PUBLIC EXPENDITURE IN INDIA : EMERGING TRENDS

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1. Introduction

a. Need for Public Expenditure Analysis: Adoption of a planned programme to achieve accelerated economic growth in India has envisaged governmental role in economic activity not merely as a catalyst but also as a direct participant. In fact, public expenditure policy in India has been employed as a major instrument to enhance capital formation. However, in recent years, the emergence of increasing trend in public dissavings has necessitated larger drawals of savings from the household sector even for public consumption purposes. In the event, not merely that the public sector capital formation had to be entirely financed from drawals on household savings but even the requirements of capital formation could be fulfilled only after the public consumption needs were met.

The increasing trend in public dissavings itself is an outcome of the outpacing of the rate of growth of public current expenditure over that of revenue receipts. What is important, such a growth of current expenditure through interest and inflation dynamics can be self-propelling and this can severely constrain governmental spending in capital formation and thereby adversely affect economic growth. It is, therefore, important to understand the changing structure and pattern of government expenditure and its possible effects on the growth process in the Indian economy.

b. **Objective of the Study:** Considering the importance of State accumulation in the growth process of the Indian economy, the emergence of serious fiscal imbalance problem in recent years calls for a systematic analysis of the trends in government expenditure. However, the sources of expenditure growth having implications on the economic growth can be identified only on the basis of a systematic analysis of government expenditure classified into economic and functional categories. The present study makes such an attempt to analyse the trends in government expenditure its growth and changes in composition since the 1970s. Specifically, the study attempts to undertake the following.

(i) analyse the trends in government expenditure in India in terms of economic and functional categories both in nominal terms and after making adjustments for price increases. This would help us identify categories of expenditure which have registered very high growth rates.

(ii) examine whether there has been an acceleration in the growth of government expenditure in the eighties as compared to the seventies, and if so, identify the categories of expenditure contributing to such a trend.

(iii) analyse the expenditure growth at the Centre and the State separated towards inferring trends in centralisation in major functional categories of expenditure.

Section II analyses the conceptual and measurement issues relevant to the study. The analysis of trends in government expenditure by economic and functional categories of Central and State governments are presented in Section III. Section V summarises the main findings of the study.

2. Expenditure Classification and Other Measurement Issues

Given the developmental role of the State, the economic analysis of the government sector should encompass all activities of the government, exercising command over the resources in the economy. This would include, besides the operation of the entire public sector, the regulatory mechanism directing resource allocation into the private sector too. Our study, however, has a much narrower focus; it is confined to the analysis of only the public expenditure incurred by the Central and State governments.

In the analysis of public expenditure, two important issues are faced: (i) obtaining public expenditure data properly classified in terms of economic and functional categories; (ii) the construction of a suitable price deflator to measure the growth of government expenditure in real terms. Let us briefly discuss these issues in turn.

a. **Classification of Public Expenditure:** For a meaningful analysis of government transactions, proper classification of public expenditure is necessary. There is no unique system of classifying the information on government transaction which would bring out all economic implications of government expenditure growth. However, the analysis in terms of economic-cum-functional classification suggested in the U.N. Manual (1958) provides very useful insights into the economic implications of the growth of public expenditure. First, it ensures comparability of data over time and across different States. Second, it presents more realistic picture of government transactions, by eliminating (i) various intra-governmental (inter-departmental) transfers, (ii) transfers to various funds and by adjusting the accounts to show net receipts of commercial departments instead of showing them on a gross basis. The last and the most important is the fact that the classification presented in the budgets are designed to serve

the purpose of budgetary control and not meant for economic analysis of government transactions. The `revenue' and `capital' classification in the budgets represent monetary ceiling of expenditure and only approximate the `current' and `capital' items respectively. Similarly, in spite of efforts to present budgetary data broadly on functional lines, they cannot be taken as functional expenditure categories.

