

PREVIEW OF PUBLIC EXPENDITURE IN INDIA IN THE RECENT PAST DECADES

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Abstract

This paper concentrated on the possibility of liberalisation and FRBM acts are contrasted government spending-annual data from India (1960-61 to 2012-13RE) for the constant price series (2004-05) and semi-log functional form employed. The paper notices the growth of government expenditure was peak at 1986-87 and there was a steady fall till 1996-97. The central government capital expenditure accounted lower than the states in the second half of 2000's with the expenditure management measure. Over the year the government commitments depends only allocation and distribution of government spending rather than future cost and benefit of outcome and output. Recent years Government of India is in the process of implementing the expenditure management framework to bring on the correspondence with policy, planning and budgeting.

Keywords: liberalisation, FRBM, policy, planning, budgeting, CSS

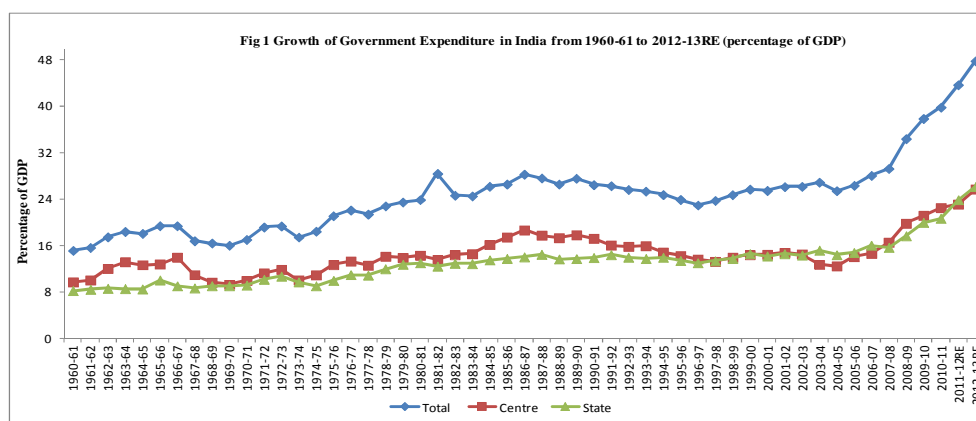
Introduction

There has been a phenomenal growth of government spending and it has changed dramatically across industrial as well as developing countries since World War II. In recent times higher share of spending on welfare is common across many countries. Macroeconomic adjustment programmes have influenced the government expenditure and its composition in adverse manner in many developing countries in recent decades. India, budget 2006-07 proposed that bulk of the central government resources allocated in the Centrally Sponsored Schemes (CSS) such as Sarva Shiksha Abhiyan, Mid-day Meal Scheme, Drinking Water Mission, Total Sanitation Campaign, National Rural Health Mission, Integrated Child Development Services and National Rural Employment Guarantee Scheme, etc, and these should be funded by the Centre and implemented by the States (GoI, 2006). In the last few decades, there are concerns regarding rising deficits and unproductive expenditure. Various countries have also adopted fiscal responsibility legislations to curb expenditure. In this context, what has been the rate of growth of major heads of public expenditure in India (Combined, Centre and States) is compelling.

Growth of Government Expenditure; firstly, a simple eyeballing of figure 1 reveals that the growth performance of overall Government Expenditure in India. There is a steady expansion in the total government expenditure at 15.09 per cent of GDP from 1960-61 and its peak in the second half of the eighties specifically at 28.27 per cent of GDP in 1986-87. After that there is a steady fall till 1996-97 at 22.94. Then further it has grown up marginally around 25 per cent of GDP later period. While the central government expenditure increased steadily at 9.65 per cent of GDP and reached a high growth of 18.65

per cent of GDP. At the same time state government expenditure accelerated at 8.18 per cent of GDP in 1960-61 and it has reached a highest growth of 15.13 per cent of GDP in 2003-04. Subsequently compare with centre is at 12.16 per cent and in state further declined. But compared with the centre it has accounted highest growth till 2006-07 and finally reached at 15.40 per cent and 15.13 per cent.

