A FRAMEWORK FOR RESTRUCTURING PUBLIC EXPENDITURE (1995-96 - 2002-03)

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Introduction

There is wide agreement that the budgets of the Centre and the States are seriously out of balance and that the restoration of fiscal balance is one of the most urgent tasks in the agenda of further economic reform. There is not only mismatch between revenues and expenditures resulting in sizeable revenue and fiscal deficits; the composition of government expenditure is also quite out of line with the proper role that the governments should be playing and the functions they should be performing at the present stage of development. It could also be argued that the revenue structure needs to be altered to make it more broad-based and equitable. Thus, a significant structural reform of the budget is needed as much as the reduction of the fiscal deficit.

Reduction in revenue and fiscal deficits requires faster growth in revenues and slower growth in public expenditure. The process of fiscal adjustment to reduce deficits must at the same time incorporate the needed structural changes. In other words, the rate of growth of revenues must be raised and the growth of expenditures slowed down in such a manner that the structure of public finances will be simultaneously changed in the desired directions.

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* This is the revised version of a paper on the same subject prepared for and presented to the Ministry of Finance in July, 1996 with the Revised Estimates for 1994-95 as base both for the Centre and the States. In this revision the base year has been shifted to 1995-96. For that year the Revised Estimates are used for the Central government but only the Budget Estimates for the States.

The present exercise is an attempt to identify the most important of the measures that must be adopted to achieve fiscal balance along with the desired structural changes within a reasonable period of time. A major premise of this study is that a long-term fiscal plan is absolutely necessary to achieve the above-mentioned objective. In the long-term plan consistency between the particular steps taken to influence the various aspects of the budget must be ensured. This is possible only in the context of a well-thought out plan. Hence the detailed nature of the exercise undertaken here.

Objectives

The time-frame chosen for the fiscal adjustment and restructuring programme is the period 1995-96 to 2002-03. The objectives set forth are:

(a) The fiscal deficit will be reduced substantially; and

(b) The share of the combined public expenditure on three crucial areas, namely, education, health and roads will rise from 17.94 per cent of the total in 1995-96 to 27.25 per cent in 2002-03 (as per cent of GDP it will rise from 4.82 per cent to 7.46 per cent). Such an order of increase is needed to achieve certain targets whose logic and rationale are indicated later. Additionally, the outlay on agriculture will be more than doubled.

In order to achieve these objectives, it will be necessary to raise the ratio of government revenue to GDP and slow down the rate of growth of many categories of public expenditure so that while the ratio of expenditure on the priority sectors to GDP will rise, the ratio of public expenditure to GDP on other sectors will have to remain constant or fall.

Assumptions

The major assumptions made are as follows:

(a) The real rate of growth of GDP will be 6 per cent per annum (compound).

(b) The fiscal deficit of the Centre will be reduced to 5 per cent of GDP in 1996-97 from 5.94 per cent in 1995-96 and that thereafter it would be gradually reduced to reach 3.5 per cent of GDP in 2002-03.

(c) The fiscal deficit of the States (excluding net borrowing from the Centre) will be reduced from the level of 1.5 per cent of GDP in 1995-96 gradually to 1.00 per cent in 1999-0 and that it will stay at that level till 2002-03, so that the combined fiscal deficit of the Centre and the States will be 4.5 per cent of GDP in the terminal year.

(d) The gross tax revenues of the Centre will rise to 11.5 per cent of GDP by 2002-03, that is, by 2 percentage points over the level of 9.5 per cent in 1994-95. This assumption has been made since the gross tax revenues of the Centre had fallen by about 2 percentage points of GDP in 1994-95 as compared to the level in 1989-90. Similarly, it has been assumed that the non-tax revenues of the Centre (excluding receipts of interest payments from the States) will rise by one percentage point of GDP from the level in 1994-95.

(e) The own revenues of the States are assumed to rise by only one percentage point of GDP to 8.59 per cent from the level of 7.59 per cents in 1994-95[1].

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1 We have retained 1994-95 as the base year for revenue projections because we have revised estimates for the States only for 1994-95.

(f) The nominal rates of interest on borrowing from RBI, external borrowing, and other domestic borrowing (average) will be 6.37 per cent, 3.65 per cent and 12.5 per cent, respectively. Replacement interest is also assumed to be 12.5 per cent. These assumptions have been made partly on the basis of past experience and partly on the basis of what is considered possible. The rate of price rise is assumed to be 7 per cent per annum during the projection period.

A Review of Past Trends

A brief review of past fiscal trends is considered necessary to provide a background to the exercise of budget re-structuring. The review will bring to light the weak spots and the areas where strong corrective actions need to be taken.

In this study, we are analysing the (combined) finances of the government sector comprising the Central and State governments. We shall later on take up the question of separate re-structuring of the finances of the two layers of government.

Table 1 presents an overall view of the trends in the finances of the Central and State governments in relation to GDP, in the period 1980-81 to 1995-96. If we take the combined finances of the Centre and the States, we find that the revenue ratio rose from 17.5 per cent of GDP in 1980-81 to 20.2 per cent in 1989-90; thereafter the revenue ratio declined and came down to 18.8 per cent in 1994-95. In 1995-96 this ratio moved upto 19.3 per cent. The public expenditure[2] ratio rose more rapidly from 25.6 per cent of GDP in 1980-81 to 29.8 per cent in 1989-90; thereafter it declined and came down to 27.4 per cent in 1994-95 and still lower down to 27.3 per cent in 1995-96. The revenue expenditure ratio, likewise, rose from 17.4 per cent to 23.6 per cent during the eighties. These trends indicate that the problem

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2 The term 'public expenditure is used in this paper to mean the total expenditure of the Centre and the States.

of increasing fiscal and revenue deficits in the 1980's arose not because the revenue ratio fell or did not rise - actually it rose by as much as 2.68 percentage points of GDP - but the expenditure ratio was allowed to rise to a greater extent. We find that the fiscal deficit of the government sector started rising from about 1982-83 - from 7.3 per cent of GDP in that year, it rose to 9.3 per cent in 1989-90 and further to 9.9 per cent in 1990-91. Likewise, the revenue deficit of the government sector rose from a mere 0.21 per cent in 1982-83 to 3.4 per cent in 1989-90 and further to 4.4 per cent in 1990-91. In the post-economic reform period (i.e., since 1991-92) attempts have been made, particularly by the Central government, to restore fiscal balance; however, it is seen that (as of 1995-96) the fiscal deficits remain high in relation to GDP - the fiscal deficit of the Central government at 5.94 per cent, the combined fiscal deficit of the State governments at 3.0 per cent and that of the government sector at 7.44 per cent.

It must be noted that the decline in the total revenue ratio occurred in 1990-91, that is, just before the stabilisation programme was initiated. The revenue ratio fell to 18.54 per cent in that year; after that there has been no decline in that ratio excepting in one year in 1993-94. The ratio of the gross tax revenues of the Central government did fall since 1992-93 and remained below the level in 1990-91, but this decline was compensated by the rise in the ratio of other components of revenues to GDP - non-tax revenues and States' own taxes.

It cannot be therefore held that the deterioration of the fiscal situation has been caused by the stabilisation programme. However, it appears that the growth of Central tax revenues was adversely affected by the policies adopted to compress excess demand and to re-structure the tax system (Table 2). The ratio of gross Central tax revenues to GDP declined from 11.3 per cent in 1989-90 to 10.75 per cent in 1990-91. There was further decline in the years following, and two years after the structural adjustment started i.e. in 1993-94, the ratio dipped to a low of 9.46 per cent. In 1995-96 (RE), however, the ratio had recovered to the level of 10.24 per cent. In this context, it is noteworthy that the ratio of corporate profits tax to GDP has risen from 1.04 per cent in 1989-90 to 1.5 per cent in 1995-96 and that of personal income tax from 1.10 per cent to 1.40 per cent. The rather steep fall in the Central government's tax ratio witnessed in 1993-94 is to be attributed to the fall in the ratio of customs (0.6 percentage point) and of excise (0.4 percentage point). Since there has been a fall in the Central Government's tax ratio after 1989-90 - from the level in that year the fall has been of the order of 1.8 percentage points of GDP by 1994-95 - it has been considered legitimate to assume that the tax ratio of the Central government could be raised by 2 percentage points of GDP in 2002-03, over the level in 1994-95.

Methodology

On the basis of the assumptions stated earlier, it is possible to work out the total amount of financial resources that would become available to the government sector in every year of the projection period. The total resources that would become available each year are equal to total tax revenues + total non-tax revenues + loan recoveries + the assumed fiscal deficit. In the terminal year the ratio of gross Central taxes to GDP is taken to be equal to 11.5 per cent and that of Central non-tax revenue is taken to equal 2.38* per cent of GDP. The total own revenues of the States are taken to equal 8.59 per cent of GDP. To these revenues are added loan recoveries of 0.42 per cent and the assumed fiscal deficit in that year, namely, 4.5 per cent of GDP. Thus the total resources available to the government sector in the year 2002-03 add up to 27.39 per cent of GDP of that year, which is measured at Rs. 444,002 crore in 1995-96 prices (Table 3).

This amount is to be compared with the total amount of resources which were available to the government sector in 1995-96 (RE), namely, Rs. 289,658 crore amounting to 26.87 per cent of GDP in that year. This order of increase in the total resources available would enable the government sector to increase public expenditure at a real rate of 6.29 per cent per annum, as compared to the annual rate of growth of 7.85 per cent per annum during the period 1980-81 to 1989-90 (Table 5).

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* After excluding interest receipts from the States.

As stated earlier, our objective is to bring down the fiscal deficit to the extent needed to maintain macro-economic equilibrium as well as to slow down the growth of public debt and at the same time to restructure the composition of public expenditure. We have based our plan of restructuring on the basis of attempting to achieve certain targets in the priority sectors of education, health and roads and of allocating sizeably more resources to agricultural development. Restructuring could of course be worked out on the basis of increasing the proportion of expenditures on some other sectors as well. We have taken four important sectors where the government sector has to take the major responsibility for development.

As far as agriculture is concerned, we did not try to set physical targets; we have simply stipulated that the expenditure under this head should rise by 0.5 per cent of GDP - from 1.2 per cent of GDP in 1995-96 to 1.7 per cent in 2002-03. This would mean that public outlay on agriculture would double in real terms over the period. For the other three priority sectors, we set certain minimum "physical" targets to be reached by 2002-03. We indicate below how these targets were derived. Achieving these targets means increases in capital and current expenditures throughout the period, both in absolute terms and as per cent of GDP. This means that since the ratio of total public expenditure to GDP would remain more or less constant, the ratio of public expenditure to GDP in some other sectors has to come down. We have tried to cut down the share of expenditure on those sectors where reduction, in our opinion, is needed and possible. However, even after cutting down the growth of expenditure in a number of sectors to the maximum extent considered possible by us, we found that the amount of resources available would fall somewhat short of the resources needed to fulfil the stipulated targets in the three priority sectors. Whereas an amount of Rs. 675,118 crore will be needed over the seven-year period, only Rs. 625,092 crore will be available (a shortfall of 7.4 per cent). Hence the targets we have laid down would be met only in the 2 years following 2002-03.

