214	4.960	23.10	18.69	20.80	20.65	21.95	21.57	22.72	25.71	23.07	17.79	21.22	20.78	21.78	20.93	22.13	24.76

Note : All Growth Rates except those marked (*) are significant atleast at 10 % level of significance.
Source : As in Table 2.1.

Table 2.3
Growth of Public Expenditure in India

	At Current Prices			At 1970-71 Prices		
	1971-72# To	1980-81# To	1971-72 To	1971-72# To	1980-81# To	1971-72 To
	1979-80	1985-86	1985-86	1979-80	1985-86	1985-86
ECONOMIC CATEGORIES :						
A. Current Expenditure :	13.71	19.03	15.81	5.24	9.55	6.94
I. Consumption Expenditure						
a. Compensation to employees (salaries & wages)	11.82	17.82	14.19	4.44	8.76	6.15
b. Net maintenance expenditure (commodity purchases)	14.01	18.18	15.65	3.34	7.90	5.14
Total Consumption Expenditure (Current Exhaustive)	12.63	17.97	14.74	4.06	8.50	5.82
II. Transfers						
a. Subsidies	22.63	22.69	22.66	14.14	13.42	13.85
b. Current transfers to local bodies	7.28	16.85	11.01	-0.68*	7.60	2.55
c. Other Current transfers	15.83	19.32	17.21	7.70	9.31	8.34
Total Current Transfers	12.37	18.86	14.92	4.30	9.07	6.18
B. Capital Exhaustive Expenditure	10.94	22.43	15.40	1.98	10.39	5.26
a. Gross Fixed Capital Formation	13.49	21.72	16.71	5.30	9.09	6.80
b. Financial Outlay	8.23	23.49	14.09	-1.69	12.23	3.66
c. Total Capital Transfers	22.05	22.70	22.31	10.87	11.52	11.13
1. Capital transfers to local bodies	22.67	27.01	24.38	11.42	15.43	13.01
2. Other Capital transfers	21.76	20.03	21.06	10.59	9.09	9.99
d. Total Advances	10.97	12.00	11.38	0.79*	1.79*	1.19
1. Advances to local bodies	11.61	11.87	11.72	1.38*	1.68*	1.50
2. Advances to others	4.53*	13.42	8.00	-5.05	3.08*	-1.88*
Total Capital Expenditure	7.40	18.65	11.76	-2.22	7.56	1.59
C. Total Exhaustive Expenditure	12.16	19.16	14.91	3.51*	8.98	5.66
D. Total Expenditure	11.10	19.04	14.21	2.26	9.15	4.96

Note : 1.# Growth rates are Calculated Using the Kinked Exponential Model.

2.All Growth rates except those marked (*) are significant atleast at 10 % level of significance.

Source : As in Table 2.1.

Table 2.4
Growth of Public Expenditure in India

(Per cent)

	Growth At Current Prices			Growth At Constant Prices		
	1971-72#	1980-81#	1971-72	1971-72#	1980-81#	1971-72
	To 1979-80	To 1985-86	To 1985-86	To 1979-80	To 1985-86	To 1985-86
FUNCTIONAL CATEGORIES :						
1. <i>General Services</i>	9.101	18.952	12.940	0.560*	9.175	3.922
a. General Administration	7.619	20.229	12.496	-0.427*	10.403	3.771
b. Defence	10.510	17.765	13.367	1.531	8.021	4.079
2. <i>Social Service</i>	14.456	20.199	16.720	6.096	10.047	7.659
a. Education	13.951	17.738	15.451	5.979	8.166	6.849*
b. Health	16.879	18.049	17.346	8.223	8.602	8.375*
c. Social welfare, Culture, religion etc.	10.851	26.182	16.747	2.468*	15.630	7.543
d. Housing & community services	18.851	24.028	20.895	9.128	12.496	10.463
3. <i>Economic Services</i>	11.448	18.175	14.091	2.113	8.283	4.538
a. Agriculture, Forestry & Fishing	8.583	15.939	11.467	-0.085*	6.923	2.662
b. Mining, Manufacturing and Construction	11.347	20.812	15.041	1.503	11.219	5.283
c. Energy, Water supply and Gas	21.355	19.238	20.504	10.770	8.522	9.865
d. Transport and communication	8.626	14.233	10.835	-0.381*	3.369	1.103*
e. Other Economic Services including administration	11.648	16.619	13.611	3.359	7.388	4.952
4. Relief on calamities	-3.360*	25.705	7.358	-11.008	14.799	-1.466*
5. Other Miscellaneous services	-12.954*	11.071*	-4.040*	-21.030	2.552*	-12.327
6. TOTAL	11.104	19.042	14.214	2.259	9.147	4.960

Note : 1. # Growth Rates are Calculated Using Kinked Exponential Model.

2. All Growth Rates except those marked (*) are significant atleast at 10 % level of significance.

Source : As in Table 2.4.

Table 2.5
Growth of Public Expenditure by Level of Government
(1971-72 to 1985-86)

(Per cent)

	All States						Centre					
	At Current Prices			At 1970-71 Prices			At Current Prices			At 1970-71 Prices		
	1971-72#	1980-81#	1971-72	1971-72#	1980-81#	1971-72	1971-72#	1980-81#	1971-72	1971-72#	1980-81#	1971-72
	To	To	To	To	To	To	To	To	To	To	To	To
1979-80	1985-86	1985-86	1979-80	1985-86	1985-86	1979-80	1985-86	1985-86	1979-80	1985-86	1985-86	
ECONOMIC CATEGORIES :												
A. Current Expenditure :	15.98	18.20	16.86	7.55	8.82	8.06	11.20	19.90	14.60	2.62	10.34	5.64
I. Consumption Expenditure	14.72	18.10	16.06	6.37	8.82	7.34	10.60	17.70	13.39	1.73	8.03	4.20
a. Compensation to employees	14.70	18.14	16.06	7.13	9.06	7.90	7.88	17.16	11.50	0.76*	8.15	3.65
b. Net maintenance expenditure	14.86	17.97	16.10	4.16	7.70	5.56	13.65	18.01	15.38	2.99	7.78	4.88
II. Transfers	14.73	17.43	15.80	6.46	7.79	6.99	4.17	24.26	11.78	-3.25*	13.89	3.27
a. Subsidies	52.23	19.79	38.32	41.68	10.74*	28.38	17.33	23.40	19.72	9.20	14.07	11.12
b. Current transfers to local bodies	11.07	15.41	12.79	2.83	6.28	4.19	-13.35	24.19	0.07	-19.78	14.36	-7.55
c. Other Current transfers	17.33	18.39	17.75	9.10	8.46	8.84	11.18	21.89	15.35	3.38	11.67	6.62
B. Capital Expenditure	18.90	15.01	17.33	8.77	3.94	6.81	0.58*	21.23	8.38	-8.75	10.24	-1.58
I. Gross Fixed Capital Formation	16.45	20.31	17.98	7.84	7.59	7.74	4.98	26.44	13.09	-2.01*	14.26	4.20
II. Financial Outlay	16.82	11.64	14.72	6.11	1.46*	4.23	6.40	26.33	13.97	-3.35	14.82	3.54
III. Total Capital Transfers	27.31	24.34	26.11	15.64	13.01	14.58	14.72	16.52	15.43	4.20*	5.90*	4.88*
a. Capital transfers to local bodies	22.96	26.33	24.29	11.68	14.81	12.92	18.22	36.38	25.18	7.38	23.95	13.73
b. Other Capital transfers	33.13	21.73	28.45	20.92	10.63	16.70	14.46	14.34	14.41	3.96*	3.92*	3.94*
IV. Total Advances	20.02	8.69	15.35	9.01	-1.22*	4.80	5.61	14.42	9.05	-4.08	3.99	-0.93
a. Advances to local bodies	21.16	8.79	16.05	10.05*	-1.13*	5.44	6.40	14.02	9.38	-3.36	3.63	-0.62
b. Advances to others	12.74	7.99*	10.82	2.41	-1.85*	0.68*	-5.42	20.86	4.33	-14.09	9.85	-5.22
C. Total Expenditure	16.92	17.15	17.01	7.92	7.39	7.70	6.17	20.75	11.78	-2.62	10.75	2.52

Note : 1. # Growth Rates are Calculated Using Linked Exponential Model.

2. All Growth Rates except those marked (*) are significant atleast at 10 % level of significance.

Source : As in Table 2.1.

Table 2.6
Growth of Public Expenditure by Level of Government
(1971-72 to 1985-86)

(Per cent)

	All States						Centre					
	At Current Prices			At 1970-71 Prices			At Current Prices			At 1970-71 Prices		
	1971-72#	1980-81#	1971-72	1971-72#	1980-81#	1971-72	1971-72#	1980-81#	1971-72	1971-72#	1980-81#	1971-72
	To	To	To	To	To	To	To	To	To	To	To	To
1979-80	1985-86	1985-86	1979-80	1985-86	1985-86	1979-80	1985-86	1985-86	1979-80	1985-86	1985-86	
FUNCTIONAL CATEGORIES:												
1. General Services	13.498	16.995	14.884	5.242	7.815	6.264	7.403	19.694	12.161	-1.313*	9.705	2.955
a. General Administration	13.487	17.020	14.887	5.232	7.827	6.262	-0.718*	25.818	9.149	-8.615	14.968	0.174*
b. Defence	14.127	15.570	14.701	5.802	7.224	6.366	10.475	17.791	13.345	1.488	8.034	4.058
2. Social Services	15.744	19.801	17.350	7.267	9.754	8.255	7.418	22.003	13.030	-0.368*	11.086	4.065
a. Education	14.815	17.520	15.889	6.775	7.987	7.258	6.170	19.615	11.357	-1.254*	9.660	2.975
b. Health	15.751	18.390	16.800	7.195	8.930	7.885	27.918	14.997	22.583	18.346	5.683	13.109
c. Social welfare, Culture, religion etc.	17.679	23.944	20.146	8.469	13.901	10.610	-1.495*	23.865	7.899	-6.143*	20.406*	3.690*
d. Housing & community services	18.205	24.762	20.785	8.580	13.245	10.422	23.400	19.037	21.636	13.022	7.270	10.686
3. Economic Services	21.442	13.820	18.334	11.528	3.963	8.438	5.558	21.272	11.583	-3.446	11.386	2.234
a. Agriculture, Forestry & Fishing	22.243	14.803	19.211	12.857	5.454	9.835	-0.403*	15.055	5.514	-8.484	6.623	-2.717
b. Mining, Manufacturing and Construction	21.875	15.386	19.119	11.379	5.832	9.126	9.908	21.693	14.478	0.097*	12.115	4.741
c. Energy, Water supply and Gas	24.180	13.354	19.731	13.299	3.233	9.160	15.287	33.769	22.352	5.401	21.463	11.554
d. Transport and communication	17.818	11.288	15.161	8.279	0.448*	5.075	-1.848*	18.433	5.810	-10.326	7.634	-3.533
e. Other Economic Services including administration	17.962	18.344	17.312	8.849	6.668*	7.971	8.218	17.725	11.925	0.384*	8.605	3.595
4. Relief on calamities	3.246*	25.004	11.453	-4.919*	14.010	2.243*	-25.417	21.215	-9.426	-31.106	11.686*	-16.417
5. Other Miscellaneous services	-21.763	6.439*	-12.377	-29.063	-0.658*	-19.704	-3.314*	19.542*	5.251*	-12.440*	10.407*	-3.931*
6. TOTAL	16.915	17.149	17.009	7.915	7.390	7.705	6.173	20.750	11.780	-2.622	10.754	2.523

Note : 1. # Growth Rates are Calculated Using Kinked Exponential Model.

2. All Growth Rates except those marked (*) are significant atleast at 10 % level of significance.

Source : As in Table 2.1.

Table 2.7

**Annual Average Growth of Government Expenditure in India -
1980-81 to 1988-89**

(Per cent)

	Revenue	Capital	Total
1. Non-development expenditure	18.9	30.2	19.7
a. Defence	-	-	18.6
b. Interest	23.5	-	23.5
c. Subsidy	21.2	-	21.2
2. Social and Community Services	17.4	18.4	17.5
a. Education	17.6	20.5	17.7
b. Health	16.7	13.4	16.3
c. Other social services	17.5	22.6	18.5
3. Economic Services	19.1	10.4	15.1
a. Agriculture and allied activities	17.8	1.9	16.2
b. Industry and minerals	18.6	7.4	12.1
c. Irrigation and power	18.9	12.8	14.3
d. Transport and communication	11.7	9.6	10.8
4. Total Development Expenditure	17.9	11.1	15.8
5. Total Expenditure	18.4	12.4	16.7

Note: 1. Growth rates have been computed using by regressing expenditure in the time variable semilog equations. All growth rates are significant at one per cent level. The data on expenditures are taken from **Indian Economic Statistics - Public Finance**, Ministry of Finance, Government of India.