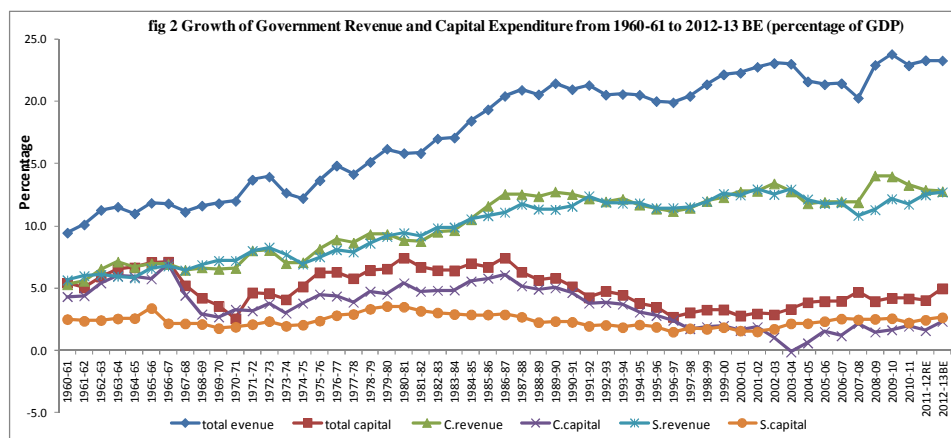
There would be numerous processes credible for accelerating the government expenditure; Many studies (Premchand and Chattopadhyay 2004; Bagchi 2005; Srivastava 2005; Pattnaik 2005 & 2009) pointed out the highest growth in 1986-87. Mainly the role of government largely focused on social policies to fulfil the national objective of poverty alleviation. More evidently the government implemented the highest number of 236 Centrally Sponsored Schemes (CSS) during 1987. Rajaraman (2006) and Premchand (1999 & 2000b) central government observed that second half of 1990's the wage and salary was increased by the recommendation of Fifth Pay Commission. Rao et.al. (1995) pointed out this increasing growth of government spending influenced by the interest groups with its expenditure policies. In addition to the fourth pay commission revision of salary and allowance to the states and central assistance for the relief of drought and floods and the impact of administering price increases on the central expenditures. Despite a deficit in capital observed surplus Rs.1450crore in 1985-86 and 3224crore in 1986-87 encouraged the tradition of deficit financing (Ghan 1986). In 1980's government received an aid package from the IMF and adjustment programs supported these highest growth of government spending (Singh and Srinivasan, 2006). Budget innovation had an effect on increasing expenditure (Jena 2010).



The First Administrative Reform Commission (in 1968) recommended that the Performance Budgeting in 1968. Its scope is to change the accounting structure and mainly active government programs through budget planning and resource allocation decision.

In addition operation of the new accounting classification brought about the new coding system. It has extracted directly expenditure major heads on annual programs in 1987. This mechanism was improved specifically the *method of financing* and the government came up with functions, programs and economic activities. A new classification structure of government expenditure was enormously improved government spending and it was recommended by A.K. Mukherji at 1974-75 union budget. This has to remove distortions and divert of government spending in high priority sectors and accelerate the tempo of developmental performances. However, these classifications have been applicable to the state government as well. Before 1974-75 the government did follow the function-cum-program based on traditional ways of the method of financing (see, *Indian Economic Statistics: Public Finance 1981*). Majority of fiscal reform measures initiated in 2000 because of FRBM bill lie in the parliament in December 2000 and it came up with the major objective was to eliminate the center's revenue deficit by March 2008. Subsequently, during 2005 the government introduced outcome budget. The major objective is to achieve the budget outcome through the management concept. Albeit this has not given sufficient attention later 2007-08 government merged the outcome budget and performance budget to gather and it has major effects on government expenditure. In addition, to the expenditure reform commission one of the main objectives is that in the union budget 2001-02. Expenditure management proposed a several measures to curb the growth of expenditure and improve its quality (Premchand and Chattopadhyay 2004) with this measure central government expenditure accounted lower than the states.

Growth of Government Revenue and Capital Expenditure; overall there has been a steady increase in the revenue expenditure and opposite direction was observed in the capital expenditure. It is evidence from the Figure 2 that there is a growing trend at 9.5 per cent of GDP in 1960-61 to 23.3 per cent of GDP in 2012-13BE revenue expenditure. Respectively there is slightly a fall, but again, it has increased, this increase has been particularly sharpened after 1990's. Total capital expenditure and has declined gradually 5.4 per cent and it has reached the highest growth of 7.4 in 1980-81 after that this was moderate around 5 per cent of GDP in 2012-13BE. The central and state government revenue and capital expenditure observed widen and with moving in opposite directions. The central revenue expenditure increased gradually at 5.3 per cent to 14 per cent in 2009-10. Subsequently, both the revenue and capital expenditure attain similar at 7 per cent of GDP in 1966-67. After that capital expenditure gradually declined and it went to negative at 0.1 per cent in 2002-03 and later it has accelerated around 2 per cent of GDP. This declining trend accounted low growth of the central government total expenditure during 2003-04 to 2006-07 than the state. It is evident that central government involvement in FRBM implementation.