The restructuring of public expenditure has been worked out on the following lines:

Proportions to GDP of expenditure of different categories in 2002-03

	Category of Expenditure	% of GDP
1.	**Defence Services** Percentage share of GDP assumed to remain the same as in 1995-96	2.49
2.	**Interest Payments** Calculated on the basis of projection of debt and assumption of real rate of interest of 5.5% with an average price rise of 7% per annum	4.90
3.	**Administrative Services** It is assumed that administrative expenditure will come down by 1% of GDP from the level in 1995-96	2.57
4.	**External Affairs** Percentage share of GDP assumed to remain the same as in 1995-96	0.08
5.	**Grants** Percentage share of GDP assumed to remain the same as in 1995-96	0.29
6.	**Subsidies** Percentage share of GDP assumed to remain the same as in 1995-96	1.27
7.	**Education** Details of projection explained in Annexure - I	3.72
8.	**Health** Details of projection explained in Annexure - II	1.68
9.	**Roads** Details of projection explained in Annexure - III (Also, see note on items 7,8 and 9 at the end of this table)	2.07
10.	**Poverty Alleviation** Same percentage of GDP as in 1995-96	1.44
11.	**Agriculture, etc.** Expenditure on agriculture is raised from about 1.20% of GDP in 1995-96 to 1.70% of GDP	1.70
12.	**Industry and Minerals** Percentage share of GDP assumed to remain the same as in 1995-96	0.32

Category of Expenditure		% of GDP
13.	**Power, Irrigation and Flood Control** Percentage share of GDP assumed to remain the same as in 1995-96	1.57
14.	**Public Works** Percentage share of GDP assumed to remain the same as in 1995-96	0.19
15.	**Loans and Advances** The share of this item is brought down from 1.31% of GDP in 1995-96 to 0.81% of GDP in 2002-03	0.81
16.	**Not Assigned** The share of this item is brought down from 2.66% of GDP in 1995-96 to 2.29% of GDP in 2002-03	2.29
	Total	**27.39**

Note on Items 7, 8 and 9

The expenditure target for the educational sector in 2002-03 has been derived as follows: Priority is given to primary education since the Directive Principles of State Policy of the Constitution had stated that within ten years of coming into force of the Constitution "the State shall endeavour to provide free and compulsory education for all children until they complete the age of fourteen years". We are assuming that given the backlog and the expected growth of the population by 2002-03, the governments will be able to provide free primary education only to 95 per cent of children in the relevant age groups. On this basis, and assuming that the share of expenditure on education will be gradually increased, we have estimated the number of additional schools to be built in 2002-03 and the required increase in the number of teachers over the number in 1994-95. For estimating costs, the levels obtaining in 1994-95 have been used at 1995-96 prices.

The expenditure of the government sector on the other sectors of education has been taken to remain constant as percentage of GDP. It is implicitly assumed that the private sector including students in the institutions of higher learning will bear a larger share of expenditure on higher education.

The expenditure target for the health sector has been derived as follows: Priority is assumed to be given to primary health care. The expenditure on primary health care was estimated at 0.65 per cent of GDP in 1993-94. This is assumed to go up to 1.0 per cent of GDP by 2002-03. This is in line with the suggestion contained in the World Bank Study on India[3].

Expenditure on health other than the expenditure on primary health is assumed to remain constant as percentage of GDP.

The deficiencies in the road system have been found to be very large. The target length of National Highways as computed by the norms laid down in the Road Development Plan for India (1981-2001) published by the Indian Roads Congress (1984) is 66,000 kilometres. The target for State Highways is computed at 1,45,000 kilometres. Against the targets, the actual length of National Highways in 1993-94 was only 34,058 kilometres and that of State Highways 1,23,104 kilometres. Since not much progress has been made in the construction of roads, the lengths of highways are assumed to be the same in 1994-95 as in 1993-94. The backlog in construction is assumed to be gradually made up. For calculating costs (in 1995-96 prices), the norms given in the Report of the Committee on Norms for Maintenance of Roads[4] have been used. The cost of maintenance in 2002-03 was separately estimated.

The expenditure on other roads, namely, district roads, link roads and village roads and other expenditure not included above are assumed to grow from the present level of about 0.5 per cent of GDP to the level of 1.0 per cent of GDP.

All in all, the provision of expenditure on roads is increased from 0.61 per cent of GDP in 1995-96 to 2.07 per cent in 2002-03. This order of increase

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3 Policy and Finance Strategies for Strengthening Primary Health Care Services- South Asia Country Department (II) India - Report No. 13042 - IN (October 24, 1996)

4 Ministry of Surface Transport, 1994

could be reduced to the extent that the governments are able to obtain private sector participation. However, it would be realistic to assume that the government sector would have to take the major responsibility for constructing and maintaining most of the State level roads and district and village roads.

Composition of Expenditure after Restructuring

With the restructuring of public expenditure along the lines indicated above, we obtain a composition of public expenditure in 2002-03 as shown in Table 4. The composition of expenditure in 1995-96 is also shown in the table for comparison. The total expenditure as per cent of GDP rises slightly from 26.87 to 27.39 per cent. Thus, restructuring would be accomplished without reducing the relative level of public expenditure. Significant reductions in shares are proposed only for interest payments and administrative services; to some extent, the share of loans and advances is also to be brought down.

These reductions make possible significant increases in the shares of expenditure on education, health, roads and agriculture. At the same time the expenditure under most heads, as a per cent of GDP, would remain more or less constant. This means that these categories of expenditure would grow at a real rate of 6 per cent per annum. If it is found that administrative expenditure cannot be brought down to the extent envisaged by us, some categories of expenditures referred to in the previous sentence will have to grow more slowly than GDP.

Comparison of Growth Rates

Table 5 compares the real rates of growth of various categories of public expenditure during the eighties with the rates of growth of such expenditure during the projection period resulting from the restructuring. Whereas the total expenditure increased at 7.85 per cent per annum during the eighties, it will increase at 6.29 per cent during the period 1995-96 to 2002-03. Such an order of increase in public expenditure can be considered sufficient to fulfil the essential tasks of the government. Whereas total expenditure would increase at around 6.29 per cent per annum, expenditure on education, health and roads taken together would increase by 12.83 per cent per annum. This indeed is the crux of the restructuring programme.

During the eighties, expenditure on administrative services grew at the rate of 10.7 per cent in real terms, as compared to the real rate of growth of the economy of 5.7 per cent. Such a high rate of growth was due to both increase in the number of government servants and rise in real wages. In the projection period, the growth of administrative expenditure is drastically cut down to 1.14 per cent per annum. Another category of expenditure whose growth rate is brought down significantly is interest payments. This is sought to be achieved through the reduction in the relative size of the deficit and containing the real rate of interest at 5.5 per cent. The expenditure on poverty alleviation and agriculture was shown together until 1987-88; as a result the share of expenditure on poverty alleviation was not discernible in the earlier years. In 2002-03 the relative shares of the two categories are shown separately.

The Growth of Debt

With the government sector deficit being brought down to 7.4 per cent of GDP in 1995-96 and further down to 4.5 per cent in 2002-03, there is a decline in the debt/ GDP ratio (Table 6). On the assumptions made, the ratio of public debt to GDP would fall from 68.14 per cent in 1995-96 to 54.89 per cent in 2002-03. This reduction is due mainly to the reduction in the size of the fiscal deficit; it is due partly also to the assumption of continued rise in prices. The ratio of interest on public debt to GDP comes down gradually from 5.66 per cent in 1995-96 to 4.90 per cent in 2002-03. With significant reductions in fiscal deficit, the primary deficit comes down to 1.78 per cent of GDP in 1995-96 and touches (-)0.40 per cent in 2002-03 (Table 7).

Phasing Out the Revenue Deficit

Since the fiscal deficit of the government sector is to be restricted to 4.5 per cent of GDP, it is essential that the revenue deficit should be eliminated as early as possible so that capital formation on government account could be equal to at least 4.5 per cent of GDP. In Table 8, we indicate the implications of phasing out the revenue deficit by 2002-03.

In 1995-96, the revenue expenditure of the Centre and the States amounted to Rs. 264,404 crores; which formed 91.3 per cent of the total expenditure. Revenue receipts, in 1995-96 prices, will rise to Rs. 364,185 crore in 2002-03; hence the growth in revenue expenditure should be confined to that level by that year so that the revenue deficit becomes zero. If this goal is achieved, the proportion of revenue expenditure to total expenditure will fall to 82.02 per cent by 2002-03 (Table 8). Correspondingly, the proportion of capital expenditure will rise to about 18 per cent.

During the period 1980-81 to 1989-90 - with lax fiscal policies - revenue expenditure grew in real terms at 9.74 per cent per annum; during the projection period it is slated to grow at 4.68 per cent per annum. In the eighties the non-interest revenue expenditure had grown at 8.84 per cent. This expenditure will grow at only 4.92 per cent per annum in the projection period underscoring the need to find some way to reduce the burden of interest on public debt (Table 8).

The Programme of Budgetary Adjustment

If the objectives of the programme are to be achieved within the stipulated time frame, it is imperative that major steps to increase revenues and to slow down the growth of expenditure on non-priority items are initiated up front, that is to say, in the coming two years. Since during the year 1995-96 no worthwhile budgetary restructuring could be carried out and since the fiscal deficit of the government sector in 1995-96 is around 7.4 per cent of GDP, unless strong measures are initiated immediately, it would not be possible to contain the growth of the ratio of public debt to GDP to a reasonable level by 2002-03. In what follows some broad suggestions are offered for raising revenues and for restructuring public expenditure.**

Raising Revenues

It was noted that the reduction in the fiscal deficit as postulated along with the maintenance of a real rate of growth of public expenditure of a little over 6 per cent per annum, taking the Central and State Governments together, would require an increase in the revenue ratio of 4 percentage points of GDP over the 1994-95 base. It would be useful to indicate the broad manner in which the required increase in revenues can be brought about.

In formulating proposals for increasing the rate of growth of tax revenues so as to achieve an increased tax ratio, two major considerations should be kept in view. First, nothing should be proposed or attempted which would tend to retard the growth of the economy or go contrary to the thrust of economic reforms; for example, one should not advocate the imposition of octroi in non-octroi States or the imposition of consignment tax.

Second, tax revenues should be raised through the rationalisation and the broadening of the bases of the existing major taxes; new minor taxes should not be introduced even though they are sanctioned by the Constitution. Their revenue potential will be small while their introduction will add to the costs of compliance as well as to the costs of administration.

Additionally, it must be borne in mind that we are aiming at long-term reform and should not adopt short cuts or methods that go against the basic

** The policy recommendations made in this paper reflect the view of the authors and do not necessarily represent the views of NIPFP principles that we wish the tax system to satisfy as the economy gets more developed and sophisticated. Thus, for example, we should make an earnest attempt at modernisation of income tax administration and computerisation rather than introduce a minimum tax on assets which admittedly does not satisfy the criteria of a good tax, or destroy progressivity through the introduction of a schedular system of income tax.

Obviously, taxes will have to play the more important role in raising the revenue ratio. As already indicated, while making attempts to raise the tax ratio, the objective of altering the tax structure in favour of direct taxes should be kept in view.

Table A shows the composition of the gross tax revenues of the Centre as of 1995-96.

Table - A

Composition of the Gross Tax Revenues of the Centre (1995-96 and as proposed for 2002-03)

	1995-96		2002-03	
	% of GDP	% of Total	% of GDP	% of Total
Corporate Profits Tax	1.51	14.73	2.42	21.00
Personal Income Tax	1.40	13.68	2.08	18.00
Excise Duty (Modvat)	3.80	37.15	3.67	32.00
Customs Duty	3.28	32.04	3.10	27.00
Others	0.25	2.40	0.23	2.00
Total	**10.24**	**100.00**	**11.50**	**100.00**

It seems reasonable to aim to raise the ratio of the income taxes to GDP from 2.9 per cent as at present to around 4.5 per cent by 2002-03, raising their share in total Central tax revenues to 39 per cent (from 28 per cent). Correspondingly, the share of excise and customs will fall to 59 per cent. This would imply that the ratio of these taxes to GDP will not change much.

Income taxes

The yield of income taxes can be increased by a factor of two at least (by 2002-03) by broadening the base and strengthening the administration while at the same time ensuring that the main aim of the administration would be to collect increasing revenues without harassment and that the exacting of illegal payments will be drastically cut down.

The base of income taxation can be widened by (a) removing many exemptions that are unjustified and reducing the magnitude of some of the concessions, (b) bringing into the tax net a large number of income earners who are evading tax, (c) introducing such acceptable simplified procedures as the estimated income scheme and (d) introducing a minimum profits tax on all business income other than the income of professionals (this tax will apply only if there are positive book profits).

We may mention here a few of the exemptions that can be removed or reduced. All business income of charitable organisations except charitable hospitals and schools should be subjected to tax at 15 or 10 per cent. Second, the portion of exempted income from poultry farming should be reduced from 30 per cent to 10 percent, subject to a maximum of Rs. 1 lakh. Third, tax exemption under Section 80 HHC may be reduced in the first instance to 75 per cent. Similarly, the initial write-off of the capital cost of energy saving and pollution control equipment should be reduced to 50 per cent. Fourth, as the TRC recommended, at least part of some of the perquisites of salary earners should be brought under charge. Fifth, when the existing notifications granting tax holidays expire, the full holiday must be cut down to 50 per cent exemption.