Unfortunately, economic and functional classification of expenditure is not readily available in the published form. The Ministry of Finance has been publishing such data, but, only for the Central government expenditure. Some of the State governments too have been undertaking such a classification from time to time, but a consistent set of comparable data for all the States is not available. However, for the purpose of National Accounts, the Central Statistical Organisation (CSO) has been classifying expenditure of the Centre and the States into economic and functional categories. This information, however, is not available in the published form but the CSO has been kind enough to allow us to use their unpublished data.

The expenditure data classified by the CSO are available for the period from 1971-72 to 1985-86. However, for two years (1972-73 and 1973-74), as the data for the States are not available, they had to be derived by deducting the expenditures of Central Government from total expenditure available in the National Accounts Statistics. Similarly, the expenditure for the Central Government in 1977-78 was derived by deducting States' expenditures from the total expenditure.

b. **Estimation of an Appropriate Price Deflator.** Another important problem encountered in the analysis of public expenditure is the construction of a suitable price deflator to convert nominal expenditures into real terms. No country

publishes a deflator for total government spending and the common practice of employing GNP deflator or the wholesale price index to deflate government expenditure could lead to misleading inferences[1]. Therefore, in order to analyse the growth of government expenditure in real terms, construction of a suitable price index becomes necessary.

The choice of the deflator, however, depends on the purpose of analysis. As our objective is to examine the growth of various components of government expenditure in real terms, we have tried to deflate each of the components with a suitable deflator. For this, ideally, it is necessary to have information on the composition of different commodities in government purchases, details of wages and salaries and transfers to different producers and consumers. As data on government purchases in the required detail are not available, accurate measurement of the deflator becomes a difficult task.

We have, however, made use of the available information in the best possible manner to estimate an approximate deflator. Although this falls short of the ideal, it certainly represents the most approximate deflator that can be estimated with the available information. We have used the CSO's deflators of government commodity purchases and of wages and salaries separately computed for the Centre and the States to deflate these components of current expenditure of the respective level of governments. Current transfers including subsidies are deflated by using the CSO's implicit private consumption deflator. Similarly, transfers to local bodies are deflated by using the implicit deflator for consumption expenditure of the local bodies. Each item of capital outlay and transfers are adjusted by using the deflators on the most relevant items of capital formation and in the case of categories where such indices are not available, the relevant wholesale price indices have been applied. The

various deflators used to convert different categories of expenditures at current prices into constant (1971-72) prices are listed in detail in Annexure I.

It can be seen from Annexure I that while the choice of deflators used for most of the items pertain directly to the item in question, some explanation is, however needed in our choice of deflator for subsidies; current transfers to others; financial outlay; and loans. In the case of subsidies which are in the nature of direct transfers, we chose CSO's private consumption deflator as it is the best indicator of cost of living. Current transfers to others consist of grants-in-aid to government aided institutions mainly in the form of salary payments hence the appropriate deflator should be the consumer price index of urban non-manual employees. Financial outlay and loans are given mainly to finance investments of public sector units - therefore public sector capital formation deflator was used to deflate these expenditures.

3. Expenditure Trends by Economic and Functional Classification

a. **Economic categories.** The useful starting point for the examination of emerging trends in public expenditure is to analyse their growth and composition. The growth rates of public expenditure classified into economic categories estimated on the basis of semi-log trend equations summarised in Table 1 bring out some noticeable features. First public expenditure in India has grown at a very high rate of over 14 per cent in current prices and at about 5 per cent in constant (1971-72) prices. The growth has been faster than that of GDP resulting in the increase in the expenditure-GDP ratio from about 23 per cent in 1971-72 to about 25 per cent in 1985-86. This, of course, is consistent with the Wagner's law of increasing State activity[2]. What is, however more important is the second important feature, namely, the

growth of current expenditure during this period being much faster than that of capital expenditure. Current expenditure increased at an annual rate of 15.8 per cent in nominal and almost 7 per cent in real terms and as a proportion of GDP, it increased from about 12 per cent in 1971-72 to about 17 to 18 per cent in both current and constant prices in 1985-86. In contrast, the growth of capital expenditure in constant prices was only 1.6 per cent and capital expenditure as a ratio of GDP showed substantial decline at both current and constant prices. As increasing proportion of expenditure was financed by indirect taxes and, even more, through budgetary deficits during this period the faster increase in current expenditure lends some evidence to the hypothesis that the soft budget constraint tends to accelerate non-developmental spending (Kornai, 1986).