Source: Computed from the data collected from Indian Economic Statistics - Public Finance, 1989, Ministry of Finance, Government of India.

Table 8
Financing Pattern of Seventh Plan Outlay

(Rs Million)

Items	1985-86 to 1989-90 (Latest Estimates)			Original Estimates			
	As at 1984-85 prices			Centre [@]	States	Total	
	Centre [@]	States	Total				
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
I. Domestic Resources at 1984-85 rates of taxes, tariffs and fares							
a. Balance from Current Revenue	-110,740 (-9.7)	-11,390 (-1.5)	-122,130 (-6.5)	-120,110 (-12.1)	67,620 (8.4)	-52,490 (-2.9)	
b. Contribution from Public Sector Enterprises (PSEs)	268,720 (23.6)	-37,570 (-5.0)	231,150 (12.3)	374,540 (37.7)	-19,690 (-2.4)	354,850 (19.7)	
c. Issue of Bonds by PSEs	74,840 (6.6)	(-)	74,840 (6.6)				
d. Market Loans	265,420 (23.3)	92,420 (12.4)	357,840 (19.0)	206,200 (20.8)	99,420 (12.3)	305,620 (17.0)	
e. Small Savings and Provident Funds	87,510 (7.7)	190,700 (25.6)	278,210 (14.8)	86,770 (8.7)	165,660 (20.5)	252,430 (14.0)	
f. Term Loans from Financial Institutions	(-)	44,450 (6.0)	44,450 (2.4)	(-)	46,390 (5.8)	46,390 (2.6)	
g. Miscellaneous Capital Receipts	290,390 (25.5)	-51,130 (-6.9)	239,260 (12.7)	198,090 (19.9)	-71,910 (-8.9)	126,180 (7.0)	
II. Additional Resource Mobilisation	148,810 (13.1)	185,070 (24.8)	333,880 (17.7)	224,900 (22.7)	222,120 (27.5)	447,020 (24.8)	
III. Total Domestic Resources (I+II)	1,024,950 (90.1)	412,550 (55.4)	1,437,500 (76.4)	970,390 (97.7)	509,610 (63.2)	1,480,000 (82.2)	
IV. Net Inflow from Abroad	163,480 (14.4)	-	163,480 (8.7)	180,000 (18.1)	(-)	180,000 (10.0)	
V. Budgetary Deficit	283,810 (25.0)	(-)	283,810 (15.1)	140,000 (14.1)	(-)	140,000 (7.8)	

(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
VI. Aggregate Resources (III+IV+W)		1,472,240 (129.5)	412,550 (55.4)	1,884,790 (100.2)	1,290,390 (129.9)	509,610 (63.2)	1,800,000 (100.0)
VII. Centre's Assistance to States		-335,540 (-29.5)	332,640 (44.6)	-2,900 (-0.2)	-297,370 (-29.9)	297,370 (36.8)	- (-)
VIII. Resources Available for the Plan (VI + VII)		1,136,600 (100.0)	745,190 (100.0)	1,881,890 (100.0)	993,020 (100.0)	806,980 (100.0)	1,800,000 (100.0)
Plan Outlay		1,136,700	745,190	1,881,890	993,020	806,980	1,800,000

@ Including Union Territories

* Balance from current revenue for States also includes upgradation grant for capital, grants for special problems from the Centre and the measures to be undertaken by special category States to meet in balance from current revenues

- Note: 1) The data are based on the latest estimates for 1985-86 to 1988-89 and the Annual Plan estimates for 1989-90
2) Figures at current prices were deflated by the WPI (with base 1981-82) to convert them into 1984-85 prices (base year of Seventh Plan)
3) Figures in brackets are percentage of each item to Plan Outlay

Source: Indian Economic Statistics, Public Finance 1989, Ministry of Finance, Government of India

Table 2.9

Long Term Fiscal Policy - Aims and Achievements

(As % of GDP)

	1984-85 Sixth		1988-89		1989-90		Seventh Plan	
	R.E.	Plan	Tar-gets	Achievements (R.E.)	Tar-gets	Achievements (R.E.)	Tar-gets	Achievements (R.E.)
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1. Non-Plan revenue expenditure	10.9	9.8	11.6	11.9	11.9	12.8	11.5	11.8
2. Tax revenue	8.2	7.9	9.2	8.3	9.4	8.6	8.7	8.4
3. Non-tax revenue	3.0	2.6	2.7	2.7	2.7	3.3	2.8	2.8
4. Total revenue (2+3) receipts	11.2	10.5	11.9	11.0	12.1	11.9	11.5	11.2
5. Balance from current revenues (4-1)	0.3	0.7	0.3	-0.9	0.2	-1.0	Neg.	-0.7
6. Contributions from public undertakings	2.7	2.1	4.0	3.2	4.1	3.5	3.6	3.0
7. Public savings (5+6)	3.0	2.8	4.3	2.3	4.3	2.6	3.6	2.3
8. Market borrowings	1.9	2.1	1.5	1.9	1.8	1.7	1.6	1.8
9. Budgetary deficit	1.8	1.3	1.0	2.0	0.9	2.7	1.1	2.3
10. Others	2.3	1.8	1.9	3.2	1.8	2.4	2.3	3.0
11. Domestic borrowings (8+9+10)	6.0	5.2	4.4	7.1	4.2	6.8	5.1	7.0
12. Net capital inflow from abroad	1.4	1.2	1.5	0.9	1.6	1.1	1.4	1.0
13. Centre's resources for the Plan (7+11+12)	10.3	9.2	10.1	10.3	10.1	10.4	10.1	10.3

Source: Lakdawala (1990)

Table 2.10

Seventh Plan Outlay in the Public Sector Targets and Achievements

(Rs million)

	Targetted Outlay (1985-90)	Actual (1985-90) Constant Prices	Percen- tage of short- fall/ex- cess over targetted outlay	Shortfall/ fall/ex- cess of actual out- lay over targetted outlay
(1)	(2)	(3)	(4)	(5)
1. Agriculture and allied activities	105,240	104,890	-0.3	-35
2. Rural development	89,060	118,150	24.6	2909
3. Special areas programmes	28,040	28,280	0.9	24
4. Irrigation and flood control	169,790	139,240	-21.9	-3055
5. Energy	551,290	525,120	-5.0	-2617
(i) Power	342,740	324,920	-5.5	-1782
(ii) Non-conventional energy	5,200	5,580	6.9	38
(iii) Petroleum	129,350	132,240	2.2	289
(iv) Coal	74,000	62,360	-18.7	-1164
6. Industry and minerals	221,080	250,420	11.7	2934
(i) Village and small scale industries	27,530	26,840	-2.5	-69
(ii) Other industries	193,550	223,590	13.4	3004
7. Transport	226,450	248,040	8.7	2159
8. Communications	44,750	69,880	36.0	2513
9. Science, Technology and Environment	24,630	25,340	2.8	71
10. General economic services	13,960	22,700	38.5	874
11. Social services	315,450	228,350	-9.4	-2710
12. General services	10,280	13,710	25.0	343
Total	1,800,000	1,834,110	1.9	3411

Note: Actual outlay refers to latest estimates

Source: Planning Commission, Government of India.

III. THE MECHANICS OF CONTROL AND MANAGEMENT OF GOVERNMENT

EXPENDITURE

The emerging trends in public expenditure growth, bring to the fore, inter-alia, the inadequacies in the management and control of public expenditure in India. It is, therefore, important to review and analyse the mechanics of control and management of public expenditures, which is attempted in this chapter. The analysis in this chapter includes the relevant institutional details, process of budget formulation and execution, particularly, in the context of developmental planning and the mechanism of control and management of government expenditure.

1. The Institutions

Before we go into the detailed discussion and evaluation of the mechanics of budgetary control, it would be instructive to understand the institutional structure for initiation, management and control of government expenditure and the financial system that has evolved in the country over the years.

India, the 'Union of States' is a democratic republic consisting of 25 States and 7 Union Territories. Each State has a democratically elected legislature, an executive and a judiciary.

The main institutions of the Union government are the Parliament, the executive and judiciary. The Parliament has two houses, namely, Rajya Sabha (Council of States) and Lok Sabha (House of the people), in which Lok Sabha has supremacy in financial matters. The Lok Sabha has a maximum of 550 members directly elected by the people and the Rajya Sabha has a maximum of 250 members indirectly elected by the members of Legislative Assembly of the States. The President of India, who is indirectly elected through the electoral college is the Head of the State. He exercises his executive powers on the advice of the Council of Ministers. The Council of Ministers or the Cabinet is headed by the Prime Minister, who is the leader of the party enjoying majority support in the Lok Sabha. The Cabinet is collectively responsible to the Lok Sabha. The Supreme Court is the apex court of the country having both original and appellate jurisdictions.

At the State level, there are similar institutions. These are, a bicameral legislature (some States have unicameral legislature), the Governor, the Council of Ministers headed by a Chief Minister and the High Courts.

The Constitution lists the subjects which are within the legislative competence of the Union and State governments from which the revenue raising and spending powers of the Union and the State governments are derived. The Constitution also lays down the devolution of certain Union taxes and grants-in-aid from

the Union to the State governments. It also provides for the appointment of the Finance Commission every five years or earlier by the President to determine the principles of sharing taxes and their distribution among the States inter-se and the grants-in-aid to be given to different States.

A flow chart of the organisation of the Union government is given in chart -1.

2. The Mechanics of Budget Formulation and Approval

The mechanics of budgetary control are summarised in Chart 2. These, in the main, consist of budget formulation, approval and execution, implementation of the budget provision and the auditing of government transactions. These are briefly discussed below.

a. Budget Formulation: The 'Budget' is presented by the government before the Parliament every year setting forth the anticipated expenditure and receipts during the next financial year. It is an instrument translating the governmental policies through financial allocation to various programmes.

The work relating to the framing of the 'Revised Estimates' for the current year and the 'Budget Estimates' for the next year starts with the issue of the 'Budget Circular' in the

middle of September each year from the Budget Division of the Department of Economic Affairs of the Ministry of Finance. The circular is addressed to all the Ministries/Departments and several other authorities like Controller General of Accounts. The work relating to the Budget is coordinated by the Financial Adviser in each Ministry/Department assisted by the Controller of Accounts.

The estimates of Central taxes and duties administered by the Central Board of Direct Taxes and Central Board of Excise and Customs are furnished by them to the Budget Division. All other revenue receipts are divided into certain categories and the respective Controller of Accounts furnish the Estimates to the Budget Division after getting them scrutinised and approved by the Financial Adviser

The estimates of expenditure are furnished by different Ministries to the Budget Division in stages to facilitate compilation and consolidation work. After detailed discussions with Secretary (Expenditure), in the Ministry of Finance, the Financial Advisers of different ministries prepare and forward to the Budget Division, the Statement of Budget Estimates along with a brief explanation for variation between previous year's budget estimates and revised estimates and notes

on the demands for grants according to the time schedule laid down. In the case of the States too, the procedure described above is broadly similar.

The budget is presented to Parliament in two parts, i.e., Railway Budget pertaining to Railway Finance and General Budget which gives an overall picture of financial position of the Government of India. One entire session of Parliament, which generally starts in the first week of February and goes upto the end of May is mainly devoted to the presentation of and discussion on the budget. To enable continuity, the Constitution under Article 116 empowers the Lok Sabha to pass "Vote on Account". By this, grant in advance in respect of the estimated expenditure for a part of a financial year is made pending completion of the procedure of voting on demands.

The Annual Financial Statement is the main budget document showing the receipts and payments of the government under three parts in which government accounts are kept: (i) Consolidated Fund (ii) Contingency Fund and (iii) Public Account. These are explained below:

(i) **Consolidated Fund**: All revenues received by government, loans raised by it, and also its receipts from recoveries of loans granted by it form the Consolidated Fund. All

expenditure is incurred from the Consolidated Fund and no moneys can be withdrawn from the Fund without authorisation from the Parliament.