The important steps needed to bring into the tax net a large number of income earners who are now evading tax, wholly or partially, have already been identified, but the action taken in this regard has been slow. Apart from giving to tax filers a permanent account number within this year, several categories of persons should be required by law to obtain that number: credit card holders, all members of professional associations within six months of their obtaining membership, all dealers who hold Central sales tax numbers, and all dealers registered under the local sales tax laws with a turnover not below Rs.10 lakh could be asked to obtain the number in the first stage. The numbers should be computerised. Every Deputy Commissioner's Office should have a powerful-enough personal computer in which a master file of all those filing returns will be kept and into which the summaries of all returns filed will be entered A Central Computer Unit should be set up which would cover all ranges in India. This Central unit will contain all the PAN numbers. To this Unit must be sent floppies from all the ranges containing the information from the summaries as well as the details of the filers and the non-filers in the respective ranges.

It must be pointed out that at present no master file of tax-payers or of PAN holders exists in a central place. The creation of this master file is of the highest priority. Since we shall be asking several categories of income earners to obtain a PAN, we shall be in a position to examine which PAN holders are not filing returns; with the help of the basic information set-up described above we can also identify stop-filers. Sampling for scrutiny assessment and for other purposes can be on a more scientific basis.

Next, all TDS circles must be computerised. Then, all large tax deductors will be able to file their TDS returns electronically. An attempt can then be made to check if samples of sizeable dividend and interest receivers are reporting that income.

The tax base can be expanded also by requiring tax to be deducted at source in respect of all dividends, income from units of UTI and other mutual funds and interest on debentures and deposits, except in the case of those who submit a prescribed form claiming their income below the taxable limit. Since tax will be deducted at source as a matter of course from all dividend and interest payments in respect of all tax- payers,.the companies need not be required to issue separate forms to the recipients stating deduction of tax; the counter-foils to the dividend warrants must be accepted by the income tax authorities. And of course, a lot of paper work will be saved by electronic filing of returns by the companies of TDS returns to begin with.

As an immediate measure, we would recommend that the Government declare that in respect of returns filed for the financial years 1996-97 and 1997-98, there would be no scrutiny assessment if the taxable income is shown to increase by 20 per cent or more over the previous year, provided taxable income has been declared in the financial years 1994-95 and 1995-96. (This declaration would not apply to search and seizure cases, but the scheme should cover non-company as well as company cases). This declaration would act as a strong incentive for higher declaration because more income can be brought in without being questioned during a scrutiny.

The basic problem with the corporate profits tax is not that some of the companies making profits are not paying tax. That is not a problem, but the result of concessions and extra depreciation granted. The problem is that our information base is quite deficient. The list of companies and their balance sheets available with the Department of Company Affairs (DCA) are neither complete nor up-to-date. If a comprehensive list of registered companies can be built up, giving their gross assets or sales, an attempt can be made to identify non-filers at least on a sample basis. Even the Reserve Bank of India (RBI) which regularly conducts studies of company finances has not been able to get complete information on the top (largest by measure of sales or gross assets) 2000 companies. The CSO, DCA, RBI and the Income Tax Department should jointly build up this vital data base.

The estimated income scheme could be expanded with good results. For example, the scheme can be introduced in respect of Marriage Halls, the smaller hotels and saloons and beauty parlours in the cities. The income of private tutorial institutes can be computed on the basis of number of students. And so on.

The yield of the corporate profits tax is currently growing at more than 20 per cent per annum (on an average). What is more, the current tax regime has been partly instrumental in promoting the vigorous growth of the corporate sector, financial and non-financial. Nothing should be done now with short-term gains in view which would adversely affect the growth. Every effort should be made to bring more companies into the group of tax filers. At the same time, the so-called zero tax companies can be made to pay some tax by (a) cutting down the magnitude of some of the concessions as suggested earlier in the paper and (b) by introducing a minimum profits tax on profit making companies. It could be stipulated that all companies, non-corporate businesses, that are making book profits will pay the tax computed according to income tax rules or the amount equal to 10 per cent of profits before deduction of interest and deprecation (PBIDT) minus interest subject to a maximum of, say, 20 per cent of book profits.

If all the steps suggested are taken, it should be possible to abolish the surcharge on the corporate profits tax - an initial reduction and then abolition - without short-term revenue loss.

Excise Duties

Considerable progress has been achieved in rationalising the duty structure and in moving towards a system of VAT at the manufacturing stage. There is agreement in principle that the base must be broadened and the rates must be moderate. Multiplicity of rates is to be done away with. However, it is not clearly understood that high rates on particular commodities cannot be brought down unless the burden is more widely shared. The principle has to be enunciated that all commodities with very few exceptions should be brought under tax. Also, it is to be explained to the tax department and the public that high rates of tax on inputs that are not eligible for Modvat credit, for example, cement and tyres, are not the right way of raising revenue, since they lead to cost escalation that is unjustified. The existence of exempted goods also opens up loophole for misuse of Modvat credit. Many of the goods now exempted may be subject to a tax rate of 10%; examples are cycle tyres, tubes and parts, umbrellas, jam, jelly, butter, cheese and agricultural implements.

That part of the small scale sector which pays tax at concessional rates should be given only a part of the input tax as Modvat credit, say, 50% of input tax paid.

The VAT principle should be extended to the textile sector and the tax should be levied at the fabric stage also. For this purpose, the duty on artificial yarn of different kinds should be brought down and some simple way must be found to levy tax on the powerloom sector (This has already been done).

Computerisation has hardly made headway in the Excise Department. It is suggested that full computerisation as under a VAT regime be introduced on an experimental basis in one collectorate. Along with this, the procedures and documentation can be simplified.

It has been the contention of some that a major problem with the excise duty today is the misuse of Modvat Credit. Even the NIPFP study could not substantiate this charge on an empirical basis. While there is abuse or misuse of system of Modvat Credit, the more important problem to be tackled is the outright evasion of duty through suppression or concealment of output. In the collectorate where full-scale computerisation will be introduced, a thorough study should be made of the methods employed to conceal output and the ways of countering them. Separately, studies should be undertaken of the pattern and modus operandi of evasion in several important industries. Simultaneously, high rates of duty on particular commodities should be brought down to induce greater compliance.

Only three services are now being taxed by the Centre, apart from the expenditure tax on hotels. The base of the services tax should be expanded. This matter has been studied to some extent by NIPFP. In order to minimise possible cascading effect, services which are generally used as major inputs should not be brought under tax (until the services tax could be merged with the VAT on goods) and the rate of tax should be relatively low, say, 5%. The services that could be subjected to tax immediately are : Credit Card services, services of travel agents, and renting of marriage halls.

Customs Duties

Customs duties including countervailing duties bring in now revenues equal to 3.28 per cent of GDP. In bringing about a change in the tax structure, we have assumed that the share of customs in total revenue will fall from 32.0 to 27 per cent, by 2002-03; as a percentage of GDP customs revenue will change only slightly, from 3.28 to 3.10 per cent. To maintain this percentage, with the rates of duty coming down, it would be necessary to subject almost all imports to some import duty. That would also be economically a rational policy. The minimum rate could be 10 per cent and the maximum rate on goods other than consumer goods should be 30 per cent.

At first, consumer goods requiring sophisticated technology may be permitted to be imported; then, gradually the imports of other consumer goods should be liberalised, (as regards farm products an integrated policy involving both their imports and exports should be formulated). The rate of duty on consumer goods should be 50 per cent to start with.

With this medium-term scenario, and with an import level equal to about 12 per cent of GDP (as against the present level of 11 per cent), customs could yield 2.4 per cent of GDP with an average rate of only 20 per cent. Countervailing duties could add another 0.6 per cent of GDP.

State Taxes

The composition of State tax revenues was as follows in 1995-96.

Table - B

Composition of State Tax Revenues 1995-96 and as Proposed for 2002-03

	1995-96		2002-03	
Tax	**% of GDP**	**% of Total**	**% of GDP**	**% of Total**
Sales Tax	3.25	56.79	4.00	61.25
Excise on Liquor	0.76	13.20	0.76	11.64
Stamps and Registration	0.49	8.61	0.50	7.66
Motor Vehicles Tax and Passengers and Goods Tax	0.46	8.08	0.50	7.66
Others	0.76	13.32	0.77	11.79
Total	**5.72**	**100.00**	**6.53**	**100.00**

As against 5.72 per cent of GDP from State taxes, non-tax revenues of the States amounted to 1.82 per cent of GDP giving a total revenue ratio of 7.54 per cent of GDP in 1995-96. We have assumed that the total own revenues of the States will increase by 1 percentage point of GDP. If the same ratio of tax to non-tax revenue is maintained (76:24), then tax revenues will have to become 6.73 per cent of GDP and non-tax revenues 1.80 per cent.

Most experts who have knowledge of the working of the State sales tax systems are agreed that with the rationalisation of the tax structure and improvement in the administration, it is possible to increase the yield of the sales taxes substantially. A Committee of State Finance Ministers on Sales Tax Reform has recommended that the base should be broadened by reducing the number of exemptions to a few, by having only three rates apart from zero, by putting an end to the policy of competition among the States in offering sales tax concessions and by gradually moving over to a system of value added tax in each State. Even without adopting the value added tax, by adopting the other recommendations of the Committee, it is possible to raise the sales tax yield by at least one percentage point of GDP, if tax administration could be improved through computerisation. The pattern of computerisation introduced by Andhra Pradesh can be adopted by the other States.

There seems to be considerable leakage of revenue from the motor vehicles tax whose administration has to be modernised. As for Stamps and Registration, the rates on conveyances should be moderated, there should be valuation by a Central Valuation Cell and the procedures for paying duty and getting registration should be simplified. With these steps, the yield will rise substantially. All in all, the States in general can increase the yield of their own taxes by more than one percentage point of GDP by 2002-3. In Table-B we have taken credit for an increase of only 0.81 percent of GDP.

The ways of increasing non-tax revenues have been indicated by many writers on the subject and the latest memorandum on austerity issued by the Ministry of Finance has also suggested certain measures. This question is not dealt with in this paper.

Compression and Restructuring of Public Expenditure

In our plan of restructuring public expenditure we have ensured that the ratio of total public expenditure to GDP would remain more or less the same at the end of the period as at the beginning. Nevertheless, the scope of government activities is envisaged to be cut down and there has to be re-direction of expenditure.

The major steps to be taken towards these ends are:

(a) It is generally agreed that government has over-extended itself. Fortunately, the economic reform programme has made many activities and the associated staff redundant. Apart from that, gradually the government sector should withdraw itself from the production of private goods. This is particularly applicable to the State governments which are now owning many enterprises producing non-core, non-strategic, private goods. Most of these enterprises are making losses and in any case their productivity is low; and hence those in government who are looking after these enterprises are doing no social good.

The Central government should cut down the size of Ministries and Departments dealing with subjects which are mainly the responsibilities of the States. The Central government should shed also activities like holding International Film Festivals.

(b) An expert group should be appointed at the Central level and in each State to study the procedures now followed in government for dealing with files and for granting approvals of different kinds. A lot of time and manpower can be saved through revamping procedures. For example, there is no need that a letter received by a Secretary should travel all the way down to the Desk Officer and then re-trace its journey to the Secretary.

The government should enter into a dialogue with the concerned trade unions on the kinds of incentives to be provided and on the introduction of a system linking rewards-promotions, increments, etc. - to performance.

(c) There is agreement that there is surplus staff in general administration and also in the administration of functional departments. There is also over- staffing of engineers in the public works department. This surplus staff must be identified and shed, but employment in primary schools, health centres and road building will increase. The share of expenditure on priority sectors cannot be increased unless the share of administrative expenditure is brought down.

In this connection, it is to be noted that the civilian staff of the Central government increased by one million during the last decade or so, and now number four million. Note further that between 1984 and 1991, the number of posts of Secretary to the government increased from 61 to 131 and those of additional and joint secretaries from 258 to 758!