State government revenue expenditure observed steady improvement over the year at 5.7 per cent of GDP in 1960-61 and it reached a peak rate of 13 per cent of GDP in 2003-04. After that there is a slight fall, capital expenditure marginally accounted over 3 per cent of GDP above said period. Similar trend observed, and since the inception of the central government spending constructed by the government constitution law basically subsidies, expenditure on defence and administration and interest payment on borrowing stated by (Srivastava, 2005). In addition, Pattnaik (2005); Jena (2010) and Rath (2013) pointed out overall government policies shaped by the central government than the state. However, central government initiated for allocation and distribution pattern of government spending and there is no expectation of outcome and output. There is a fall after FRBM in revenue expenditure. But capital expenditure started accelerating similar to the report of Issues in Public Finance (2010). Revisions of salary with effect of Sixth Pay Commission observed 14 per cent growth of central government revenue expenditure. The Centre and state government revenue expenditure observed declining trend during 2003-04 to 2008-09 mainly the enhancement of FRBMA, similarly the compression of revenue expenditure observed by Rao, Sen and Jena (2008); Rao (2009); Rakshit (2009).

Growth of Government Development and non-Development Expenditure; Overall the growth of development expenditure accounted higher than compared with non development expenditure at 7.03 per cent of GDP in 1960-61 to 14.53 per cent of GDP in 2012-1 BE. Subsequently, there is a sporadic and contrast nature between development and non development expenditure. Which is development expenditure accounted lower and equal growth of non-development expenditure of 7 per cent of GDP in the second half of the 1960's (between 1966-67 to 1970-71) after that it has an increasing movement till 1990-91. During 1991-92 both the development and non development expenditure accounted 12 per cent of GDP. Again development expenditure started declining lower than

the non development at 11.62 per cent in 1992-93 and till 2006-07 at 12.09 per cent. After that it starts accelerating higher than the non-development expenditure. There are two important issues have discussed here. Firstly, overall there is a growing tendency of the central and state government development expenditure. Despite, the centre have accounted lower than that of state government expenditure by 2.88 per cent and 4.85 per cent of GDP in 1960-61. Later, it has accounted for 6.63 per cent and at 9.41 per cent of GDP in 2012-13BE. Albeit, the state government growth spending have accounted close to doubled than the center between 1960's and 1992-93 and till 1997-98. Secondly, the growth of central government development expenditure has accounted lower than the non-development expenditure. Specifically, at 2.28 per cent of GDP in 1960-61 and it accelerated continuously at 6.63 per cent of GDP in 2012-13BE. However, above 6 per cent of GDP accounted the second half of 1980's after that it has started declining steadily and sporadic around 4 per cent of GDP till 2005-06 and again it has accelerated after controlling non-development expenditure with FRBM mechanism in recent years. Moreover, the growth of state government development expenditure observed closely to double with the centre till 1991-92. This trend is in the opposite direction to the centre government at 4.48 per cent of GDP in 1960-61 to 9.41 per cent of GDP in 2012-13BE. Specifically, this has accounted for 9.09 per cent in 1987-88, after that it has started declining slowly. After FRBM mechanism operated in the economy this has started accelerating late 2005-06. But non-development expenditure started declining. Dev and Mooij (2002); Joshi (2006) found Declining trend of development expenditure both the central and state.

The scenario growth of non-development expenditure has broadly focusing defense services, interest payment and administrative services. Overall there is an increase movement at 5.50 per cent of GDP in 1960-61 to 13.24 per cent of GDP in 2012-13BE. However, it has accelerated late 1985-86 and reached it is highest level of 14.52 per cent of GDP in 2003-04. Similarly, the centre and state have also accounted below 10 per cent of GDP above mentioned period. It identified that there is a consistently growing pattern and contrasting growth between defence services and interest payment. There were three major wars engaged over the past decades with China (1962), and Pakistan (1965 & 1971), and internal security such as army fighting insurgency in Jammu and Kashmir and in the North-eastern states-state of tension influenced the defence spending a high priority for the government services. Since the mid 1990s, global debate has begun to widen the notion of national security. In the recent decade, India fascinating to concentrate modern technology (Command, Control and Communication and Intelligence-C3I) to enhance the defence services followed a regional military power. Therefore the formal decision has to acquire a nuclear weapon arsenal and space research. Rao et.al., (1995), Pattnaik et.al., (2005) found rising interest payment due to an effective rate of interest on government borrowing.

Conclusion

Over the year, there is a phenomenal growth of government spending observed in India. In recent decades, the role of government largely focused on social policies to fulfil the national objective of poverty alleviation. However, in recent years India is struggling to produce scheme wise information and accounts, in the absence of one to one specific schemes and heads of accounts. To overcome this issue, government finally setup 'The Central Plan Scheme Monitoring System' (CPSMS) (Gol, 2011). The concept of Medium-Term Frameworks was emerged in the new public finance management and public expenditure management system. This will link policy, planning and budgeting over the medium-term. Full-fledged medium term frameworks were not operationalised until the implementation of Fiscal responsibility and Budget Management (FRBM) Act. Union Budget 2012-13 and Post-FRBM recommendation on government's public finance management initiatives mandate preparation of the 'Result Framework Document' by respective ministry or departments. Empirically this would lead to experiencing measurable outcomes on government spending rather than allocations. Government of India is also in the process of implementing the expenditure management framework to bring on the correspondence with policy, planning and budgeting.

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