(ii) Contingency Fund: Occasions may arise when government may have to meet urgent unforeseen expenditure pending authorisation from Parliament. The Contingency Fund is an imprest placed at the disposal of the President to incur such expenditure. Parliamentary approval for such expenditure and for withdrawal of an equivalent amount is subsequently obtained and the amount spent from Contingency Fund is recouped to the fund. The corpus of the Fund authorised by the Parliament, at present is Rs 500 million.

(iii) Public Account: The Public Account is the Fund to which all public moneys received by or on behalf of the government are credited except (i) all revenues received by the government (ii) all loans raised by the government by the issue of treasury bills, (iii) ways and means of advances (iv) all moneys received by the government in repayment of loans.

The budget makes a distinction between the Revenue Budget and the Capital Budget. Revenue budget consists of the revenue receipts - both from tax and non-tax sources of the government and the expenditures largely are of current nature. Capital budget includes all capital receipts and payments including transactions in the Public Account.

The Mechanics of Approval:

(i). Demands for grants: The estimates of expenditure from the Consolidated Fund required to be voted by the Lok Sabha are submitted in the form of Demands for Grants in pursuance of Article 113 of the Constitution. Each demand normally includes provisions on account of revenue expenditure, capital expenditure, grants to State and Union Territory Governments and also loans and advances relating to the service within a Ministry or a Department in the case of large ministries. Demands for Grants are presented to the Lok Sabha along with the Annual Financial Statement. Subsequently, before the discussion on demands for grants is taken up, Detailed Demands for Grants is also laid on the table of the Lok Sabha showing further details of the provisions included in the Demands for Grants.

However, expenditure on the emoluments and allowances of head of the State, salaries and allowances of presiding officers, interest on and repayment of loan raised by the government and payments made to satisfy decrees of Courts etc., are not submitted to the Vote of the House. These items of expenditure are charged on the Consolidated Fund.

(ii). Appropriation Bills: After the demands are voted by the Lok Sabha, Parliament's approval to the withdrawal from the Consolidated Fund of the amounts so voted and of the amount

required to meet the expenditure charged on the Consolidated Fund is sought through the Appropriation Bill. The Finance Ministry and the Administrative Ministries have specified powers of Appropriation/Reappropriation of funds within the demands covered in the Appropriation Bills, but not to meet the expenditure on a new service not contemplated in the budget. In the case of the latter, prior approval of the Parliament is necessary but in emergency cases, expenditure on such items can be met from the Contingency Fund, pending authorisation by the Parliament.

(iii). Supplementary Demands for Grants: During the course of the year in cases when the amount authorised to be spent for a particular service in the current financial year may not be found sufficient or when expenditure has to be incurred on a new service not included in the budget, Supplementary Demand for Grants putting forth estimated additional expenditures required is presented to both the Houses.

(iv). Demand for Excess Grants: Under Article 151 of the Constitution, the President causes Audit Reports of the Comptroller and Auditor General of India on the Accounts of the Union to be presented to the Parliament by the Minister of Finance. If the Appropriation Accounts show excesses or savings in actual expenditure compared with the sanctioned grants, these have to be regularised. The audit reports presented to the Parliament are examined by the Public Accounts Committee and after

satisfying itself about the genuineness of the excess expenditure incurred by Ministries and Departments, the Committee recommends for its regularisation. Demands for excess grants are thereafter brought before the Lok Sabha by the Ministry of Finance.

(v). Powers of Appropriation and Reappropriation: The Administrative Ministries/Departments enjoy considerable powers for reappropriation of funds within a grant or appropriation subject to certain general restrictions. These are briefly: (i) Funds shall not be appropriated or reappropriated to meet expenditure which has not been sanctioned by a competent authority. (ii) Funds provided for charged expenditure shall not be appropriated or reappropriated to meet votable expenditure and vice versa. (iii) No reappropriation shall be made from one grant or appropriation for charged expenditure to another grant or appropriation for charged expenditure. (iv) Funds shall not be appropriated or reappropriated to meet expenditure on a new service or a new instrument of service not contemplated in the budget as approved by Parliament. (v) Expenditure on public works is subject to certain further conditions regarding administrative approval, technical sanction, limits on excess of expenditure over authorised limits, etc.

It has also been prescribed that without the previous consent of the Ministry of Finance, no reappropriation may be made like 'transfer of funds' provided under the Plan Heads to the non-Plan Heads both under the Revenue and Capital Accounts.

c. **Performance Budgeting:** Performance Budget was introduced to serve as an additional tool of administrative and financial control in the implementation of development programmes. Performance budgets are prepared and circulated to Members of Parliament by all Ministries/Departments dealing with developmental activities. The Performance Budget presents the budget of the Ministry/Department in terms of functions, programmes and activities and gives appraisal reports separately in respect of major central sector projects/programmes. Performance budgets of public sector undertakings under various Ministries/Departments include, inter-alia the capacity installed and utilised, physical targets and achievements, results of operation and return on capital.

3. Development Planning and the Budget

In India, the Planning Commission, a non-statutory body set up by a resolution of the government of India in 1950 is entrusted with the task of formulating Five Year Development Plans. The Prime Minister is the Chairman of the Commission. It has a Deputy Chairman and other members, drawn from economists,

scientists, administrators, and political personalities. After completing seven five year plans, the Eighth Five Year Plan has commenced from 1990-91.

Essentially, formulating a five year plan requires the determination of total investment requirements in various sectors to produce the commodities required and to generate the targeted growth rate. A financial plan is drawn up to match the required resources for investment for the five year period taking into account the volume of domestic savings that could be mobilised and the inflow of capital from abroad. Then, the resources from various sources for financing the public sector outlay are projected. These projections are made in close consultation with the Ministry of Finance and connected organisations like the financial institutions.

The five year plans are operationalised in the form of Annual Plans for each financial year. The Planning Commission holds extensive discussions with Central Ministries, including the Ministry of Finance to draw up the Annual Plans. The Annual Plan discussions also provide an opportunity to review the progress of important projects/programmes upto the mid-year and take a critical look at the physical targets and financial requirements for the next financial year. Simultaneously, discussions are held with the Ministry of Finance to assess the extent of budgetary support and internal and extra budgetary resources of

public enterprises available for the Plan. Similar exercise is conducted by the Planning Commission in consultation with the State Governments to determine their Annual Plans and the extent of Central assistance to them.

In spite of the experience of several years, one of the major lacuna that existed was the lack of proper integration of the budget with the Plan. Towards remedying this, a major reform in the classification of transactions in Government Accounts was carried out in July, 1987, to bring about a close correspondence between Plan schemes and Account heads so that expenditure on Plan programmes can be extracted directly from the accounts. All Heads of Accounts upto the Minor Head level have been given numeric codes to facilitate the computer-based Financial Information System.

A large part of the Plan expenditure incurred by the Central Government is through public sector enterprises, and the budgetary support is provided to them either through investment in share capital or through loans. Expenditure Budget (Vol. I) shows the estimates of capital and loan disbursements to public sector enterprises in the current and the Budget years for Plan and Non-Plan purposes. A detailed report on the working of public sector enterprises is given in document titled, "Public Enterprises Survey" brought out separately by the Ministry of Industry. A report on the working of the enterprises under the

control of the various administrative Ministries is given in the Annual Reports of the various Ministries circulated to Members of Parliament separately. Besides, the reports of the Comptroller and Auditor General of India on the working of the various public sector enterprises are also laid before Parliament.

4. The Mechanism of Control and Monitoring of the Implementation of Budget Provisions.

a. Budget Allocation and Delegation of Financial Powers:

After the Parliament has passed the Appropriation Bills, the Ministry of Finance sends an intimation to all the Administrative Ministries/Departments and the budget allocation to the spending authorities is communicated before the end of May each year.

There are a number of spending authorities under each department designated as Heads of Departments, Heads of offices, controlling officers, disbursing officers, etc. Their powers of sanction of expenditure, the norms and conditions to be satisfied and limits to be observed are precisely laid down.

b. Role of Financial Adviser:: Each Ministry or a group of smaller Ministries/ Departments have a Financial Adviser of the rank of Joint/Additional Secretary. He is responsible to both the Secretary of the Administrative Ministry and the Secretary (Expenditure) in the Ministry of Finance. He is the lynch pin of the entire system for the control and monitoring of the

implementation of the budget provisions. He is assisted by specially trained and selected team of officers which includes a Controller/Chief Controller of Accounts. They are responsible for all payment and accounting work relating to the entire Ministry/Department. They furnish the Ministry monthly and quarterly figures of expenditure. They also transmit monthly accounts of their respective Ministries/Departments to the Controller General of Accounts (C.G.A) in the Ministry of Finance, who prepares the consolidated accounts of the entire Government of India.

c. **Monitoring of Expenditure and Receipts:** The Controller of Accounts reports to the Financial Adviser (F.A.) at the end of July and each month thereafter the actual receipts and expenditure during the quarter/upto the end of preceding month against the corresponding budget for the period. The F.A. is required to initiate remedial action wherever the actuals show wide variation from the Budget. A special watch is kept to avoid bunching of expenditure towards the end of the financial year. The Ministry of Finance holds discussions with all Financial Advisers sometime in October each year to take stock of the progress of expenditure during the year against the quarterly and monthly targets and to consider unforeseen requirements of funds which may necessitate seeking of supplementary demands.

A more recent innovation in budgetary control is the four monthly review of budget deficit. The Finance Minister, in response to widespread concern expressed by Members of Parliament on the deteriorating fiscal scenario this year (1990-91), assured that he will present a report to Parliament on the status of the budget deficit once every four months. This would naturally call for very close monitoring of receipts and expenditure of the entire Government of India on a monthly basis.

d. Some Recent Measures to Control Revenue Expenditure: In view of the considerable deficit in the revenue account since 1979, some measures have been taken by the Government of India to curb the growth of Revenue Account expenditure. Instructions for effecting economy in travel expenses, office contingent expenditure, not filling up vacancies are some of the measures taken. New schemes in the Revenue Account not envisaged in the original budget is not permitted during the financial year even if savings can be found from within the sanctioned budget. The more recent measures include depositing the dearness allowance payable to the employees drawing a pay more than Rs 3500, in the provident funds, and the circulars issued to reduce expenditures by 10 per cent across-the-board due to difficult fiscal situation and to reduce consumption of petroleum products by 20 per cent in the wake of increase in their prices after the 'Gulf Crisis'.

e. **Introduction of Zero-Base Budgeting:** The Government of India decided to adopt Zero-Base Budgeting (ZBB) approach in the Central Government Departments with effect from 1987-88, although it is not clear to what extent this has been actually applied. ZBB requires identification and sharpening of objectives, selecting the best alternative through cost-benefit and cost-effectiveness analyses, prioritisation of objectives and programmes, switching of resources from programmes with lower priority to those with higher priority; and identification and elimination of programmes which have outlived their utility.

f. **Financial Committees of Parliament:** The Parliamentary control over public expenditure is not only limited to the voting of moneys required by government but also extends to ensuring economic spending on approved plans and programmes to achieve the objectives in a cost-efficient manner. In order to help it to exercise effective control over public expenditure, Lok Sabha has set up three financial committees, viz., (i) Estimates Committee, (ii) Public Accounts Committee, and (iii) Committee on Public Undertakings. These committees are expected to keep an unremitting vigil over governmental spending and performance, bring to light inefficiencies, waste and indiscretion in the implementation of programmes and policies approved by Parliament.

(i). **Estimates Committee:** The Estimate Committee undertakes examination of such of the estimates as may seem fit to the committee or are specifically referred to it by Lok Sabha or the Speaker. The functions of the Committee are: 1) to report what economies, improvements in organisation, efficiency or administrative reform, consistent with the policy underlying the estimates may be effected. 2) to suggest alternative policies in order to bring about efficiency and economy in administration. 3) to examine whether the estimates imply that allocation is properly made in keeping with the overall policy framework; and d) to suggest the form in which the estimates shall be presented to Parliament.

(ii). **Public Accounts Committee (PAC):** An important function of the committee is to ascertain that money granted by the legislature has been spent by government within the scope of the demand and on items coming under the purview of the demand. It also examines cases involving losses, nugatory expenditure and financial irregularities. All the reports submitted by the Comptroller and Auditor General of India and placed on the Table of the House are remitted to the PAC for detailed examination and report to the House. The PAC is assisted in its work by the Comptroller and Auditor General of India (CAG).