(d) The share of interest payments must be brought down by limiting the fiscal deficit as suggested in the present exercise and by retiring some of the existing public debt. Given the size of the debt, retirement would achieve only a relatively small reduction in the debt burden. However, through the sale of seized contraband gold and some of government lands and through disinvestment of PSU shares at least Rs. 25,000 crores could be raised and used for the retirement of debt. The State governments could sell off many of their enterprises and use the proceeds for the retirement of debt.

The RBI receives about Rs. 6000 crore of interest from the Government of India, but pays only Rs. 1500 crore as dividend. This should be raised to Rs. 2500 crore. In future, so long as the Government of India keeps its direct borrowing from the RBI within the agreed limit, the RBI should charge only 2 per cent interest. When the limit is exceeded, higher interest would be charged, with the rate increasing progressively to become equal to the market rate after certain agreed upon limit is exceeded.

The Division of Expenditures Between the Centre and the States

In this section, we attempt to work out a broad division of receipts and expenditures between the Centre and the State governments in the year 2002-03. In working out the division, we have naturally had to make some assumptions. On the revenue side, apart from the postulated increases in the tax and non-tax revenue ratios, we have assumed that the devolution of Central taxes to the States will form the same proportion of total gross Central tax revenues in 2002-03 as in 1995-96, that is, 26.52 per cent and that Central grants to the States will similarly remain constant as a proportion of gross Central revenues minus devolution (19.95 per cent). To the Central revenues remaining after devolution and grants should be added the estimated amount of interest receipts from the States. Inclusive of these receipts, the revenues at the disposal of the Centre in 2002-03 work out to 9.62 per cent of GDP, as against 8.18 per cent in 1995-96. The revenue receipts at the disposal of States net of payment of interest to the Centre will form 12.85 per cent of GDP in 2002-03, as against 10.83 per cent in 1995-96.

Capital receipts consist of net borrowings and loan recoveries. We have estimated the capital receipts of the Centre net of lending to the States in 2002-03 at 2.62 per cent of GDP and the capital receipts of the States at 2.31 per cent. Thus the total receipts of the Centre will add up to 12.24 per cent of GDP and those of the States net of interest payment to Centre, to 15.15 per cent (See Tables 10 (a) & 10 (b).

We have earlier worked out the division of total public expenditure under various heads, as proposed for the year 2002-03 (Table-4). We need to break up the totals under different heads into the Central and State shares. For this purpose, a simplifying assumption has been made, namely, that the relative shares of the Centre and of the States in expenditures under the functional heads will be the same in 2002-03 as in 1995-96. These shares are presented in Table-9. On the above assumption, we note that the Centre will have to incur a total expenditure of Rs. 197,120 crore and the States a total expenditure of Rs. 246,882 crore in 2002-03 at 1995-96 prices. Comparing this division of expenditure responsibilities with the division of total receipts that would become available, we notice that given the magnitude of devolution and grants on the present pattern, the resources available to each level of government will more or less match the needs, with the States having a deficit of resources of Rs. 1,287 crore. But the assumption that has been made that the relative shares of expenditures of the Centre and the States under different heads can remain the same may not be tenable. It is proposed to raise the share of education, health, roads and agriculture in total public expenditure significantly and the States account for the major part of expenditure on these functional heads and hence the share of the expenditure by the States on these functions will probably have to go up. If that is found necessary, more transfer of resources from the Centre would be called for.

Table 11 indicates shares of expenditure, of each of the broad categories as percent of GDP at market prices during 1980-81 to 1995-96. The structure of expenditure is shown in table 12. It will be seen that the total expenditure as percentage of GDP has fluctuated between 25.5 in 1981-82 and 31.4 per cent in 1986-87, but the expenditure on the three identified priority items, namely, education, health and roads has remained stationary at less than 6 per cent. The expenditure on interest payments has been rising consistently year after year, from 2.17 per cent in 1980-81 to 5.66 per cent in 1995-96. This is followed by the expenditure on administrative services which ranged between 2.87 per cent in 1980-81 and 4.57 per cent in 1992-93 (Table 11).

Within the broad spectrum of expenditure, the expenditure shares on the three priority areas have been less than 20 per cent indicating an almost stagnant position. A share ranging from 19 to 34 percent was appropriated collectively by interest payments and administrative services. This is brought out in Table 12. The present exercise focuses on correcting this distortion and apportions the needed resources to the priority areas taking their share in the total from 17.94 per cent in 1995-96 (RE) to 27.25 per cent in the terminal year (This is brought out in Table 4 ante).

The Profile of Restructuring

The targets for various categories of expenditure in 2002-03 have been derived. One needs to work out also the gradual process of adjustment through which the respective targets can be reached. A relatively simple method of using the compound rate of growth or decline (as may be required in each case) does not serve our purpose as the increases in revenue take time, whereas expenditures under some heads have to be raised fairly quickly in order to reach the levels postulated for the terminal year. Furthermore, deficit has to be cut, but the absolute level of expenditure under most heads cannot be brought down. We have adopted the solution of bringing about interim reductions in the ratios of certain heads of expenditure to GDP which would be restored to their original levels towards the end. A plausible plan of adjustment is presented in Table 13.

Concluding Section

The foregoing exercise has laid out a framework for actions designed to restore fiscal balance and to re-structure public expenditure in desirable directions in the medium term. It is our contention that such a framework must be developed if meaningful and effective actions are to be taken to tackle the fiscal malaise afflicting the country. The basic premises of the conceptual framework are:

(a) Consistent medium-term targets must be set for revenues, expenditures (levels and composition) and deficits(revenue and fiscal).

(b) Since public expenditure is to be restructured and the Centre and the States incur expenditure in several common areas the plan must encompass the Central and the State budgets.

(c) Given the responsibilities of the government at the present stage of our development, it will not be desirable to bring down the level of public expenditure in relation to GDP.

(d) At the same time it will be difficult to raise the ratio of public expenditure to GDP, because the fiscal deficit has to be brought down. Two conclusions follow: first, The re-structuring of expenditure in favour of certain priority sectors would require that the ratio of expenditure on some other sectors to GDP must fall, and second, if the fiscal deficit as a percentage of GDP is going to be brought down, the revenue ratio must be raised correspondingly.

(e) If GDP is growing sufficiently fast (say, at least at 6 per cent per annum) under the re-structuring programme, the absolute level of expenditure in real terms on no item need go down.

The quantitative exercise brings out the interdependence of actions on different fronts and the need for consistency. We have set targets which we consider desirable and realistic. Alternative quantitative exercises can be worked out within the same conceptual framework. However, we feel that a plan significantly different from ours will either fall short of the requirements or if it is much more ambitious will prove to be infeasible. To recapitulate, the re-structuring of public expenditure simultaneously with the restoration of fiscal balance will call for these major steps:

(a) the fiscal deficit of the government sector to be reduced to 4.5 per cent of GDP ;

(b) the revenue ratio to be raised correspondingly;

(c) the ratio of administrative expenditure to GDP to be brought down by at least one percentage point of GDP;

(d) expenditure on education, especially primary education, health, roads and agriculture to be raised significantly as per cent of GDP;

(e) in raising the revenue ratio, the objectives and principles of tax reform should not be abandoned and emphasis should be laid on (i) improving tax administration (ii) eliminating illegal exactions and (iii) raising the proportion of revenue raised through the direct taxes.

List of Tables and Annexures

Table – 1:

TRENDS IN FISCAL, REVENUE AND BUDGET DEFICITS OF THE CENTRE, THE STATES AND THE CENTRE AND STATES COMBINED: 1980–81 TO 1995–96(RE)

(Percentage Shares of GDP at Market Prices)

	1980 -81	1981 -82	1982 -83	1983 -84	1984 -85	1985 -86	1986 -87	1987 -88	1988 -89	1989 -90	1990 -91	1991 -92	1992 -93	1993 -94	1994 -95(RE)	1995 -96(RE)
GDP at market prices (Rs Crore	136013	159760	176132	207589	231343	262243	292949	333201	395782	456821	535534	616799	705328	801032	945615	1078001
Centre																
1 Direct Taxes	1.46	1.72	1.68	1.59	1.53	1.43	1.39	1.25	1.54	1.33	1.29	1.66	1.71	1.56	1.79	2.09
2 Indirect Taxes	5.44	5.52	5.65	5.86	6.12	6.64	6.93	7.16	7.01	7.08	6.75	6.47	5.96	5.11	5.08	5.43
3 Total tax revenue	6.90	7.24	7.33	7.46	7.65	8.08	6.32	8.42	6.54	6.41	8.04	8.13	7.67	6.68	8.87	7.52
4 Non Tax Revenue	2.26	2.23	2.50	2.04	2.53	2.62	2.93	2.69	2.47	3.00	2.23	2.57	2.84	2.78	2.59	2.70
5 Total Revenue	9.16	9.48	0.83	9.50	10.16	10.69	11.25	11.11	11.01	11.40	10.27	10.71	10.81	8.46	9.46	10.22
6 Loan Recovery	1.12	1.36	1.89	1.80	1.61	1.47	1.41	1.55	1.26	1.20	1.26	1.14	1.09	0.96	0.83	0.69
7 Revenue Expenditure	9.75	0.66	10.53	10.85	11.69	12.62	13.90	13.86	13.67	14.01	13.74	13.34	13.14	16.55	13.07	13.31
8 Cap Exp–Loan Rec(net)	5.96	5.24	5.34	5.36	6.16	8.41	6.72	5.74	5.43	5.54	5.10	4.15	4.23	4.14	3.46	3.66
9 Total Expenditure	15.71	14.90	15.67	16.02	17.87	19.23	20.63	19.60	19.10	19.55	18.84	17.49	17.87	17.09	16.52	16.98
10 Capital Receipts	4.64	4.55	5.11	5.84	6.07	6.65	6.56	6.74	6.66	5.83	8.45	5.06	5.12	6.86	6.43	6.05
11 Fiscal Def	8.53	5.43	6.04	6.52	7.69	6.53	9.38	8.12	7.61	7.80	8.34	5.89	5.70	7.52	6.45	5.94
12 Revenue Def	0.57	0.16	0.70	1.16	1.51	2.12	2.65	2.74	2.66	2.61	8.47	2.64	2.69	4.08	3.61	3.09
13 Budget Def	1.89	0.87	0.93	0.68	1.62	1.86	2.82	1.75	1.43	2.32	2.12	1.11	1.75	1.37	0.83	0.71
States end Union Territories																
1 Direct Taxes	0.95	0.67	0.84	0.77	0.78	0.92	0.95	0.99	0.94	1.12	0.87	1.02	1.03	1.15	1.08	1.07
2 Indirect Taxes	6.74	6.99	7.12	6.85	7.06	7.41	7.60	7.72	7.45	7.45	7.26	7.52	7.40	7.41	7.31	7.35
3 Total tax revenue	7.69	7.86	7.96	7.62	7.67	8.33	8.55	8.72	8.39	6.57	8.25	8.54	8.43	3.57	8.39	6.41
4 Non Tax Revenue	3.37	3.10	3.40	3.42	3.47	3.83	3.73	3.94	3.68	3.10	3.47	4.10	6.92	4.16	4.33	3.92
5 Total Revenue	11.05	10.96	11.36	11.04	11.33	12.17	12.28	12.66	12.07	11.67	11.72	12.64	12.35	12.73	12.72	12.34
6 Loan Recovery	0.33	0.36	0.38	0.37	0.45	0.31	0.33	6.31	0.34	0.22	0.28	0.54	0.27	0.30	0.39	0.14
7 Revenue Expenditure	10.39	10.14	10.86	10.93	11.72	11.96	12.28	12.97	12.53	12.44	12.87	18.56	13.06	13.16	13.84	13.21
8 Cap Exp–Loan Rec(net)	3.86	3.50	3.36	3.23	3.20	3.16	3.21	2.99	2.51	2.59	2.51	2.15	2.25	2.06	2.26	2.20
9 Total Expenditure	14.26	13.64	14.23	14.18	14.92	15.14	15.48	15.95	15.04	15.03	15.18	15.71	15.31	15.24	15.60	15.40
10 Capital Receipts	2.56	1.98	2.47	2.78	3.00	3.55	2.89	3.39	3.10	3.36	3.44	3.03	2.93	2.32	3.07	2.92
11 Fiscal Def	3.20	2.68	2.86	3.12	3.59	2.98	3.20	3.30	2.87	3.24	3.39	2.99	2.84	2.45	3.00	2.97
12 Revenue Def	-0.66	-0.82	-0.50	-0.10	0.39	-0.21	-0.01	0.31	0.46	0.77	0.95	0.92	0.72	0.43	0.82	0.87
13 Budget Def	0.64	0.71	0.39	0.35	0.59	-0.57	0.30	-0.09	-0.14	0.00	0.03	0.04	0.03	0.19	0.01	0.15
Combined																
1 Direct Taxes	2.40	2.59	2.52	2.36	2.30	2.38	2.35	2.25	2.47	2.44	2.29	2.70	2.75	2.71	2.88	3.16
2 Indirect Taxes	12.19	12.52	12.77	12.82	13.18	14.11	14.56	14.85	14.44	14.56	14.09	14.03	13.44	12.61	12.38	12.78
3 Total tax revenue	14.59	15.11	15.29	15.19	15.48	16.50	16.91	17.10	16.91	17.01	18.38	16.73	10.18	15.23	15.27	15.94
4 Non Tax Revenue	2.94	2.97	3.28	2.62	3.08	2.95	3.04	2.96	2.67	3.19	2.18	2.99	3.61	6.16	3.53	3.36
5 Total Revenue	17.52	16.08	16.57	17.80	18.56	19.45	10.95	20.06	19.58	20.20	18.54	19.72	16.20	16.38	18.80	19.29
6 Loan Recovery	0.78	0.93	1.46	1.24	1.00	0.74	0.75	0.80	0.78	0.69	0.66	1.06	0.70	0.61	0.65	0.33
7 Revenue Expenditure	17.43	17.44	16.78	18.65	20.46	21.37	22.59	23.11	22.70	23.58	22.96	23.27	22.55	22.90	23.23	23.26
8 Cap Exp–Loan Rec(net)	8.19	7.37	7.10	7.09	7.77	7.41	8.23	6.97	8.24	8.22	5.64	4.67	5.24	4.96	4.20	4.04
9 Total Expenditure	25.62	24.81	25.86	25.94	28.23	26.77	30.82	30.09	26.94	29.80	26.60	27.94	27.79	27.86	27.43	27.30
10 Capital Receipts	5.56	5.18	5.99	7.11	7.46	8.01	7.75	8.38	8.06	7.27	7.91	7.07	0.82	7.93	7.99	7.15
11 Fiscal Def	6.09	8.74	7.31	8.14	9.87	9.32	10.67	9.66	6.96	9.30	9.86	7.35	7.10	0.71	7.95	7.44
12 Revenue Def	-0.09	-0.64	0.21	1.05	1.90	1.91	2.65	3.05	3.12	3.38	4.42	3.55	3.35	4.52	4.43	3.97
13 Budget Def	2.54	1.58	1.32	1.03	2.21	1.31	3.12	1.65	1.29	2.32	2.14	1.15	1.78	1.56	0.64	0.86