Of the various expenditures, the fastest growth was in subsidies (22.6 per cent in current prices and 13.9 per cent in constant prices) and other current transfers (17.2 per cent in current prices and 8.3 per cent in constant prices). The consumption expenditure in which salary payment predominates has also been increasing at a rate much faster than GDP resulting in the increase in expenditure-GDP ratio by about 3 percentage points.

b. Functional Categories. Table 2 presents the growth rates of different functional categories of expenditure and their proportion to GDP. It is seen that expenditure on social services recorded the highest growth at an average annual rate of 16.7 per cent in current prices and at 7.7 per cent in constant prices. Each of the items under social services, viz., education, health, social welfare and housing and community services experienced rapid growth rates during the period.

Notably, although expenditures on total economic services grew faster than GDP, capital expenditure under economic services at constant prices grew at only 1.1 per cent and, as a proportion of GDP, declined by over three percentage points (from 8.6 per cent in 1971-72 to 5.2 per cent in 1985-86). In fact, capital expenditures in all sub- sectors under economic services except 'energy, gas and water supply' and 'mining, manufacturing and construction' experienced negative growth rates in real terms. The growth of capital expenditure in agricultural and allied activities at constant prices was negative and the lowest at -7.2 per cent. It is also worth noting that the growth of capital spending even on basic infrastructures like 'transport and communication' was negative. Thus it is not a mere coincidence that over the years the constraint posed by the infrastructural sectors such as railways has become severe.

Tables 3 and 4 respectively present the growth rates of economic and the functional categories of expenditure both in current and constant prices during the two sub-periods, 1971-72 to 1979-80, and 1980-86 to 1985-86[3]. The analysis of expenditure growth during the two sub-periods helps us to draw some important inferences. First expenditure growth during the eighties accelerated significantly over that of the seventies. In fact, at constant prices the annual growth rate during the eighties was over 9 per cent as compared to 2.3 per cent observed during the seventies. Second the acceleration in the growth of capital expenditure was more than that of current expenditure. This is perhaps the result of the concerted effort at overcoming constraint posed by the infrastructural sectors. Third, of the functional categories the highest acceleration was seen in the general administrative services, the annual average rate of growth in constant prices increasing from 0.6 per cent during the seventies to over 9 per cent during the eighties. This was due to very high acceleration of the defence outlay as well as

expenditure on general administration. There has also been an acceleration in the growth rate of outlay on economic services from around 2 per cent to over 8 per cent at constant prices. Within this category, only the outlay on energy sector has shown a deceleration during the eighties. Nevertheless, increase in the expenditure on transport and communication in real terms at about 3 per cent was much lower than the growth of GDP. While the outlay on social services accelerated, albeit moderately, much of it was due to appreciable growth in the outlay on social welfare during the eighties. Growth of spending on the health sector remained more or less the same during the two sub-periods.

d. Expenditure Growth by Levels of Government. Another dimension of the growth of expenditure that needs to be analysed is by the levels of government. Tables 5 and 6, present the growth of economic and functional categories of government expenditure at current and constant prices separately at Central and the State levels. The analysis helps us to draw some important inferences. First, expenditure at the State level grew much faster than at the Centre during that period. However if the more recent period of the eighties only is considered, the growth of expenditure at the Centre was substantially higher. At the State level, expenditure grew steadily at around 7 to 8 per cent in real terms (around 17 per cent in current prices) throughout the period. However, the rate of growth at the Centre accelerated significantly from - 2.6 per cent in the seventies to almost 10.8 per cent during the eighties (6.2 per cent to 20.8 per cent at current prices). It would, therefore, appear that contrary to the Ninth Finance Commission's contention that the major reason for the emergence of fiscal imbalance is not the increase in Central transfers to States particularly after the recommendations of the Seventh Finance Commission but the acceleration in Centre's own expenditure. Secondly, at the State level, although the rates of growth of aggregate expenditure was