(iii). Committee on Public Undertakings:: This committee examines the reports and accounts of the public undertakings and any reports of the C&AG on the undertakings. It also examines in the context of the autonomy and efficiency of public undertakings, whether the affairs of the Undertakings are being managed in accordance with sound business principles and prudent commercial practices.

g. The Comptroller and Auditor General of India: The Comptroller and Auditor General of India (C&A.G) is the supreme audit authority in the country. His office has been created under the provisions of the Constitution. His duties, powers and conditions of service have been prescribed in an Act of Parliament in 1971. His main duty is to keep a vigilant watch on the collection of revenues and spending of public moneys by the Union and the States and to ensure that the moneys voted by the legislatures are spent under appropriate heads according to the prescribed limit. Besides the traditional regulatory audit, the audit is also conducted from the point of view of economy, efficiency and effectiveness of public expenditure programmes. He ensures that the Appropriation Accounts and Finance Accounts of the Union have been correctly prepared.

The reports of the C & A.G. relating to the accounts of the Union are submitted to the President, who causes them to be laid before each House of Parliament. Similarly, C&A.G's reports on the accounts of a State are submitted to the Governor, who causes them to be laid before the State Legislature.

h. Budgetary Control at the State Level: The mechanics of budgetary control at the State level are broadly similar to those at the Central level described above and similar institutions and procedures on budget implementation and control have been evolved. C & A.G. is the supreme institution for accounting and auditing for the State governments also. Under his aegis, Accountant General (A.G) - Accounts, prepares and consolidates the accounts of the States and AG-Audit, conducts a detailed audit on them. The audit report duly signed by C&AG, is sent to the Governor of the State, who causes it to be presented to the State legislature. The Public Accounts Committee of the State legislature considers the report in detail and makes appropriate recommendation. At the State level too, Estimates Committee, Public Accounts Committee and Committee on Public Undertakings are appointed by the legislature to undertake the tasks similar to those taken up by such institution at the Central level.

4. Mechanism for Evaluation of Efficiency and Effectiveness of Budgetary Expenditures

The Seventh Plan laid emphasis on the need for improvement of project formulation, sanction, implementation and monitoring in all developmental sectors. Accordingly, the large projects in the field of energy, industry, ports, irrigation, etc., have to be placed before Public Investment Board, set up in the Department of Expenditure, Ministry of Finance. It is a high level body, chaired by the Secretary (Expenditure) in the Ministry of Finance. Secretaries of the Planning Commission, the Ministry of Industry, the Secretary of the Administrative Ministry concerned with the Investment proposal and other senior officers are members of the Board. The Board is assisted in its work by expert agencies like the Project Appraisal Division of the Planning Commission, Bureau of Public Enterprises in the Ministry of Industry and Department of Economic Affairs. The Board also issues guidelines from time to time to enable better project formulation and appraisal.

To avoid cost and time overruns on account of several deficiencies in project estimates and time schedules, project approval is accorded in two stages - proposals for preparation of feasibility reports is cleared in the first stage and investment decisions are taken at the second stage on the basis of well prepared feasibility reports. The proposals on projects costing

more than Rs one billion are submitted to the Cabinet for approval by the Administrative Ministry concerned after obtaining the clearance of the Public Investment Board.

Once the investment decision is taken, the execution of the project is entrusted to the public sector undertaking concerned or the autonomous statutory bodies like the Port Trust. It is the responsibility of these organisations to ensure proper project implementation within the cost estimates and time schedules approved. The Administrative Ministry reviews and monitors the projects every quarter.

Another innovative step in monitoring is the formation of the Ministry of Programme Implementation. The ministry is expected to monitor the implementation of anti-poverty programmes, the performance of various industrial infrastructure sectors of the economy and the implementation of all mega, major and medium Central sector projects in the country. All the mega (more than Rs 10 billion investment) and major projects (more than Rs one billion investment) are monitored on a continuous basis every month and other projects are monitored on a quarterly basis. To find out the reasons for shortcomings and to impart objectivity, the Ministry has involved a number of autonomous institutions for making concurrent evaluations of anti-poverty

programmes periodically. Drawing from the results of these evaluations, the programmes are expected to be reviewed and modified from time to time.

Until 1950, government audit was mostly confined to check against provision of funds or rules and orders or sanctions to expenditure or propriety of expenditure through Appropriation Audit, regulatory audit, sanction audit and proprietary audit. Since the advent of planning, however, the main facets of efficiency-cum-performance audit are (i) Efficiency Audit, (ii) Economy Audit, (iii) Effectiveness or Performance Audit. In Efficiency Audit, the efficient execution of various schemes/projects are examined. Economy Audit scrutinises whether or not the orthodox financial principles are broadly adhered to by sanctioning and disbursing authorities. In Effectiveness of Audit, appraisal of the performance of programmes, schemes, projects with reference to the overall objectives is done.

From the foregoing paragraphs, it is seen that elaborate mechanisms have been established for budgetary control. What is, however, important is to examine to what extent they are effective in promoting economy and efficiency and in improving the delivery system cost effective. These issues are discussed in the next chapter.

Chart I

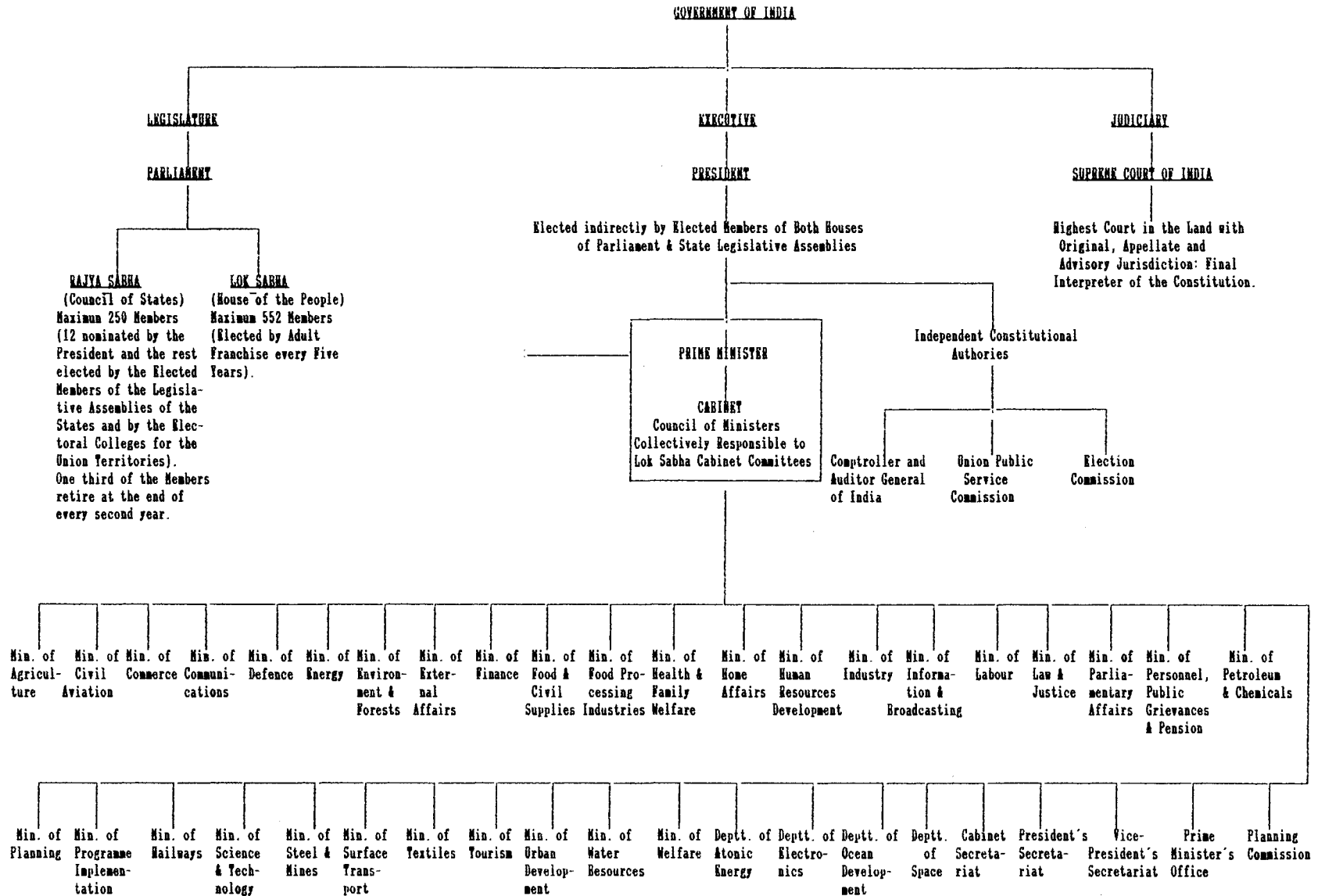
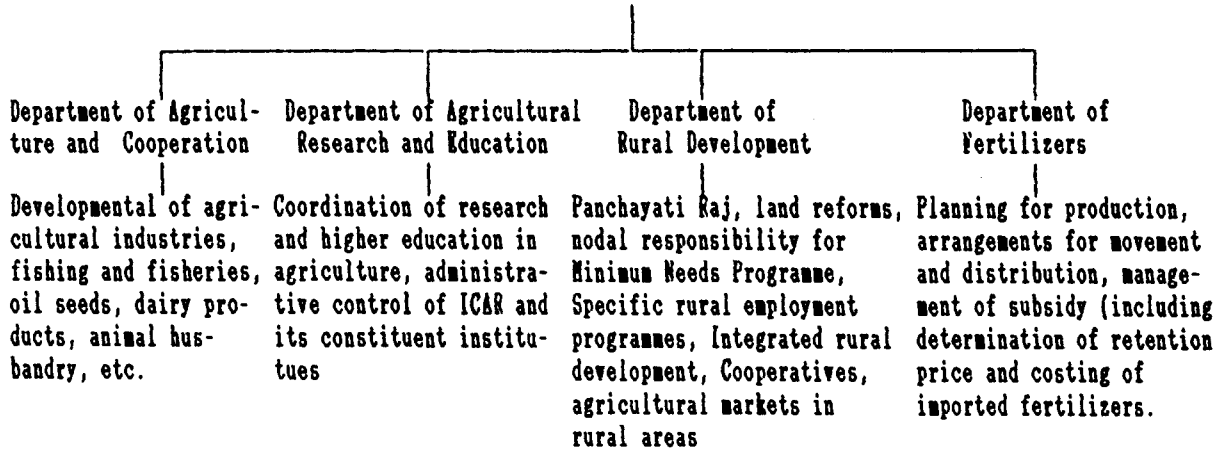


Chart I Contd.