Source 1. 1980-81 to 1986-87 Indian EconomicStatistics – Public Finance – Ministry of Finance

2. 1987-88 to 1994-95 Indian Public Finance Statistics, 1992 to 1995, Ministry of Finance

Notes: 1. For the year 1995-96 Centre's information relates to the revised estimates (Budget Documents), whereas in the case of states budget estimates (as available in Indian Public Finance Statistics), have been retained as the revised estimates are not available. This information has been utilised for arriving at the combined estimates.

2. Fiscal deficit figures do not tally with the Revenue and Expenditure figures from 1987-88 onwards.

(a) Net of state share of taxes.

(b) Includes share of central taxes.

Table - 2:
DETAILS OF TAX REVENUES: CENTRES' (GROSS) AND STATES (OWN)
1980-81 and 1985-86 to 1995-96(re)

Year	GDP (mp)	Deflator (MP) 1994-95 prices	Tax Revenue: Gross tax Centre	Tax Revenue: Own tax States	Tax Revenue: Taxes Combined	Central taxes: Corporation Tax	Central taxes: Gross Personal Income tax	Central taxes: Customs	Central taxes: Gross Excise duty	Central taxes: Other taxes	State taxes: Sales taxes	State taxes: State Excise Duty	State taxes: Stamps and Registration Fees	State taxes: Taxes on Vehicles and PGT	State taxes: Other taxes
In Rupees Crore															
1980 - 81	136,013	27.72	13,179	6,664	19,843	1,311	1,506	3,409	6,500	452	3,896	836	427	699	804
1985 - 86	262,243	41.16	28,670	14,596	43,266	2,865	2,510	6,526	12,956	913	6,456	2,071	857	1,385	1,627
1986 - 87	292,949	43.84	32,839	16,701	49,539	3,160	2,879	11,475	14,470	854	6,636	2,427	1,012	1,595	2,032
1987 - 88	333,201	47.59	37,865	19,310	56,875	3,433	3,167	13,702	16,426	917	11,206	2,860	1,256	1,848	2,117
1988 - 89	395,782	51.43	44,474	22,451	66,925	4,407	4,241	15,805	16,841	1,179	16,147	3,098	1,489	2,162	2,554
1989 - 90	456,821	55.70	51,636	26,056	77,692	4,729	5,004	18,036	22,406	1,461	15,082	3,686	1,649	2,324	2,906
1990 - 91	535,534	61.79	57,577	30,145	87,722	5,335	3,377	20,644	24,514	1,767	17,546	4,796	2,089	2,597	3,112
1991 - 92	616,799	70.83	67,361	35,837	103,198	7,853	6,731	22,257	28,110	2,416	21,106	3,467	2,660	2,977	3,626
1992 - 93	705,326	77.43	74,636	39,529	114,165	8,899	7,896	23,776	30,832	3,234	23,110	8,287	2,914	3,404	8,808
1993 - 94	801,032	84.16	75,743	46,218	121,960	10,060	9,123	22,193	31,697	2,070	27,523	7,121	3,516	3,987	4,072
1994 - 95 re	945,615	93.46	89,831	54,547	144,378	13,250	11,000	26,450	36,900	2,231	30,177	7,663	4,660	4,514	7,533
1995 - 96 re	1,078,001	100.00	110,354	61,678	172,032	16,250	15,100	35,352	41,000	2,652	35,080	8,141	5,311	4,986	8,210
Growth rates 1985-86 to 1995-96 RE (% pa)	15.49	9.75	13.74	15.67	14.42	19.45	18.80	11.90	12.23	15.19	15.48	15.57	19.96	13.60	15.36
In Rupees Crore (at 1995-96 prices)															
1980 - 81			47,538	24,039	71,578	4,728	5,434	12,298	23,446	1,632	14,063	3,024	1,540	2,521	2,900
1985 - 86			69,661	35,466	105,127	6,961	6,098	23,146	31,480	1,676	20,546	5,032	2,061	3,366	4,440
1986 - 87			74,905	38,095	113,000	7,208	6,567	26,175	33,007	1,949	21,979	5,535	2,308	3,637	4,636
1987 - 88			79,138	40,572	119,710	7,213	3,696	28,790	34,512	1,927	23,546	6,052	2,643	3,884	4,449
1988 - 89			86,478	43,654	130,130	3,569	3,247	30,732	36,635	2,293	25,868	6,024	2,896	4,204	4,967
1989 - 90			92,703	46,780	139,483	8,490	8,984	32,381	40,227	2,622	27,086	3,077	3,319	4,171	5,217
1990 - 91			93,177	48,784	141,961	8,634	6,702	33,406	39,672	2,762	28,388	7,765	3,361	4,203	5,037
1991 - 92			95,107	50,599	145,706	11,088	8,504	31,424	39,686	3,403	29,808	7,719	3,755	4,203	5,119
1992 - 93			96,397	51,055	147,452	11,493	10,198	30,700	39,821	4,177	29,880	8,120	3,763	4,396	4,915
1993 - 94			90,001	54,919	144,918	11,954	10,840	26,371	37,664	3,173	32,704	8,461	4,178	4,738	4,839
1994 - 95 re			96,119	58,365	154,484	14,178	11,770	28,302	39,483	2,387	32,289	3,199	4,986	4,630	8,060
1995 - 96 be			110,354	61,678	172,032	16,250	15,100	35,352	41,000	2,652	35,080	8,141	5,311	4,986	8,210
Growth rates 1985-86 to 1995-96 RE (% pa)			3.63	5.39	4.25	8.64	8.32	1.96	2.26	4.88	3.22	5.30	9.30	3.51	5.13
Per cent of GDP															
1980 - 81			9.89	4.90	14.59	0.96	1.11	2.51	4.78	0.33	2.86	0.62	0.31	0.51	0.59
1985 - 86			10.93	5.57	16.50	1.09	0.96	3.63	4.64	0.31	3.22	0.78	0.33	0.53	0.70
1986 - 87			11.21	5.70	16.91	1.08	0.98	3.92	4.94	0.29	3.29	0.83	0.35	0.54	0.69
1987 - 88			11.30	5.80	17.10	1.03	0.96	4.11	4.63	0.29	3.36	0.86	0.36	0.55	0.64
1988 - 89			11.24	5.67	16.91	1.11	1.07	3.99	4.78	0.30	3.32	0.79	0.38	0.55	0.65
1989 - 90			11.30	5.70	17.01	1.04	1.10	3.95	4.90	0.32	3.30	0.85	0.40	0.51	0.64
1990 - 91			10.75	5.63	16.38	1.00	1.00	3.85	4.58	0.32	3.28	0.90	0.39	0.48	0.58
1991 - 92			10.92	5.81	16.73	1.27	1.09	3.61	4.56	0.39	3.42	0.60	0.43	0.48	0.59
1992 - 93			10.58	5.60	16.19	1.26	1.12	3.37	4.37	0.46	3.28	0.69	0.41	0.48	0.54
1993 - 94			9.46	5.77	15.23	1.26	1.14	2.77	3.96	0.33	3.44	0.89	0.44	0.50	0.51
1994 - 95 re			9.50	5.77	15.27	1.40	1.18	2.80	3.90	0.24	3.10	0.81	0.49	0.48	0.80
1995 - 96 re			10.24	5.72	15.96	1.51	1.40	3.28	3.80	0.25	3.25	0.78	0.49	0.46	0.76

Sources: 1. Indian Economic Statistics, Ministry of Finance; and
2. Indian Public Finance Statistics, Ministry of Finance

Table – 3:
GROSS RESOURCES OF CENTRE, STATES AND COMBINED:
1995–96(re) and 2002–03

(at 95–96 prices)

	1995–96 (re)	2002–03	Growth pa during 1995–96 to 2002–03
Gross Domestic Product	1,078,001	1,620,915	6.00
Centre			
Tax (gross)	110,354 (10.24)	186,401 (11.50)	7.78
Non–tax	16,014 (1.49)	38,615 (2.38)	13.40
States			
Own revenue receipts	78,537 (7.29)	139,169 (8.59)	8.52
Combined (centre and states)			
Fiscal deficit	80,180 (7.44)	72,941 (4.50)	–1.34
Loans recoveries and other adj on account of differences in centre & states transfer figures etc.	4,573 (0.42)	6,876 (0.42)	6.00
Gross resources	289,658 (26.87)	444,002 (27.39)	6.29

Note: 1. Gross resources include tax, non–tax, recovery of loans and deficit.
2. Figures in parenthesis indicate the percentage to gdp.
3. Growth in real gdp (mp) assumed at 6 per cent per annum.
4. Centre's tax rev grow by +2 % and non–tax rev +1 % of gdp (mp), over 1994–95(re).
5. State revenues grow by 1% of gdp (mp), over 1994–95(re).
6. Fiscal deficit goes down to 4.5% of gdp (mp), centre 3.5% and states 1%.

Table – 4:
COMPOSITION OF PUBLIC EXPENDITURE IN 1995–96(re) AND 2002–03 – A COMPARISON

Particulars	1995–96(re) (Rs cr)	1995–96(re) (per cent of total exp)	1995–96(re) (per cent of gdp)	2002–03(estt) (Rs cr)	2002–03(estt) (per cent of total exp)	2002–03(estt) (per cent of gdp)
GDP	1,078,001			1,620,915		6.00
COMBINED BUDGETARY TRANSACTIONS OF THE CENTRE, STATES & UTs REVENUE AND CAPITAL RECEIPTS	289,658	100.00	26.87	444,002	100.00	27.39
REVENUE AND CAPITAL EXPENDITURES (Current prices)						
1 Defence Services	26,879	9.28	2.49	40,416	9.10	2.49
2 Interest Payments	61,001	21.06	5.66	79,470	17.90	4.90
3 Administrative Services	38,511	13.30	3.57	41,697	9.39	2.57
4 External Affairs	870	0.30	0.08	1,308	0.29	0.08
5 Grants	3,074	1.06	0.29	4,622	1.04	0.29
6 Subsidy	13,726	4.74	1.27	20,639	4.65	1.27
7 Education	31,790	10.98	2.95	60,311	13.58	3.72
8 Health	13,637	4.71	1.27	27,163	6.12	1.68
9 Roads	6,538	2.26	0.61	33,520	7.55	2.07
10 Poverty Alleviation	15,562	5.37	1.44	23,399	5.27	1.44
11 Agriculture (excl. rural development)	12,926	4.46	1.20	27,540	6.20	1.70
12 Industry & minerals	3,399	1.17	0.32	5,111	1.15	0.32
13 Power irrigation and flood control	16,920	5.84	1.57	25,441	5.73	1.57
14 Public works	2,045	0.71	0.19	3,075	0.69	0.19
15 Loans And Advances (gross)	14,102	4.87	1.31	13,100	2.95	0.81
16 Not Assigned	28,678	9.90	2.66	37,189	8.38	2.29
TOTAL	289,658	100.00	26.87	444,002	100.00	27.39
Combined : Education + Health + Roads (7+8+9)	51,965	17.94	4.82	120,994	27.25	7.46
Combined: Others (1 – 6) and (10 – 16)	237,693	82.06	22.05	323,008	72.75	19.93

Table – 5:
COMPOSITION OF GROWTH RATES IN 1980s AND IN 1995–96(re) to 2002–03

Particulars	Compound growth rates (per cent)		
	Current prices 80–81 to 89–90	1995–96 prices 80–81 to 89–90	1995–96 prices 95–96 to 02–03
GDP	13.95	5.65	6.00
COMBINED BUDGETARY TRANSACTIONS OF THE CENTRE, STATES & UTs REVENUE AND CAPITAL RECEIPTS	16.32	7.85	6.29
REVENUE AND CAPITAL EXPENDITURES (Current prices)			
1 Defence Services	16.30	7.84	6.00
2 Interest Payments	23.72	14.71	3.85
3 Administrative Services	19.40	10.71	1.14
4 External Affairs	16.62	8.13	6.00
5 Grants	12.45	4.26	6.00
6 Subsidy	21.61	12.75	6.00
7 Education	17.71	9.14	9.58
8 Health	15.83	7.40	10.34
9 Roads	11.34	3.23	26.30
10 Poverty Alleviation	NA	NA	6.00
11 Agriculture (excl. rural development)	6.77	–1.00	11.41
12 Industry & minerals	9.75	1.76	6.00
13 Power irrigation and flood control	14.26	5.94	6.00
14 Public works	17.42	8.87	6.00
15 Loans And Advances (gross)	8.59	0.68	–1.05
16 Not Assigned	14.61	6.26	3.78
TOTAL	16.32	7.85	6.29
Combined : Education + Health + Roads (7+8+9)	16.24	7.78	12.83
Combined: Others (1 – 6) and (10 – 16)	16.34	7.87	4.48

Table – 6:
PROJECTIONS OF GROWTH OF PUBLIC DEBT AND INTEREST PAYMENTS (1995–96(re) TO 2002–03)

Parameter Table

Growth in income 13.0%

(current prices)

Year	GDP	Combined debt to GDP per cent	Combined Interest to GDP per cent	Fiscal deficit to GDP per cent: Centre	Fiscal deficit to GDP per cent: States
Base					
1995 - 96	1078001	68.14	5.66	5.94	1.50
Projections					
1996 - 97	1218141	66.60	5.66	5.00	1.30
1997 - 98	1376500	64.94	5.56	4.70	1.30
1998 - 99	1555445	62.97	5.47	4.30	1.20
1999 - 0	1757652	60.92	5.36	4.20	1.00
2000 - 1	1986147	58.91	5.22	4.00	1.00
2001 - 2	2244346	56.94	5.06	3.80	1.00
2002 - 3	2536111	54.89	4.90	3.50	1.00

A note on calculation of rate of interest (Centre) –
(current prices)

	Fresh borrowings during 1995–96	Interest rate as applicable to 1995–96 borrowings	Calculated amount of interest
Treasury bills	31,459	6.37	2,003
ODD	30,582	12.50	3,823
External	1,969	3.65	72
Total	64,010		5,897
Average interest rate on central govt borrowings		9.21	

Table – 7:
FISCAL DEFICIT, INTEREST PAYMENTS AND PRIMARY DEFICIT
as per cent of GDP (1980–81 to 2002–2003)

Year	GDP mp	Fiscal deficit	Interest payments	Primary deficit
Historical data				
1980 – 81	136,013	8.09	2.17	5.92
1981 – 82	159,760	6.74	2.34	4.39
1982 – 83	178,132	7.31	2.60	4.70
1983 – 84	207,589	8.14	2.66	5.48
1984 – 85	231,343	9.67	2.97	6.70
1985 – 86	262,243	9.32	3.28	6.04
1986 – 87	292,949	10.87	3.62	7.26
1987 – 88	333,201	9.66	3.90	5.76
1988 – 89	395,782	8.98	4.16	4.83
1989 – 90	456,821	9.30	4.49	4.81
1990 – 91	535,534	9.88	4.67	5.21
1991 – 92	616,799	7.35	5.03	2.32
1992 – 93	705,328	7.19	5.08	2.11
1993 – 94	801,032	8.71	5.31	3.40
1994 – 95	945,615	7.95	5.50	2.45
1995 – 96	1,078,001	7.44	5.66	1.78
Projections (95–96 pr)				
1996 – 97	1,142,681	6.30	5.66	0.64
1997 – 98	1,211,242	6.00	5.56	0.44
1998 – 99	1,283,917	5.50	5.47	0.03
1999 – 0	1,360,952	5.20	5.36	−0.16
2000 – 1	1,442,609	5.00	5.22	−0.22
2001 – 2	1,529,165	4.80	5.06	−0.26
2002 – 3	1,620,915	4.50	4.90	−0.40

Table – 8:
REVENUE EXPENDITURE 1995–96(re) and 2002–03
(at 1995–96 prices)

(Rs crore)

	1995–96	2002–03
1 Total Expenditure	289,658	444,002
Of which:		
2 Revenue Expenditure	264,404	364,185
3 Revenue Receipts	204,646	364,185
4 Revenue deficit to be brought to zero by 2002–03	59,758	0
5 Real growth of Revenue expenditure (1995–96 prices)		
(i) 1980–81 to 1989–90	9.74 per cent	
(ii) 1995–96 to 2002–03	4.68 per cent	
6 Real growth of Revenue receipts (1995–96 prices)		
(i) 1980–81 to 1989–90	7.39 per cent	
(ii) 1995–96 to 2002–03	8.58 per cent	
7 Interest payments	61,001	79,470
8 Non interest rev exp	203,403	284,715
9 Real growth of non–interest Revenue expenditure		
(i) 1980–81 to 1989–90	8.84 per cent	
(ii) 1995–96 to 2002–03	4.92 per cent	

Table – 9:
EXPENDITURE DURING 2002–03 – BREAKUP BETWEEN CENTRE AND STATES
(1995–96 prices)

(Rs crore)

Particulars	Combined		1995–96(re)		Allocation for 2002–03		Percentage of	
	1995–96(re)	2002–03(estt)	states	centre	states	centre	states	centre
GDP	**1,078,001**	**1,620,915**	**1,078,001**	**1,078,001**	**1,620,915**	**1,620,915**		
COMBINED BUDGETARY TRANSACTIONS OF THE CENTRE, STATES & UTs REVENUE AND CAPITAL RECEIPTS-->	**289,658**	**444,002**	**155,001**	**134,657**	**245,595**	**198,407**		
			(53.51)	(46.49)	(55.31)	(44.69)		
REVENUE AND CAPITAL EXPENDITURES (Current prices)								
1 Defence Services	26,879	40,416	–	26,879	–	40,416	–	100.00
2 Interest Payments	61,001	79,470	9,001	52,000	11,726	67,744	14.76	85.24
3 Administrative Services	38,511	41,697	26,760	11,751	28,974	12,723	69.49	30.51
4 External Affairs	870	1,308	–	870	–	1,308	–	100.00
5 Grants	3,074	4,622	1,327	1,747	1,995	2,627	43.17	56.83
6 Subsidy	13,726	20,639	9,663	4,063	14,529	6,110	70.40	29.60
7 Education	31,790	60,311	28,521	3,269	54,109	6,202	89.72	10.28
8 Health	13,637	27,163	12,361	1,276	24,622	2,541	90.65	9.35
9 Roads	6,538	33,520	5,318	1,220	27,266	6,254	81.34	18.66
10 Poverty Alleviation	15,562	23,399	9,348	6,214	14,055	9,344	60.07	39.93
11 Agriculture (excl. rural development)	12,926	27,540	8,124	4,802	17,309	10,231	62.85	37.15
12 Industry & minerals	3,399	5,111	2,658	741	3,997	1,114	78.20	21.80
13 Power irrigation and flood control	16,920	25,441	14,045	2,875	21,118	4,323	83.01	16.99
14 Public works	2,045	3,075	1,627	418	2,447	628	79.58	20.42
15 Loans And Advances (gross)	14,102	13,100	8,848	5,254	8,219	4,881	62.74	37.26
16 Not Assigned	28,678	37,189	12,736	15,942	16,515	20,674	44.41	55.59
TOTAL	**289,658**	**444,002**	**150,337**	**139,321**	**246,882**	**197,120**	**55.60**	**44.40**
Combined : Education + Health + Roads (7+8+9)	51,965	120,994	46,200	5,765	105,997	14,997	87.61	12.39
Combined: Others (1 – 6) and (10 – 16)	237,693	323,008	104,136	133,557	140,885	182,123	43.62	56.38

Note: Figures in parenthesis are percentages to total.

Table – 10(a): REVENUE AND CAPITAL RECEIPTS OF CENTRE 1995–96 and 2002–03

(Rs cr)

	1995–96	2002–03	2002–03
GDP	1,078,001		1,620,915
CENTRE			
Tax Revenue (gross)	110,354	186,401	
less: Tax share of states	29,266	49,434	
percentage of tax share to gross tax revenue	(26.52)	(26.52)	
Tax revenue (net of states' share)	81,088		136,967
Non–tax revenue (net of int from states)	16,014	38,615	
add: Interest receipts from states	13,089	19,260	
per cent to GDP	(1.21)	(1.19)	
Non–tax revenue	29,103		57,875
Revenue receipts of centre	110,191		194,842
less: Grants to states	21,988	38,880	
percentage of grants to revenue receipts of centre	(19.95)	(19.95)	
Revenue receipts of centre less grants	88,203		155,962
per cent to GDP	(8.18)		(9.62)
Capital receipts			
Loan recoveries	2,061	3,099	
Total borrowings	64,010	56,732	
Loans to states	19,617	17,386	
Centre's net borrowings	44,393	39,346	
Total capital recipts (net of loans to states)	46,454		42,445
per cent to GDP	(4.31)		(2.62)
TOTAL RECEIPTS OF CENTRE	134,657		198,407
per cent to GDP	(12.49)		(12.24)

Note: Figures in parenthesis are percentages to GDP.