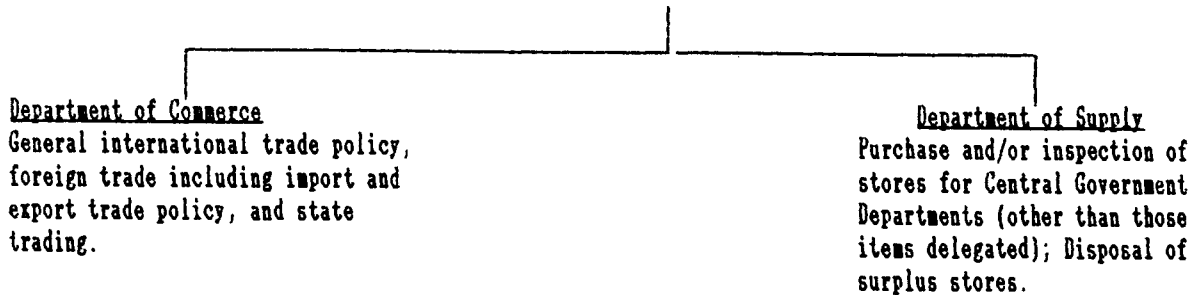
(1) Ministry of Agriculture



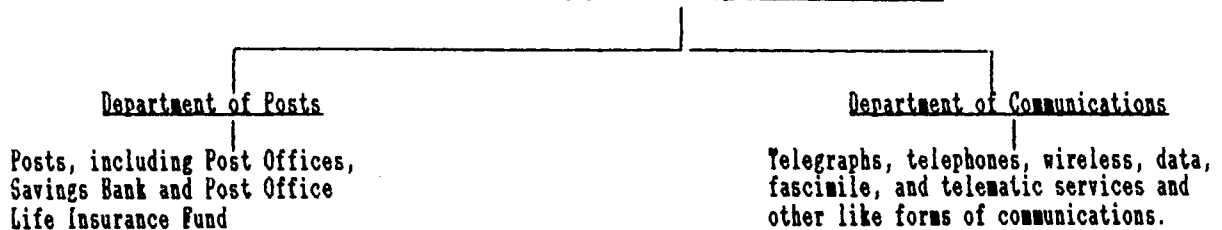
(2) Ministry of Civil Aviation

Aircraft and civil air navigation,
Carriage of passengers and goods by air

(3) Ministry of Commerce



(4) Ministry of Communications



(5) Ministry of Defence

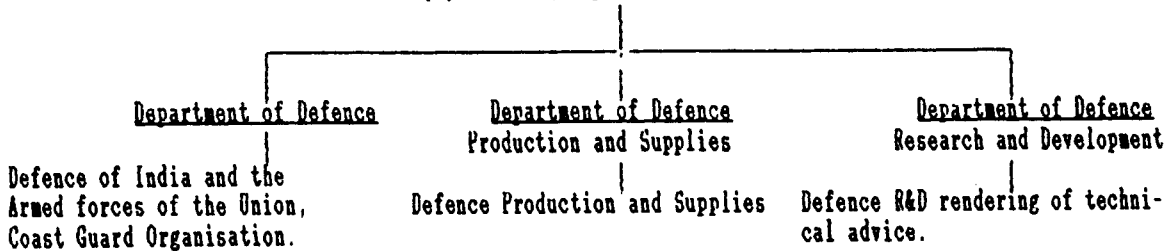
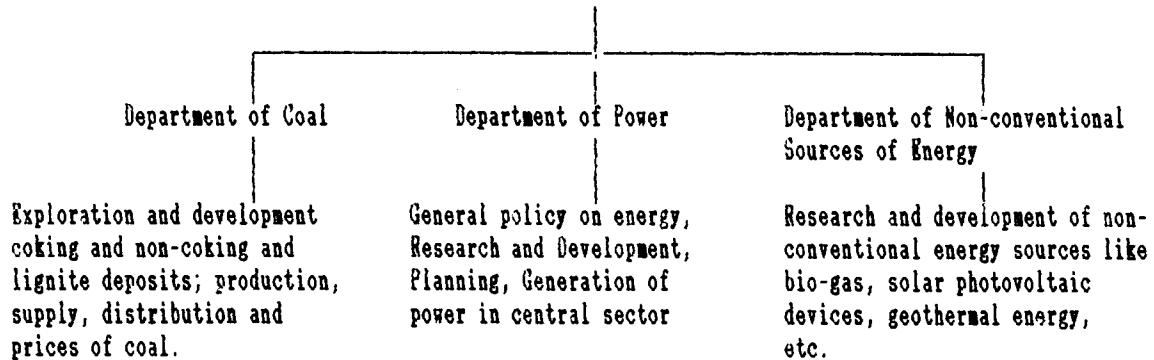


Chart I Contd.

(6) Ministry of Energy



(7) Ministry of Environment and Forests

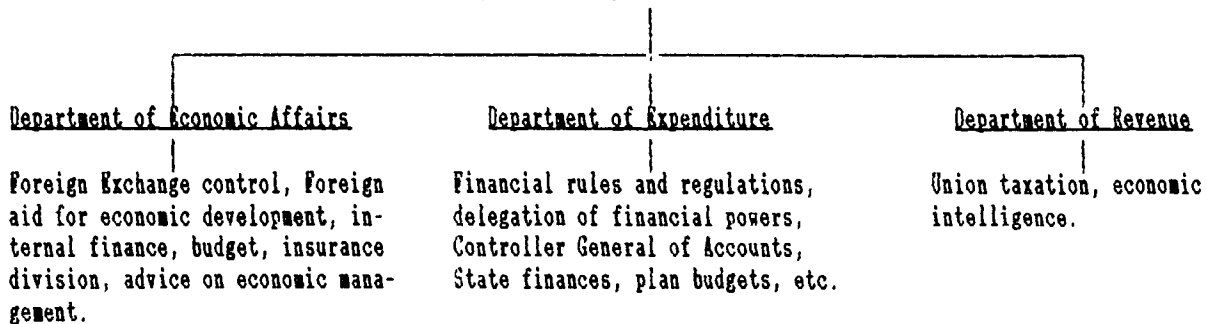
Department of Environment, Forests and Wild Life

Environment and ecology (excluding marine environment on high seas), forest policy, wild life preservation and protection of wild birds and animals.

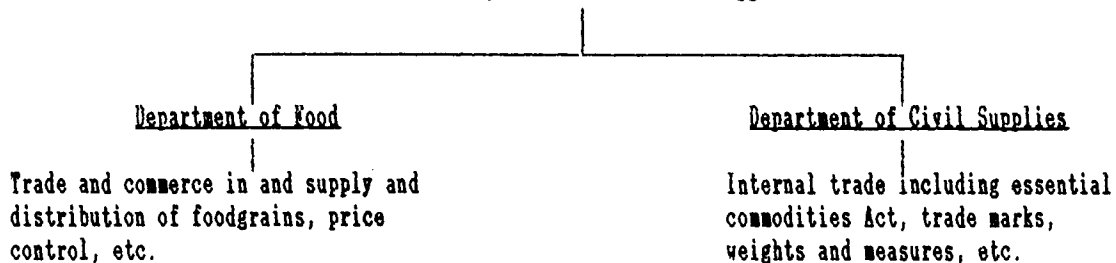
(8) Ministry of External Affairs

External affairs, relations with foreign states, foreign jurisdiction, etc.

(9) Ministry of Finance



(10) Ministry of Food and Civil Supplies

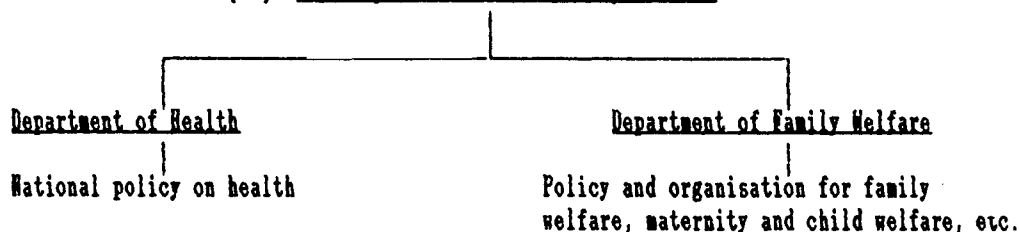


(11) Ministry of Food Processing Industries

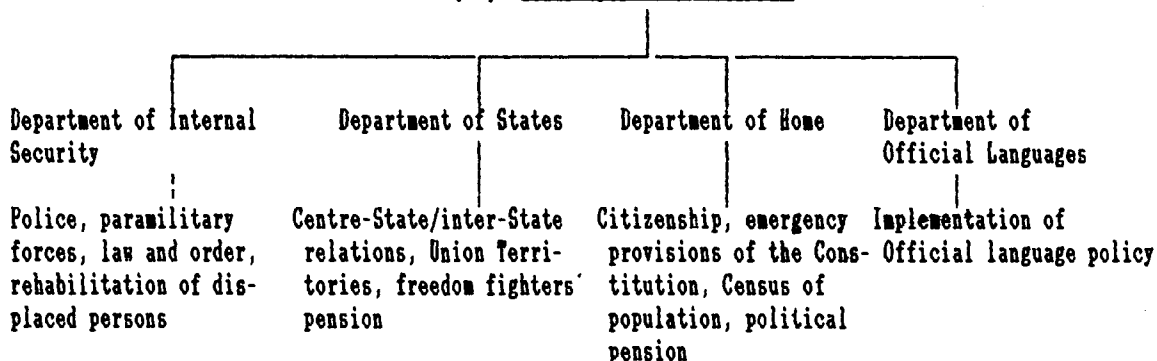
Control of industries relating to processing and refrigeration of certain agricultural products, processing of fish, fruit and vegetable processing, etc.

Chart I Contd.

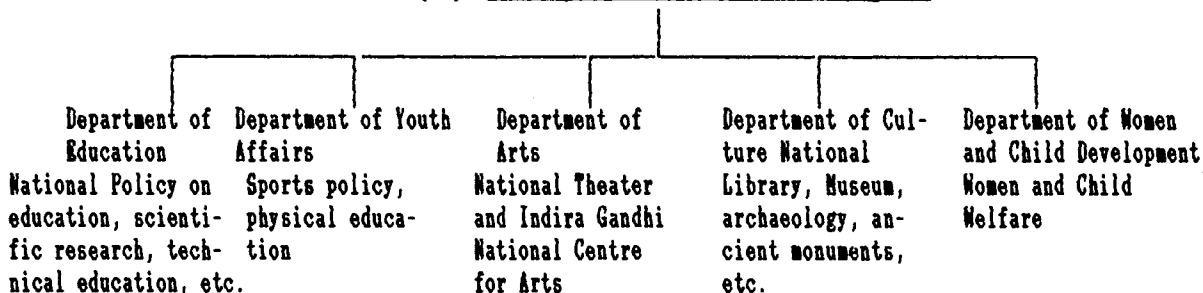
(12) Ministry of Health and Family Welfare



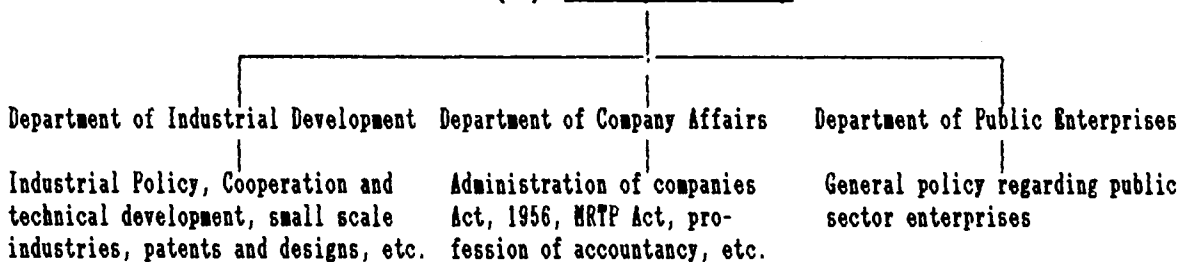
(13) Ministry of Home Affairs



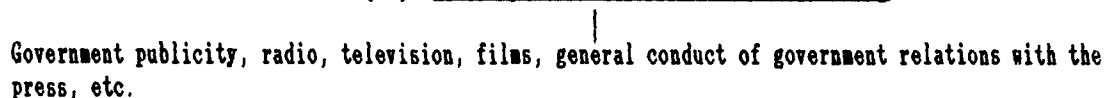
(14) Ministry of Human Resources Development



(15) Ministry of Industry



(16) Ministry of Information and Broadcasting

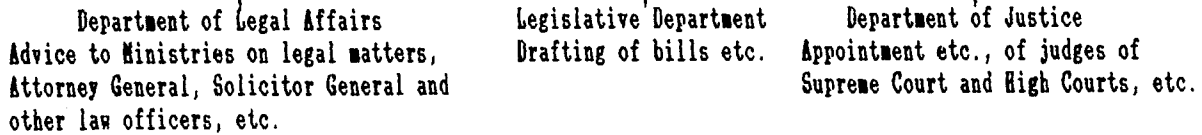


(17) Ministry of Labour



Chart I Contd.

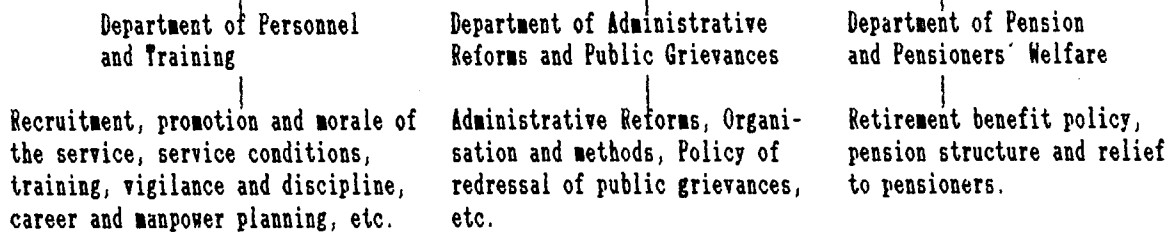
(18) Ministry of Law and Justice



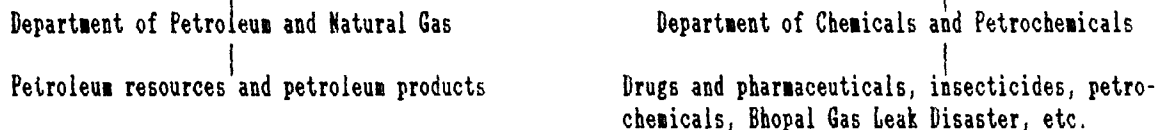
(19) Ministry of Parliamentary Affairs

Liaison between the Government and the Parliament

(20) Ministry of Personnel, Public Grievances and Pension



(21) Ministry of Petroleum and Chemicals



(22) Ministry of Planning



(23) Ministry of Programme Implementation

Monitoring of the implementation of 20 point programme, performance of infrastructure sectors and projects of Rs 200 million and above.

Chart I Contd.

(24) Ministry of Railways

Railway Board

All matters relating to railway revenues and expenditure, etc.

(25) Ministry of Science and Technology

Department of Science
and Technology

Science and technology policy,
promotion of science and technology

Department of Scientific
and Industrial Research

Matters relating to CSIR and
other such research institutions

Department of Bio-technology

Planning and programmes in
bio-technology

(26) Ministry of Steel and Mines

Department of Steel

Iron and Steel Industry

Department of Mines

Survey and Exploration of all minerals other
other than natural gas, petroleum and atomic
minerals, regulation of mines, etc.

(27) Ministry of Surface Transport

Shipping, motor vehicles legislation, etc.

(28) Ministry of Textiles

General policy, development and extension of export promotion of textiles.

(29) Ministry of Tourism

Development of Tourism

(30) Ministry of Urban Development

Housing policy, all government civil works, government stationery, printing and publications,
Local-self governments (excluding Panchayati Raj), National Capital Region, etc.

(31) Ministry of Water Resources

National water policy, management of water as a national resource.

(32) Ministry of Welfare

Social security and social insurance, social welfare planning

Chart I Contd.

(33) Department of Atomic Energy

|
Atomic Energy

(34) Department of Electronics

|
Electronic policy, development of electronics

(35) Department of Ocean Development

|
Coordination, regulatory measures and development relating to ocean, marine environment on high seas, etc.

(36) Department of Space

|
Space science, space technology and space applications

(37) Cabinet Secretariat

|
Secretarial assistance to the Cabinet and Cabinet Committee, Rules of business, Directorate of public grievances.

(38) President's Secretariat

(39) Vice-President's Secretariat

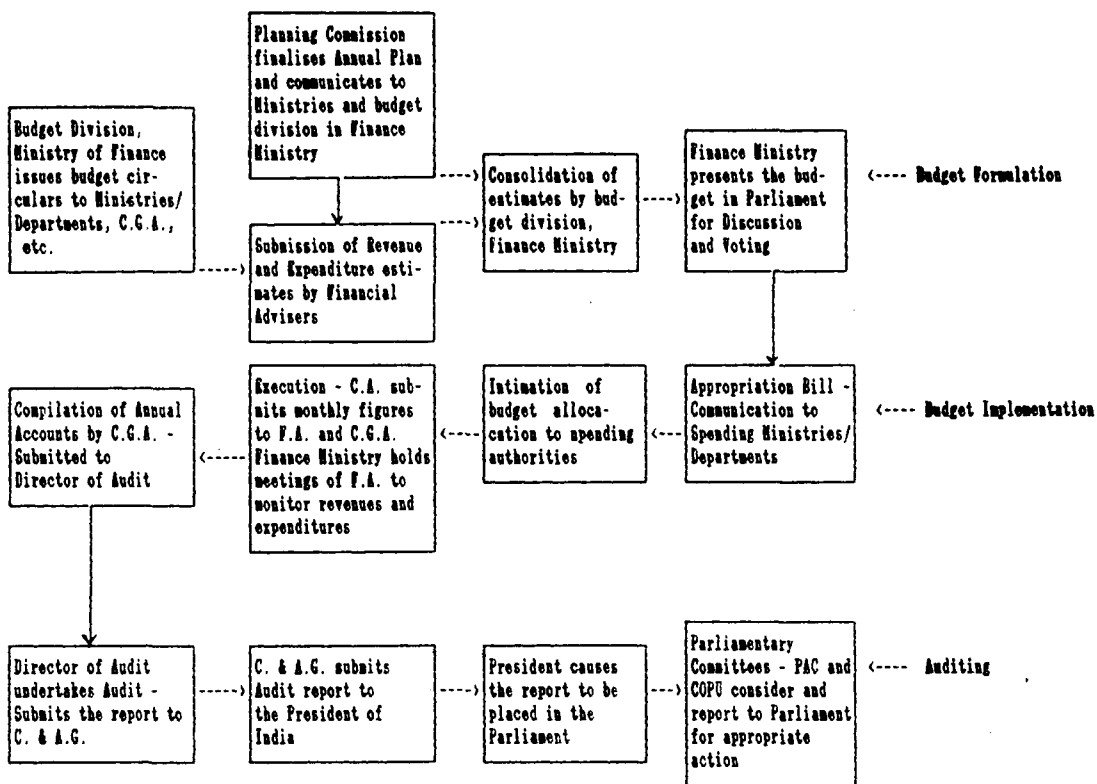
(40) Prime Minister's Secretariat

(41) Planning Commission

|
Assessment of resources, formulation of plans

Chart - 2

Schematic Representation of the Mechanics of Budgetary Control



IV. CONTROL AND MANAGEMENT OF GOVERNMENT EXPENDITURES:

AN EVALUATION

In spite of the elaborate system to control government expenditure evolved over the years, it is a matter of serious concern that the fiscal imbalances have been worsening over the years. Why is it so? Has the problem arisen on account of inadequate policy control and/or process control and/or efficiency control? In this chapter, an attempt is made to undertake such an evaluation

1. Policy Control

It may be noted that a number of official documents such as the Long Term Fiscal Policy (India, 1985), The Mid-term Appraisal of the Seventh Five Year Plan (India, 1988), the Second Report of the Ninth Finance Commission (India, 1989) and Report of the Economic Advisory Council on the Current Economic Situation and Priority Areas for Action (India, 1989) have expressed deep concern on the adverse consequences of the fiscal imbalances on the economy. Yet, at the policy level, genuine attempts to either decelerate the growth of revenue expenditure or to levy economic rates of user charges for public services have not been forthcoming. In spite of worrisome fiscal scenario, the government at both Central and State levels have persisted with populist measures committing vast sums of money to reap short-term

gains. Phenomenal increase in the salaries of government employees since 1st January, 1986 have only added to the deteriorating fiscal scene. Not only the salary scales have been substantially revised, even the net employment (after adjusting the number of superannuating employees) at Central and State levels have grown at annual average rates of 1 per cent and 3.2 per cent respectively, during the last decade. The periodic increases in the procurement prices of foodgrains and reluctance to increase the issue prices to the consumer has led to increase in the amount of food subsidy. The populist measure of writing off of the loans from financial institutions given to the farmers has only added to the growing bill of unproductive expenditures. These are only some examples in a long list of such measures.

The lack of proper policy control can also be seen in terms of political interference in the location of the major investment projects (Raj, 1988). Taking up too many projects for political reasons resulting in the thin spread of resources and consequent cost and time overruns (Bagchi and Rao, 1987) is also a symptom of the inadequacy of policy control. These policy measures do not appear to show the required concern of the political parties in power to the deteriorating fiscal scene.

Another important consequence of the pattern of expenditure growth is the increasing proportion of committed expenditures contributing to the increasing inflexibility in

maneuvering government expenditure. Increase in both salary levels and employment have resulted in the salary bill increasing at a rate faster than total expenditures. With increase in the volume of borrowing and enhancement of interest rates, the interest payments have been increasing at an average annual rate of 23 per cent. At the same time, as increasing volume of borrowed resources has been employed to meet revenue expenditure since 1982-83, and with investment expenditure not generating the required rate of return, the interest and dividend receipts have tended to stagnate.

In a pluralistic economy like India where various interest groups or 'distributive coalitions' operate, the policy controls cannot be very effective. With each interest group attempting to maximise its share, controlling expenditure becomes virtually impossible even when the 'State' is 'neutral' (Bardhan, 1985). The landed elite attempts to maximise its share through, inter alia, fertilizer subsidies, support prices on the farm products, below cost charges on irrigation and energy. The industrialist class attempts to maximise its share by influencing the policies to favour them in addition to the overall subsidisation provided through the protectionist measures. The various fiscal incentives and subsidies including export subsidies accorded to them and changes in the price and financial policies from time to time are the cases in point. The bureaucrats and white collar workers maximise their share by agitating for

security of service, indexation of salaries to price increases, periodic pay and pension revisions, enhanced bonuses and other fringe benefits like housing and medical benefits and subsidised loans for purchase of houses and vehicles. When all these interest groups strive to maximise their relative shares, policy controls cannot be expected to be effective. In such a situation, high growth of public expenditure and shift in expenditure allocation towards current expenditure which provide immediate short-term benefits to these proprietary groups rather than spending on capital formation which yield benefit streams only after a lag are obvious outcomes.

In the absence of political will to undertake long term measures towards making structural adjustments, ad hoc fire-fighting operations become inevitable whenever the crisis becomes serious. This can, many a times, prove counter-productive in the long run. Across the board cuts in government expenditure, levying surcharge on personal and corporate income taxes from time to time to meet the crisis situation, depositing dearness allowance payments in the Provident Fund accounts for the employees drawing salary of more than Rs 3500 per month are some of the ad hoc measures that have taken been adopted in recent times. Given the fiscal sociology in the country, across the board cuts typically tend to reduce expenditure on capital formation, for, a large proportion of current expenditure is

anyway committed and capital expenditure is generally seen as a residual. In such a situation, the stated priorities in the plan documents merely remain on paper.

Any attempt to bring fiscal discipline should therefore address the issue of policy control in general, and political willingness to undertake structural adjustments in particular, which admittedly in a nascent democratic polity like India is a difficult task.

2. Process Control

As detailed in the previous chapter, India has evolved an elaborate mechanism of administrative, legislative and audit control and management of government expenditure. Attempts have been made also to impart flexibility to the mechanics of control to cater changing needs of a developing economy. But the existence of the mechanics in itself does not ensure their efficacy. The effectiveness depends upon the way the mechanics work in practice.

An important ingredient of budget formulation is the adoption of appropriate forecasting technique. Given the political priorities articulated in the budget estimates, it should be possible, with the experience gained over the years to forecast the budget estimates more accurately. In part, this also

indicates the efficacy of process controls as it represents the difference between intended and actual expenditure. Although a part of this difference could be due to factors beyond the control of the government, a part of the difference represents the inadequacy of process controls. However, as may be seen from Table 4.1, the difference between the budget estimates and actuals do not show any clear trend over the period from 1975-76 to 1987-88 both the at the Centre and State Levels. At the Central level except for one year, the actuals were consistently higher than budget estimates, but were lower than the revised estimates by varying percentages. In the case of the States too, the actual expenditure exceeded the budget estimates in all the years by wide margins, whereas, the differences were marginally lower than the revised estimates in the majority of the years. As the percentage difference between actuals and budget estimates do not show any declining trend, it becomes clear that the experience gained over the years has not been incorporated in budgeting to improve the accuracy of the forecasting. It is also seen that the summary measure of the accuracy of forecasts, Theil's 'U' is lower for the States (0.35) than the Centre (0.47) indicating that by and large, budgeting forecasts in the States were more accurate¹.

When the government is not able to contain the expenditure at the level voted in the Parliament/Legislatures, it has to present a supplementary demand for grants. The difference between the budget estimates and revised estimates broadly

represents the volume of supplementary grants sought for. In the table it is seen that the difference between the two estimates is substantial in all the years at both Central and State levels. In the last couple of years, the volume of supplementary grants have increased even to higher levels. In 1989-90, for example, at the level of Central government alone, the supplementary grants sought amounted to Rs 119 billion forming about 5 per cent of total demand (excluding railways). In these years, the budget declares the intention to limit the overall as well as revenue deficits to the levels close to what was suggested in the Reports of the Ninth Finance Commission (India, 1989, 1990), but the process controls were not found to be effective enough to limit the expenditure level at the budgeted levels.