Table – 10 (b):
REVENUE AND CAPITAL RECEIPTS OF STATES
1995–96 and 2002–03

(Rs cr)

	1995–96	2002–03	2002–03
STATES			
State's own revenue receipts	78,537	139,169	
add: Tax share of states	29,266	49,434	
add: Grants to states	21,988	38,880	
Total states revenue receipts	129,791		227,482
per cent to GDP	(12.04)		(14.03)
Interest paid to centre	13,089	19,260	
States revenue receipts			
(net of interest paid to centre)	116,702		208,223
per cent to GDP	(10.83)		(12.85)
Capital receipts			
Loan recoveries (inclusive of adjustments)	2,512	3,777	
add: loan recoveries	1458		
less: transfers from funds	1158		
Fiscal deficit			
States' borrowings	16,170	16,209	
add: Loans from centre	19,617	17,386	
Total states borrowings	35,787	33,596	
Total capital recipts	38,299		37,373
per cent to GDP	(3.55)		(2.31)
GROSS STATES RECEIPTS	155,001		245,595
per cent to GDP	(14.38)		(15.15)

Note: Figures in parenthesis are percentages to GDP.

Table - 11:
PERCENTAGE OF EXPENDITURE TO GDP (market price)
(1980-81 to 1995-96(re)

Particulars	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95(re)	1995-96(re)
REVENUE AND CAPITAL RECEIPTS ----------> AS A PER CENT OF GDP	26.14	25.50	27.09	26.97	29.02	29.31	31.37	30.65	29.45	30.23	29.07	28.76	28.23	28.29	27.87	26.87
REVENUE AND CAPITAL EXPENDITURES (Current prices)																
1 Defence Services	2.84	2.91	3.04	3.04	3.08	3.25	3.61	3.48	3.37	3.16	2.88	2.65	2.40	2.73	2.40	2.40
2 Interest Payments	2.17	2.34	2.60	2.66	2.97	3.28	3.62	3.90	4.16	4.49	4.67	5.03	5.08	5.31	5.50	5.66
3 Administrative Services	2.87	2.40	2.69	2.94	3.00	3.11	3.42	3.91	3.67	3.75	3.48	3.76	4.57	4.20	3.52	3.57
4 External Affairs	0.06	0.05	0.05	0.05	0.06	0.05	0.06	0.05	0.06	0.06	0.08	0.06	0.07	0.07	0.07	0.08
5 Grants	0.35	0.29	0.44	0.37	0.36	0.46	0.36	0.42	0.35	0.24	0.32	0.35	0.31	0.28	0.24	0.29
6 Subsidy	1.23	1.08	1.06	1.21	1.60	1.64	1.64	1.56	1.75	2.01	1.61	1.55	1.36	1.36	1.16	1.27
7 Education	2.76	2.76	3.00	2.93	3.14	3.27	3.37	3.56	3.47	3.64	3.50	3.36	3.27	3.28	3.24	2.95
8 Health	1.30	1.33	1.43	1.49	1.49	1.53	1.56	1.62	1.51	1.44	1.40	1.36	1.32	1.36	1.33	1.27
0 Roads	0.01	0.89	0.81	0.78	0.77	0.77	0.80	0.01	0.72	0.69	0.68	0.71	0.67	0.69	0.68	0.61
10 Poverty Alleviation	0.10	0.09	0.12	0.10	0.19	0.11	0.17	1.22	1.10	1.33	1.11	1.06	1.03	1.20	1.38	1.44
11 Agriculture (excl. rural development)	1.69	1.81	1.70	1.73	2.15	2.06	2.07	1.02	0.97	0.95	1.23	1.14	1.28	1.06	1.03	1.20
12 Industry & minerals	1.30	1.57	1.59	1.67	2.00	1.82	1.84	1.28	1.00	1.04	0.72	0.80	0.64	0.63	0.53	0.32
13 Power irrigation and flood control	2.05	1.92	1.95	1.88	1.89	2.01	1.67	2.15	2.00	1.98	1.89	2.49	1.78	1.90	1.07	1.57
14 Public works	0.21	0.21	0.22	0.22	0.24	0.22	0.27	0.28	0.28	0.25	0.28	0.22	0.25	0.24	0.21	0.19
15 Loans And Advances (gross)	3.64	3.31	3.68	3.19	3.20	2.78	3.30	2.63	2.34	2.39	2.23	1.94	1.62	1.66	1.50	1.31
16 Not Assigned	2.65	2.74	2.72	2.70	2.88	2.95	3.16	2.79	2.64	2.82	2.84	2.50	2.49	2.32	3.03	2.66
TOTAL	26.14	25.50	27.09	26.97	29.02	29.31	31.37	30.65	29.45	30.23	29.07	28.70	28.23	28.29	27.87	26.87
Combined : Education + Health + Roads (7+8+9)	4.97	4.98	5.23	5.20	5.40	5.56	5.75	5.97	5.70	5.77	5.56	5.43	5.26	5.32	5.24	4.82
Combined: Others (1 - 6) and (10 - 16)	21.17	20.53	21.86	21.77	23.61	23.75	25.61	24.67	23.75	24.46	23.51	23.36	22.97	22.96	22.63	22.05

Table - 12:
PERCENTAGE UNDER MAJOR EXPENDITURE HEADS TO TOTAL EXPENDITURE
(1980-81 to 1995-96(re))

Particulars	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88	1988-89	1989-90	1990-91	1991-92	1992-93	1993-94	1994-95(re)	1995-96(re)
REVENUE AND CAPITAL RECEIPTS ----------->	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
AS A PER CENT OF TOTAL EXPENDITURE																
REVENUE AND CAPITAL EXPENDITURES																
(Current prices)																
1 Defence Services	10.68	11.42	11.21	11.27	10.63	11.09	12.15	11.36	11.45	10.44	9.91	9.21	8.83	9.64	8.93	9.28
2 Interest Payments	8.32	9.19	9.81	9.87	10.22	11.20	11.53	12.72	14.11	14.84	16.06	17.46	18.01	18.78	19.73	21.06
3 Administrative Services	11.00	9.42	9.93	10.91	10.45	10.81	10.91	12.78	12.48	12.40	11.98	13.05	16.20	14.86	12.62	13.30
4 External Affairs	0.18	0.19	0.19	0.17	0.16	0.17	0.10	0.16	0.20	0.19	0.29	0.20	0.24	0.26	0.26	0.30
5 Grants	1.36	1.15	1.62	1.37	1.20	1.58	1.14	1.37	1.20	0.80	1.10	1.22	1.11	0.99	0.88	1.06
6 Subsidy	4.69	4.22	3.91	4.48	5.50	5.59	5.23	5.10	5.93	8.65	6.24	5.39	4.82	4.80	4.17	4.74
7 Education	10.56	10.82	11.07	10.86	10.81	11.15	10.73	11.57	11.77	12.03	12.03	11.67	11.59	11.58	11.61	10.98
8 Health	4.98	5.20	5.26	5.53	5.15	5.21	5.05	5.27	5.14	4.77	4.81	4.73	4.68	4.80	4.76	4.71
9 Roads	3.48	3.48	2.98	2.91	2.67	2.62	2.56	2.64	2.45	2.30	2.28	2.46	2.37	2.43	2.44	2.26
10 Poverty Alleviation	0.36	0.35	0.43	0.36	0.65	0.39	0.54	3.97	4.00	4.39	3.80	3.69	3.64	4.23	4.94	5.37
11 Agriculture (excl rural development)	8.45	8.30	8.28	8.43	7.40	7.04	6.61	3.32	3.30	3.15	4.22	3.98	4.52	3.76	3.70	4.46
12 Industry & minerals	4.99	6.15	5.86	6.16	6.69	6.20	5.88	4.12	3.38	3.42	2.47	2.10	2.28	2.22	1.69	1.17
13 Power irrigation and flood control	7.86	7.55	7.21	6.97	6.52	6.65	5.96	7.02	6.78	6.55	6.49	6.64	6.31	6.73	7.06	5.84
14 Public works	0.81	0.83	0.80	0.82	0.82	0.75	0.87	0.90	0.88	9.84	0.88	0.78	0.87	0.86	0.76	0.71
15 Loans And Advances (gross)	13.94	12.99	13.60	11.84	11.02	9.46	10.52	8.59	7.98	7.89	7.67	8.74	5.72	5.86	5.39	4.87
16 Not Assigned	10.14	10.74	10.04	10.01	9.92	10.08	10.15	9.10	8.98	0.33	9.77	0.88	8.61	8.21	10.87	9.90
TOTAL	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00	100.00
Combined : Education + Health + Roads (7+8+9)	19.02	19.51	19.31	19.29	18.62	18.97	18.34	19.49	19.36	19.10	19.13	18.86	18.64	18.82	18.81	17.94
Combined: Others (1 - 6) and (10 - 16)	80.98	80.49	80.69	80.71	81.38	81.03	81.66	80.51	80.64	80.90	80.07	81.14	81.36	81.18	81.19	82.06

Table - 13:

A PROFILE OF RESTRUCTURING PUBLIC EXPENDITURE

(1995-96 TO 2002-03)

Particulars	Expenditure as per cent to GDP								Expenditure 1995-96 prices (Rs. crore)							
	1995 -96	1996 -97	1997 -98	1998 -99	1999 -0	2000 -1	2001 -2	2002 -3	1995 -96	1996 -97	1997 -98	1998 -99	1999 -0	2000 -1	2001 -2	2002 -3
GDP									1,076,001	1,142,681	1,211,242	1,283,917	1,360,952	1,442,609	1,529,165	1,620,915
COMBINED BUDGETARY TRANSACTIONS OF THE CENTRE, STATES & UTs REVENUE AND CAPITAL RECEIPTS - >	26.67	26.16	26.34	26.32	26.51	26.82	27.15	27.39	269,658	299,157	319,073	337,926	360,826	386,934	415,136	444,002
REVENUE AND CAPITAL EXPENDITURES (Current prices)																
1 Defence Services	2.49	2.49	2.49	2.49	2.49	2.49	2.49	2.49	26,879	28,492	30,201	32,013	33,934	35,970	38,128	40,416
2 Interest Payments	5.66	5.66	5.56	5.47	5.36	5.22	5.06	4.90	61,001	64,650	67,315	70,215	73,012	75,319	77,399	79,470
3 Administrative Services	3.57	3.38	3.19	3.01	2.87	2.79	2.70	2.57	38,511	38,606	38,669	38,690	39,075	40,183	41,226	41,697
4 External Affairs	0.06	0.06	0.08	0.08	0.08	0.06	0.06	0.06	670	922	976	1,036	1,098	1,164	1,234	1,308
5 Grants	0.29	0.28	0.27	0.26	0.25	0.29	0.29	0.29	3,074	3,144	3,212	3,276	3,336	4,114	4,361	4,622
6 Subsidy	1.27	1.20	1.17	1.12	1.12	1.19	1.27	1.27	13,726	13,750	14,211	14,422	15,287	17,214	19,471	20,639
7 Education	2.95	2.86	3.06	3.30	3.44	3.59	3.66	3.72	31,790	32,712	37,065	42,315	46,816	51,833	55,895	60,311
8 Health	1.27	1.22	1.46	1.51	1.55	1.60	1.65	1.68	13,637	13,985	17,740	19,357	21,136	23,094	25,253	27,163
9 Roads	0.61	0.73	1.07	1.23	1.63	1.85	2.02	2.07	6,538	8,305	13,002	15,739	22,244	26,664	30,922	33,520
10 Poverty Alleviation	1.44	1.44	1.44	1.44	1.44	1.44	1.44	1.44	15,562	16,496	17,485	18,535	19,647	20,825	22,075	23,399
11 Agriculture (excl. rural development)	1.20	1.15	1.15	1.25	1.35	1.47	1.62	1.70	12,926	13,144	13,985	16,078	18,418	21,178	24,720	27,541
12 Industry & minerals	0.32	0.30	0.29	0.28	0.27	0.26	0.32	0.32	3,399	3,374	3,456	3,535	3,611	3,683	4,822	5,111
13 Power irrigation and flood control	1.57	1.47	1.40	1.33	1.27	1.29	1.37	1.57	16,920	16,793	16,952	17,071	17,276	18,603	20,943	25,441
14 Public works	0.19	0.19	0.19	0.19	0.19	0.19	0.19	0.19	2,045	2,168	2,298	2,436	2,582	2,737	2,901	3,075
15 Loans And Advances (gross)	1.31	1.22	1.14	1.06	0.99	0.93	0.87	0.81	14,102	13,954	13,806	13,663	13,520	13,379	13,238	13,100
16 Not Assigned	2.66	2.50	2.37	2.30	2.19	2.14	2.13	2.29	28,676	28,620	28,708	29,489	29,867	30,921	32,622	37,189
TOTAL	26.67	26.16	26.34	26.32	26.52	26.82	27.15	27.39	269,658	299,117	319,087	337,869	360,862	386,902	415,209	444,002
Combined : Education + Health + Roads (7+8+9)	4.82	4.81	5.60	6.03	6.63	7.04	7.33	7.46	51,965	55,002	67,808	77,411	90,196	101,611	112,070	120,994
Combined: Others (1 - 6) and (10 - 16)	22.05	21.36	20.75	20.29	19.89	19.78	19.82	19.93	237,693	244,115	251,279	260,458	270,666	285,291	303,139	323,008
Total projected (1 - 16)	26.67	26.16	26.34	26.32	26.52	26.82	27.15	27.39	269,658	299,117	319,087	337,869	360,862	386,902	415,209	444,002

Annexure I

Methodology of Working out the Expenditure Target for Education

Sources

There are two basic documents used as sources of information for this exercise: (1) Memorandum to the Tenth Finance Commission submitted by the Ministry of Human Resource Development in July, 1994 and (2) Fifth All India Educational Survey, Selected Statistics (September 30, 1986). Among the other sources are the (a) estimates of population prepared by the Registrar General of India for a period of 10 years on the basis of 1991 Census, (b) the Report of the Standing Committee of Experts on Population Projections (October, 1989) and other information provided by the Ministry of Human Resource Development: Budgetary Resources for Education 1951-52 to 1993-94 and the Central Statistical Organisation.