In a sense, the accuracy of budgetary forecasts depends upon the extent of ad hocism in budget formulation. In a situation where priorities are changed even after the expenditure is voted for the year, there is a continuous 'stress management', substantial variation between budget estimates, revised estimates and actuals is inevitable. What is, however, important is, in such situations, typically, larger variations are seen in developmental expenditure. For example, it may be seen from Table 4.2 that developmental expenditures had a longer forecasting error as revealed by higher values of - Theil's 'U'. The table also brings out two other important features. First, ad hocism in budget making seems to have increased over the years as revealed

in the higher value of Theil's 'U' during 1981-88 (0.43) than the corresponding figure for the period 1975-81 (0.14). Second, variations tended to be much higher in the infrastructural sectors of industry and minerals, power, irrigation and flood control and transport and communications.

There have also been some criticisms about the fact that by nature, the system of budgeting adopted in the country does not encourage prudence. As each departmental head tries to enhance his claim on resources, increase in outlays in successive years is inevitable. As the economy has been experiencing a reasonably high rate of inflation over the years, each departmental head attempts to exaggerate his claims so as to get the budget approved for his department which is higher by a certain percentage in real terms.

Similar is the attitude towards employment. The power of the departmental head is seen in terms of the number of employees under him. Besides, for every senior position, there is a host of complementary staff, irrespective of the function he performs. Once people are appointed, they have to be periodically promoted to avoid stagnation, and consequently vacancies at higher levels are created and promotions are made even while the person continues to do more or less the same job. For example, there are as many as 30 Commissioners of Income Tax in Bombay, Calcutta and

Delhi, now as against two in each of these cities only a few years ago. Similar multiplication has taken place virtually in every department.

The weakness of process controls is clearly seen in the inadequacy of cash management and monitoring of expenditure. The Reserve Bank of India, being a banker to the government honours all claims against the government, but does not get adequate information on the volume of payments to be made in the near future which depends on the expenditures incurred by the spending departments. Nor is the Finance Ministry able to monitor expenditure on a day to day basis. At present, government does not get to know clearly the progress of expenditure even on monthly (much less weekly) basis. Unless the information system is improved and computerised, both monitoring and cash management will become increasingly less effective in the coming years.

At the State level, there are some additional factors inhibiting economy in spending. The approach of filling the projected budgetary gaps of the States by the Finance Commissions acts as a disincentive towards better fiscal performance. Even when the Finance Commission takes into account some norms, there are cases of the Planning Commission filling the non-Plan budgetary gaps of the States left uncovered by the Finance Commission. Of course, the Ninth Finance Commission has tried to reform this shortcoming by assessing the receipts and expenditure

of the States normatively. It has also recommended that the Planning Commission should desist from the practice of filling in the non-Plan budgetary gaps.

Although the spending departments are required to adopt Zero Base Budgeting while formulating their expenditure requirements, it becomes extremely difficult to do so in practice. The success of Zero Base Budgeting depends upon the political courage to admit the past mistakes in implementing certain projects and in a multi-party democracy, this may not be politically a wise measure for the ruling party. Similarly, performance budgeting, though introduced with a lot of enthusiasm, has, over the years tended to become a routine exercise without having much impact on the budget formulation. Nor are the performance budgets presented in the Parliament discussed in any detail, to have any lasting impact on their efficacy. In fact, even with regard to the Demand for Grants, the Parliament's discussion is confined to only a few Ministries, and the rest are subject to "guillotine". In 1989-90, for example, only 20 of the 75 demands forming only about 8 per cent of the total expenditure was discussed in the Parliament and the remaining 55 demands constituting 92 per cent of expenditure was simply voted without any discussion.

This is not to belittle the contribution of the mechanisms evolved to control the growth of government expenditure in India. What is implied above is that the potential benefits of the process controls have not been adequately realised.

3. Efficiency Control

Issues pertaining to efficiency control basically have to look at the problem from the point of view of efficiency in government spending. This implies, not only that the planned spending should be realised but also the objective should be realised in physical terms.

Efficiency control in public spending can be ensured only when expenditures are incurred according to the Plan. However, in many cases, even this necessary condition is not fulfilled as is illustrated by the spending on the Minimum Needs Programme (MNP) - a programme started since the Fifth Five Year Plan to assist in raising the living standards of the poor by providing certain basic amenities. During the Seventh Plan period, as may be seen from table 4.3, the actual allocation for MNP fell short of the original estimates by about 7 per cent in the aggregate. What is more important, in every activity except adult education and rural water supply, the actual allocation was lower than the original estimates by varying magnitudes². As a ratio of original outlay, the maximum shortfall was in the case of

nutrition (40 per cent) and sizeable shortfalls were also seen in Rural health (27 per cent), rural roads (24.6 per cent) and environmental improvement and urban slums (24.3 per cent).

The shortfall in financial allocation, ceteris paribus, results in the shortfall in achieving physical targets set in the Plan. It is therefore, not very surprising that the physical targets had to be revised from time to time. Thus, the target date for achieving 100 per cent enrollment of the children in the age group 6-14 years by 1990 was revised and set as 1995³. Also, even where enrollment targets were achieved, the increase in drop out rates could not be arrested. Similarly, in the case of adult education, 100 per cent coverage of adults in the age group of 15-35 which was to be achieved by 1990 was revised to 1995. In the case of rural water supply, although the technology mission appointed for the purpose covered the number of villages set in the target, a sizeable number of new problem villages came up as, among other reasons, the tubewells were found to be too shallow to provide continuous water supply in the wake of lowering water tables. In the case of public health, during the Seventh Plan period alone, there was shortfall of about 28 per cent in the establishment of public health sub-centres, about 24 per cent in primary health centers and 28 per cent in community health centers.

Some of the problems of achieving the set goals arises at the time of implementing the projects. . This is clearly demonstrated in the implementation of Integrated Rural Development Programme (IRDP). IRDP is essentially a self-employment scheme designed to assist the rural households below the poverty line. The government has introduced a novel evaluation scheme by involving a number of voluntary agencies and research institutes to impart objectivity. While the concurrent evaluation reports highlight a number of achievements, it is instructive to bring out some of the inadequacies. The latest evaluation undertaken in January - March, 1989, for example, highlights some important areas of concern, namely, (i) only 11 per cent of the `destitutes and from `very very poor` groups (where annual income was less than Rs. 3500) assisted under the scheme crossed the poverty line; (ii) almost 19 per cent of the cases assisted were, in fact, ineligible to receive the assistance; (iii) in almost 33 per cent cases, the assets of old beneficiaries had not generated any incremental incomes; (iv) in 8 per cent cases, significant difference in the value of assets as recorded officially and its value in the opinion of the beneficiary was noticed indicating possibilities of malpractices and leakages in implementations⁴.

Eagerness to achieve the goal of alleviating poverty by employing several schemes, has only resulted inadequate funding of the programmes and hence, has not helped to achieve the desired results. Also, there have been several other problems of

implementation. These are brought out in the reviews on Jawahar Rozgar Yojana, a poverty alleviation scheme brought out in the Report of the Comptroller and Auditor General of India (C.&A.G.) on the Union Government - civil, for the year ended March, 1989. According to the report, the total resources of Rs 26 billion provided for the programme for 1989-90, could sustain provision of employment for hardly 21 days on the average for one member of each rural family living below the poverty line. The review also states that the prescribed criteria for the release of Central assistance to the States on the basis of rural poverty was not strictly adhered to. Central assistance to some States was released in excess of requirements and in some cases, the assistance was less. Even though the overall utilisation was only 24 per cent of available funds, the second installment of Central assistance totaling Rs 11 billion was released prematurely to the districts in September, 1989. The prescribed conditions of 50 per cent utilisation of the available resources were satisfied in only two States, thus, increasing the accumulation of unutilised funds. Inadequate preparatory work before launching the new programme also has resulted in the employment generation during the first four months of 1989-90 under the Jawahar Rozgar Yojana not only below the targeted, but also lower than the average employment generated in the corresponding period of the last three years under National Rural Employment Programmes and the Rural Landless Employment Guarantee Programme, despite spending larger

volume of resources. The lack of identification of intended beneficiaries and inadequate monitoring of the arrangements to complement the implementation of the scheme are also highlighted.

We have deliberately chosen to highlight shortfalls in the MNP and poverty alleviation programmes mainly because of the thrust given to these activities in recent years. A large proportion of expenditure in these items are of current nature and a substantial proportion of it goes into consumption rather than investment.

Achievement of the projects in physical terms is much more relevant in the case of major projects involving capital investment at both Central and State levels. The Ministry of Programme Implementation which, inter-alia, monitors all the major projects (costing over Rs one billion) on a continuous basis has analysed the cost and time overrun of all the 331 projects monitored by it (Table 4.4). On an average, for the 331 projects the estimated cost overrun was close to 20 per cent. The cost overrun was particularly significant in fertilizer industry (63 per cent), railways (38.9 per cent), power projects (27.6 per cent) and coal sector (26.4 per cent). Of the 331 projects, 163 projects had time overruns. There were projects with more than 10 years of time overrun in coal, fertiliser and surface transport industries. These 163 delayed projects, actually accounted for 68.8 per cent of the cost overruns.

The problem is equally bad at the State level. Greater pressure to start a large number of developmental projects by the local politicians on the one hand and more acute scarcity of resources on the other, have resulted in the thin spread of resources over a large number of projects in the States. A more detailed study for the State of Kerala revealed that in 1984-85, 2266 ongoing projects requiring an outlay of about Rs one billion had a budget provision of barely Rs 300 million. Further, over 5500 projects requiring approximately Rs 12 billion for execution were taken up without even administrative sanction, and only a token provision of Rs 100 for each project was made in the budget (Bagchi and Rao, 1987).

That inadequate funding causes inordinate delays and escalates costs substantially is borne out strikingly by the spill over in the irrigation projects (Table 4.5). In Kerala, for example, of the 14 major and four medium irrigation projects taken up till the end of the Sixth Plan, only three were completed so far. Of the 13 ongoing projects one was started in the mid-fifties and as many as six were started during the early sixties. In the meantime, the cost of the projects had multiplied by several times. In fact, the cost escalation varied from 81 per cent to as much as 1700 per cent in the case of the major schemes and from 103 per cent to about 600 per cent in the case of medium irrigation projects. Kerala's case is only an illustration and the story is true in all the States.

The problem cannot be summarised better than to quote Prof. Sukhmoy Chakravarty (1987), "Budgetary procedures are grossly inadequate from the point of view of quick completion of projects. Gestation periods tend to be lengthened because initial allocation of funds are insufficient. Then there is the additional problem of unsatisfactory monitoring of the progress of major construction projects in sectors such as irrigation, power, open-cast mining, and so on. Furthermore, there is a protracted bargaining that goes on with the aid donors, bilateral or multilateral sources from which technology or equipment may be purchased. The multiplicity of sources from which technology and equipment are obtained from abroad have also led to problems like lack of standardisation, the absence of spare parts, and similar problems that add to investment inefficiency" (pp. 57-58).

Another important reason for hindering efficiency control is the absence of effective mechanism to make detailed evaluation of the completed projects and feed the information back to the budgeting process. Although the 'Programme Evaluation Division' in the Planning Commission is supposed to undertake cost-benefit analysis of the completed projects, their reports have not been very useful in pinpointing the causes of inefficiency, nor is there any effective system to incorporate their finding in the future planning.

This is not to belittle the contribution of administrative, legislative and audit mechanics of expenditure control evolved over the years. It is important to note that the mere existence of the mechanism by itself does not ensure expenditure control. Their effective implementation is vital. Nor are the policy, process and efficiency controls independent of each other. The overall conclusion that the mechanics have not helped to control the level and pattern of expenditure in India is inescapable. Our attempt here has been only to emphasise that much more detailed analysis into this critical control area is necessary to reform budgetary control to make them more effective.

Notes

1. Theil's 'U' is computed as

$$U = \left\{ \frac{\sum (x_i - \hat{x}_i)^2}{\sum (x_i - x_{i-1})^2} \right\}^{1/2}$$

where x_i is the actual expenditure and \hat{x}_i is the budget estimate.