Approach

The sources of age-wise population data on which the estimates prepared by the NIPFP are based have been supplied by the Registrar General of India. The Report of the Standing Committee of Experts on Population Projections (October, 1989) provided the starting point in our estimation of population upto the year 2002-03. The age-group wise quinquennial estimates provided by the Standing Committee were broken down into age-wise estimates on the basis of Sprague formulae. Interpolation for different ages for the intervening years were then made. Necessary adjustments were made for the information generated by the 1991 Census overall parameters of total population estimates.

We have used these detailed age-wise estimates to work out the number of children between ages 5 years and 14 years (completed). The age of fourteen years has been taken on the basis of the provision in the Constitution that within a period of ten years the State shall endeavour to provide "free and compulsory education for all children until they complete the age of fourteen years" (Article 45 in Part IV Directive Principles of State Policy, Constitution of India). These have been further broken down by more convenient and operationally identifiable sub-groups of ages 5 years to 9 years, 10 years to 12 years and 13 and 14 years of age, corresponding to (1) primary classes 1 to 5, (2) upper primary classes 6 to 8 and (3) secondary classes 9 and 10. The main emphasis was on making projections upto the year 2002-03.

Methodology

The estimation of the number of schools and enrolment for the year 1994-95, the base year for making projections, was the next step in our exercise. On the basis of growth observed in these schools during the period 1986-87 to 1992-93 the number of schools that would have existed in 1994-95 was derived. The enrolment for the base year was then estimated by utilising the data on the proportion of the enrolled population in these age groups during 1986-87, the year of survey. Assuming the same proportion during 1994-95, the enrolment for this year was worked out. Admittedly, the application of 1986-87 results to the base year might contain an estimational error, but under the circumstances, that was the only available method.

Next we assumed that 95 per cent of the population in each age group would be enrolled in schools by the terminal year (i.e. 2002-03) of our study. Graduated increases in enrolment were assumed in the intervening period. The student/ school ratio for the base year was applied to the needed enrolment to obtain the number of schools required. This also gave us the number of additional schools required.

In its memorandum to the 10th Finance Commission (July, 1994), the Ministry of Human Resource Development has indicated an estimated Rs.1.0 lac as the construction cost of one room of a school. The maintenance cost of this school at 5 per cent of this, i.e. Rs. 5,000 is also indicated in the same Memorandum of the Ministry. Assuming that the rooms in a school can be built within this cost we have obtained the estimates of construction costs of additional schools required. However, this estimate of cost was corrected for the price increase between 1992-93 and 1994-95, the base year for making forecasts. The price deflator for the GDP at market prices was used to adjust for the price increase.

The estimate of the average number of rooms in a school, primary, upper primary and secondary, was made on the basis of Survey data which gave different parameters for schools being with one room, two rooms etc. This estimate was corrected for providing additional rooms for the primary, upper primary and secondary schools; the existing schools without rooms or with thatched sheds have also been taken into account in working out the number of rooms required.

On the basis of the above assumptions, the construction costs of the new schools and the costs of maintenance of schools and the total number of teachers working in the schools were estimated. The total number of teachers was available in the Survey Report for the year 1986-87. These data along with the data on enrolment gives an estimate of the number of additional teachers required. Financial provision was made to provide teachers for every primary school, many of which are now without a teacher. The calculation of salary of teachers was based on the information of average payment of Rs. 3,000 per month to a teacher as indicated by the Ministry to the Finance Commission. The provision of contingency expenditure of Rs. 1,000 per month as given by the Ministry was also adopted. However, a correction has been made for the price increase in 1994-95 over 1992-93.

The norms considered for construction/maintenance have been taken to be broadly: schools with four, eight and ten rooms respectively for primary, upper primary and secondary schools. This norm was derived by taking an average of the total number of schools for the primary and upper primary classes, and the total number of rooms, as shown in the survey. As similar information for secondary schools was not available, the average number of rooms for such schools was taken to be two rooms more than those for upper primary schools on the basis of two additional classes in this category of school and at least one room for each class. Prima facie, this is an underestimate of the actual requirement. However, taking this as a starting point a suitable correction was carried out on the basis of additional information. The costs of construction of schools, being the estimate of capital expenditure required and the costs of maintenance, salary of teachers and the provision of contingency, being the estimate of revenue expenditure, the two together gave an estimate of the requirement of resources for education of children upto the 14 years of age, i.e. for the primary, upper primary and secondary classes.

Expenditure on education other than the expenditure on education of children upto the age of 14 years has been assumed to form the same proportion of GDP as in the base year. This would mean that this expenditure also grows at the rate of 6 per cent per annum, i.e., at the same rate as the rate that has been assumed for the growth of GDP.

A further correction was made to shift the base year from 1994-95 (BE) to the next year 1995-96 (RE) for the changes in the prices and income to the extent of 7 per cent in each case. The backlog in the additional capital expenditure originally proposed for the year 1995-96 and the estimates available for that year was spread proportionately among the subsequent years, 1996-97 to 2001-02. However, the goals initially set for the exercise have not been disturbed.

Annexure II

Methodology of Working out the Expenditure Target for Health

Sources

The main sources of information are: (1) documents of the Ministry of Health and Family Welfare, (2) Ministry of Finance - Indian Public Finance Statistics (3) World Development Report, World Bank, October, 1994, (4) Statement on National Health Policy.

Methodology

The expenditure on primary health was estimated by the World Bank Study at 0.65 per cent of GDP in the year 1993-94. The World Bank has recommended that this should go upto at least one per cent of GDP. Since it was not possible to obtain any other basis to work out a target level of expenditure on health, we have used this suggestion and the expenditure on primary health has been assumed to grow to 1 per cent of GDP by the year 2002-03. The expenditure on primary health has been assumed to grow gradually over the period.

Expenditure on health other than the expenditure on primary health has been assumed to be maintained at the same proportion of GDP as in the base year. This would mean that this expenditure also grows at the rate of 6 per cent per annum. The provision built into our projections for 2002-03 show that as a proportion of GDP in 1994-95 the expenditure other than that on primary health will continue to remain at the same level of 0.68 per cent as in the base year 1994-95. Thus by 2002-03 the total expenditure would be 1.68 per cent including 1 per cent for the primary health programmes.

Annexure III

Methodology of Working out the Expenditure Target for Roads

Sources

The basic sources of information were (1) Road Development Plan for India (1981-2001) - 1984, published by the Indian Roads Congress, Ministry of Shipping and Transport (Roads Wing), (2) Report of the Committee on Norms for Maintenance of Roads, Ministry of Surface Transport (Roads Wing), March, 1993 (3) Basic Roads Statistics, 1988-89, (4) Eighth Plan Documents Vol. II, (5) documents of the Ministry of Surface Transport, (6) Statistical Abstract : Central Statistical Organisation

Methodology

The length of National Highways determined on the strength of the norms laid down in the Road Development Plan is 66,000 kilometres. The combined length of the National Highways and the State Highways passing through and connecting the 3364 towns (according to 1981 Census) would be 2,10,250 kilometres. Since the targeted length of National highways is 66,000 kilometres, the length of State Highways will be 1,44,250 or say 1,45,000 kilometres. These estimates are based on the grid of 100 kilometre square for the National highways and a grid of 31.25 km for the calculation of State highways (page 52 of Road Development Plan).

In 1993-94 the length of National Highways was 34,058 kilometres and that of State Highways 1,23,104 kilometres. This base year length of roads should grow to the targets of 66,000 kilometres and 1,45,000 kilometres for National Highways and State Highways respectively in a graduated manner. The length of National Highways; has been estimated in the Road Development Plan to be 47,500 km, (72 per cent) of National Highways of double lane roads and 18,500 km.

(28 per cent) of single lane roads (page 58 of Road Development Plan). For the purposes of the present exercise, we include the State Highways along with the National Highways system. The additional length of roads to be constructed every year has been divided, on an average to be two-third for the highways in the plains and one third for the highways in the hills. Further, the highways to be constructed in the plains would comprise one half of double lane length and one half of single lane length. Thus, the additional length of National and State Highways to be constructed will be 53,838 kilometres (31,942 kilometres of NH and 21,896 kilometres of SH). This would mean an additional one third (17,946 kilometres) double lane and two third (35,892 kilometres) single lane. Further, no account has been taken for the construction of four lane or more than four lane roads and the express ways. Participation of the private sector or the foreign companies can be expected in this particular area of road construction. An adjustment has been made in the target date of 2001 proposed in the Road Development Plan by extending the target by two years further i.e. 2003. Therefore, the requirements worked out provide a very conservative estimate of the actual needs.

The cost of construction of these roads has been calculated on the basis of the norms provided in the Report of the Committee on Norms for Maintenance of Roads. The estimate of the cost of construction of one kilometre of a hill road is Rs. 60 lakh and that of a kilometre of single lane road in the plains is Rs. 50 lakh. The estimates for the construction of a kilometre of double lane road in the plains is Rs. 90 lakh. These estimates were for the year 1993-94. An adjustment to this estimate has been made for the increase in prices during 1994-95, the base year for making projections. In a similar manner the estimate of maintenance of roads provided by the Committee have also been revised to include the price impact.

The Ministry proposed an estimate of Rs. 52,200 crore as the cost for removal of overall deficiencies in the National Highways System like (1) widening of roads from single lane to two lanes (4,000 kilometres), (2) improvement in two lane roads by strengthening the weak pavements (19,000 kilometres) and widening to four lanes (14,900 kilometres) and the construction of express ways (1,000 kilometres), and (3) construction of bypasses (44 nos), the construction of missing links, improvement of low grade sections to single lane NH standards, road safety, drainage and other miscellaneous works. This cost has also been included, as it is, in our projected requirements for eight years in a graduated manner without any further adjustments for prices, etc.

The projections of expenditure for the maintenance of existing roads were then arrived at. This exercise was again based on the requirements of Rs. 350 crores per annum as per the yardsticks for maintenance and repairs of National Highways system of 34,058 kilometres for the year 1993-94. The calculated per kilometre requirements for maintenance were adjusted for changes in prices between 1993-94 and the base year, 1994-95. The same standards of maintenance and repairs were applied to the State highways system.

The expenditure on roads like link roads, district roads, village roads and other expenditure, not included above, has been proposed to grow to the level of 1 per cent of GDP from the present level of about half a per cent of GDP.

Additional adjustments in annual targeted expenditures were made during the process of shifting the base year from 1994-95 to 1995-96. These were necessary to account for the price change of 7 per cent during the year 1994-95. The shortfalls in the actual capital expenditure and the originally targeted expenditure for the year 1995-96 were spread proportionately during the years 1996-97 to 2001-02 in the same manner as discussed in the last para of Annexure - 1.