2. This also excludes rural sanitation and public distribution which were started under MNP during the Seventh Plan period.
3. For details, see, Mid-Term Appraisal of the Seventh Five Year Plan (India, 1988).
4. For more details on this, see, Annual Report (1989-90) of the Ministry of Programme Implementation (India, 1990).

Table 4.1

Accuracy of Expenditure Forecasts - Budget Estimates , Revised Estimates and Actuals

Rs. Crore

Centre			States						All India						
Total(Revenue + Capital)			Percentage Shortfall(+)/ Excess(-) of Budget Estimates from Actuals	Percentage Shortfall(+)/ Excess(-) of Budget Estimates from Revised Estimates	Total(Revenue + Capital)			Percentage Shortfall(+)/ Excess(-) of Budget Estimates from Actuals	Percentage Shortfall(+)/ Excess(-) of Budget Estimates from Revised Estimates	Total(Revenue + Capital)			Percentage Shortfall(+)/ Excess(-) of Budget Estimates from Actuals	Percentage Shortfall(+)/ Excess(-) of Budget Estimates from Revised Estimates	
Budget Estimates	Revised Estimates	Actuals			Budget Estimates	Revised Estimates	Actuals			Budget Estimates	Revised Estimates	Actuals			
1975-76	9268	11079	10987	15.65	16.35	7762	8561	8613	9.88	9.33	15884	17987	18114	12.31	11.69
1976-77	11352	12464	12400	8.46	8.93	9430	10299	10251	8.01	8.44	19019	20730	20357	6.57	8.25
1977-78	13558	13858	13271	-2.16	2.16	11225	11846	11544	2.76	5.24	22343	23314	22341	-0.01	4.16
1978-79	15775	16634	16157	2.37	5.16	13121	14081	13688	4.15	6.82	25650	26771	25905	0.98	4.19
1979-80	16199	17459	17454	7.19	7.22	15182	16290	16049	5.40	6.80	28381	29535	29166	2.69	3.91
1980-81	19887	21328	21371	6.94	6.76	17301	19288	19389	10.77	10.31	32589	35415	35379	7.89	7.98
1981-82	22513	23868	23807	5.43	5.68	19959	21876	21793	8.42	8.76	37469	40565	40546	7.59	7.63
1982-83	26172	28372	28273	7.43	7.75	23908	26245	25343	5.67	8.90	44328	48773	48015	7.68	9.11
1983-84	30973	33954	33250	6.85	8.78	27797	29616	29390	5.42	6.14	52401	56559	55694	5.91	7.35
1984-85	37751	42076	41336	8.67	10.28	31991	34852	34527	7.35	8.21	61602	67120	60634	-1.60	8.22
1985-86	46083	51074	50420	8.60	9.77	37985	40325	39712	4.35	5.80	72086	77432	76415	5.67	6.90
1986-87	53477	60802	60425	11.50	12.05	43475	46586	45350	4.13	6.68	83021	93518	91581	9.35	11.22
1987-88	63219	66392	65303	3.19	4.78	50736	53588	53156	4.55	5.32	97990	103248	101754	3.70	5.09
AMSE	2823	3186				1610	1996				- 3467	4492			
Theil's 'U'	0.50	0.56				0.37	0.45				0.40	0.52			

Source : Indian economic Statistics - Public Finance, 1989. Ministry of Finance, Government of India.

Table 4.2

Comparison of the Budget Estimates , Revised Estimates , and Actuls of
Combined Revenue Expenditure of Centre , State and U.T's

	1975-76 to 1987-88				1975-76 to 1980-81				1981-82 to 1987-88			
	Budget	Revised	Budget	Revised	Budget	Revised	Budget	Revised	Budget	Revised	Budget	Revised
	Estimates	Estimates	Estimates	Estimates	Estimates	Estimates	Estimates	Estimates	Estimates	Estimates	Estimates	Estimates
	RHSE	RHSE	Thiel's 'U'	Thiel's 'U'	RHSE	RHSE	Thiel's 'U'	Thiel's 'U'	RHSE	RHSE	Thiel's 'U'	Thiel's 'U'
1. Non-Developmental	1346.67	1508.03	0.39	0.44	413.81	443.00	0.15	0.16	1794.76	2013.76	0.46	0.51
2. Developmental of Which												
TOTAL SOCIAL AND COMMUNITY SERVICES of Which	664.76	740.15	0.42	0.47	254.93	272.89	0.20	0.22	874.63	976.49	0.48	0.54
Education, Art and Culture, Scientific Research	395.69	395.58	0.41	0.41	107.83	121.03	0.13	0.15	529.91	527.31	0.49	0.49
Medical and Public Health, Sanitation and Water Supply	169.68	187.14	0.45	0.49	70.84	72.60	0.24	0.24	221.74	246.01	0.50	0.56
Housing and Urban Development	68.71	41.37	1.21	0.73	25.91	26.01	0.57	0.58	90.52	50.98	1.39	0.78
Social Security and and Welfare	48.20	49.67	0.37	0.38	44.17	45.57	0.86	0.89	51.41	52.33	0.30	0.31
Others	96.06	105.86	0.99	1.10	74.21	77.54	0.77	0.80	111.46	125.13	1.15	1.29
Total Economic Services	603.23	714.12	0.46	0.54	177.38	222.53	0.19	0.23	605.49	951.13	0.51	0.61
Agriculture and Allied Services	295.40	478.26	0.33	0.76	29.62	62.53	0.08	0.17	278.57	649.19	0.36	0.63
Industry and Minerals	209.97	243.35	1.27	1.47	71.48	64.60	0.53	0.48	278.38	326.19	1.49	1.74
Power, Irrigation and Flood Control	376.81	405.25	1.55	1.67	76.66	76.02	0.58	0.58	508.58	547.76	1.65	1.78
Transport and Communi- cation	106.93	80.51	0.68	0.51	108.65	79.14	0.75	0.54	105.42	81.66	0.64	0.49
Other Economic Services	155.03	148.82	0.34	0.33	78.27	103.91	0.35	0.46	198.46	178.54	0.34	0.31
Total Developmental Expenditure	1248.64	1438.79	0.43	0.50	422.31	483.88	0.19	0.22	1656.08	1908.87	0.49	0.57
TOTAL EXPENDITURE (NON-DEVELOPMENTAL + DEVELOPMENTAL)	2544.53	2924.42	0.40	0.46	746.94	897.52	0.15	0.18	3397.95	3897.73	0.47	0.53

Basic Source : Indian Economic Statistics - Public Finance , Ministry of Finance (Various Issues)

Table 4.3

**Expenditure on Minimum Needs Programme During the Seventh Plan
Estimated Outlays and Actuals
(1984-85 prices)**

(Rs Million)

	1985-86	1986-87	1987-88	1988-89	1989-90	1985-90 (Actuals)	Original outlay	Shortfall(-)/ Excess(+) over original outlay
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
1. Elementary education	257.23	343.17	524.34	554.65	737.56	1816.52	1830.45	(-)0.76
2. Adult education	59.52	64.46	70.59	90.46	93.41	378.44	360.00	5.12
3. Rural health	123.61	133.72	163.06	169.65	206.99	797.03	1093.35	(-)27.10
4. Rural water supply	671.32	728.58	600.15	755.21	706.01	3661.27	3454.47	5.99
5. Rural roads	242.11	282.22	265.97	261.26	252.52	1304.08	1729.40	(-)24.59
6. Rural electrification	55.95	119.28	109.78	96.72	76.20	457.93	497.08	(-) 7.86
7. Rural housing	98.51	127.78	83.34	108.77	104.75	523.15	576.90	(-) 9.32
8. Environmental improve- ment of labour slums	42.97	40.91	38.91	36.05	45.20	204.04	269.55	(-)24.30
9. Nutrition	201.45	200.28	145.53	205.50	182.08	934.84	1732.86	(-)46.05
10. Rural Domestic Cooking Survey	9.43	4.25	7.41	7.78	8.70	37.51	40.00	(-) 6.08
11. Improved chulla	35.10	32.42	32.97	13.99	12.14	126.62	215.00	(-)41.01
12. Rural sanitation	-	-	13.62	11.33	23.27	48.22	-	
13. Public distribution	-	-	38.29	36.25	27.42	71.96	-	
	1797.21	2077.08	2291.49	2341.65	2476.20	10989.63	11799.06	(-) 6.86

Note: The current price figures of actuals have been converted to constant (1984-85) prices on the basis of the wholesale price index

Source: Planning Commission
Government of India

Table 4.4

Extent of Time & Cost Overrun in Projects with Respect to Latest Schedule

(Rs Million)

Sl. Sector No.	No. of projects	Total Cost			Project with Cost Overrun				Project with Time Overrun				
		Latest approved	Cost anti-cipated	Cost over-run (%)	No. approved	Latest approved	Antici-pated	% inc-rease	No. approved	Latest approved cost	Antici-pated cost	Range (M)	
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
1. Atomic Energy	6	31,087	36,461	17.3	4	17,164	22,538	31.3	2	10,612	11,944	20-25	
2. Civil Aviation	3	24,150	27,321	13.1	2	21,971	25,143	14.4	0	0.0	0.0	-	
3. Coal	71	99,184	125,408	26.4	44	61,847	86,071	42.4	42	39,624	56,338	3-120	
4. Fertiliser	7	11,759	19,171	63.0	7	11,759	19,171	63.0	7	11,759	19,171	2-126	
5. Mines	3	30,247	31,568	4.4	3	30,247	31,568	4.4	1	24,081	24,769	24-24	
6. Steel & Iron ore	11	139,292	154,303	10.8	10	138,992	154,003	10.8	7	133,793	146,043	5-60	
7. Chem. & Petrochem.	6	16,939	17,459	3.1	2	1,092	1,612	47.6	4	15,699	16,219	1-32	
8. Petro & Natrual gas	27	65,812	64,530	-1.9	5	13,035	15,649	20.1	21	50,310	48,917	2-56	
9. Power	48	224,742	266,752	27.6	29	111,869	173,981	55.5	31	93,788	144,003	2-85	
10. Paper, Cement & Auto.	12	15,932	16,532	16.3	6	7,535	10,136	34.6	6	8,084	9,429	9-27	
11. Railways	89	62,425	66,696	36.9	53	47,060	71,971	52.9	16	16,185	24,987	3-36	
12. Surface Transport	31	28,937	31,761	9.8	17	9,795	12,620	28.8	19	20,608	23,349	1-157	
13. Telecommunication	17	7,895	8,374	6.1	2	2,390	2,669	20.1	7	2,796	2,852	1-26	
Total ...	331	756,401	908,335	19.8	184	474,757	629,331	32.6	163	427,340	528,021		

Does not include the projects having negative cost overrun, such as Cambay Basin Development Drilling (Rs 7,009 to 3,653 millions), Acquisition of Development Drilling (Rs 90 to 52.2) etc.

Source: Annual Report, 1990, Ministry of Programme Implementation, Government of India.

Table 4.5

Cost Escalation of Major and Medium Irrigation Projects

Sl. No.	Name of the Scheme	Year of starting	Original estimate	Latest estimate	Expenditure upto 3/85 (anticipated)	Expected year of completion	Increase in the original cost (%)
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
Major Schemes							
1.	Pamba	1961	383	5200	4874	3/86	1358
2.	Periyar Valley	1956	348	5700	4643	3/86	1638
3.	Chittupuzha	1963	105	1786	1396	3/86	1701
4.	Kuttiadi	1962	496	4860	4607	3/86	980
5.	Kanhirapuzha	1961	365	4200	3679	1986	1151
6.	Kaliada	1961	1328	20000	13216	1987	1506
7.	Pazhassi	1961	1320	5400	4780	1986	409
8.	Chimoni	1976	2900	2343	956	1988	81
9.	Idamalayar	1977	1439	6147	1546	1992	427
10.	Muvattupuzha	1975	1100	4808	1935	1990	436
11.	Kakkadavu	1979	1330	2600	152	1992	195
12.	Beyporapuzha	1979	344	1061	34	1995	308
13.	Kuriarkutty-Karappara	1979	1600	4881	112	1995	305
Medium Schemes							
14.	Attappady	1975	476	2077	523	1990	436
15.	Karapuzha	1975	389	1200	642	1989	308
16.	Vamanapuram	1979	780	3840	69	1993	467
17.	Meenachil	1979	810	4810	30	1993	594
18.	Banasurasagar	1980	1100	1137	112	1990	103

Source: Government of Kerala
(1985), Economic Review
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