more or less uniform during the seventies and the eighties, there was a marked deceleration in the growth of capital expenditure from 8.8 per cent to 3.9 per cent at constant prices (18.9 per cent to 15.1 per cent at current prices). Whereas there was a marked acceleration in the growth of Centre's capital expenditure from -8.7 per cent to over 10 per cent at constant prices. It is significant to note that while overall capital outlay of States decelerated, the growth of visible part of capital outlay (viz. gross fixed capital formation in the form of roads, buildings and bridges), remained stable during the two sub-periods.

There are considerable dissimilarities in the growth in expenditure between the Central and State governments on different functional categories. While the growth of total expenditure at the State level remained steady at around 7 to 8 per cent, growth of expenditure on economic services decelerated substantially from 11.5 per cent in the seventies to around 4 per cent during the first six years of the eighties. The States' outlay on social and general services, however, grew slightly faster in the eighties. Within the social services, only the expenditure on social welfare and housing grew fairly rapidly during the eighties as compared to the seventies. In contrast, the acceleration in the growth of Centre's spending was seen in all the three major functional categories and was particularly impressive in the case of economic services. However, within the social services, there was a deceleration in the outlay on health sector which is mainly on family planning - a disquieting feature. It also appears that much of acceleration in the growth of general services was mainly on account of rapid increase in Centre's outlays on defence and general administration. Within general administration, it appears that the expansion seems to have occurred mainly on account of growth of para-military forces in the eighties. In other words, much of acceleration in spending on general services was mainly on account of external and internal security. Further the

acceleration in the outlay on economic services in general and energy in particular, could be due to Centre's involvement in the areas where the States used to make substantial investments. Similar inference can be drawn in the case of acceleration in Centre's outlay on education in the recent past.

The pattern of expenditure growth observed at the Central and State levels also bring out the differences in the nature of budget constraints faced at the two levels. The softening of the budget constraint at the Central level could enable it to accelerate the growth of expenditures on general, economic and social services in spite of increasing fiscal difficulties. At the same time, at the State level, the hard budget constraint resulted in severe deceleration in the growth of capital expenditure, particularly on economic services. These also indicate that expenditure on economic services, particularly capital expenditure is essentially in the nature of a residual category and the allocation to this category being met only after the revenues are pre-empted to meet general and social services.

We may now summarise the important inferences from the analysis of the growth of government expenditure classified into economic and functional categories. These are:

(i) the growth of government expenditure in the recent past has been extremely high, resulting in the rapid increase in the expenditure-GDP ratio. What is more the emerging trend shows significant acceleration in the rate of growth of government expenditure in the eighties as compared to the seventies;

(ii) current expenditure grew at a much faster rate than the capital expenditure. Capital expenditure was more or less stagnant and grew at slower pace than the GDP and consequently, its share in GDP showed a significant decline. During the eighties, although, serious effort was made by the Central government to inorease the rate of growth of capital expenditure its growth rate remained lower than that of current expenditure;

(iii) The stagnancy in capital expenditure was particularly marked in the case of economic services. In fact, the lowest growth rate was observed in the transport and communication sector. Thus, it is not a mere coincidence that bottlenecks in this infrastructural sector has, over the years, posed severe constraints on the growth of the economy. Inspite of the attempts to increase the outlay on the sector in more recent years, the growth of the expenditure remained rather low. Among the functional categories, expenditure on social services recorded the highest rate of growth. The rates of growth were very high also in the case of major items under social services namely, education, health, social welfare and housing and community services. It was also seen that the rate of growth of expenditure on general services was also higher than that of GDP in constant prices.

(iv) The pattern of growth observed at the Central and State level present an interesting phenomenon. At the Central level, the emergence of the budget deficit in the eighties can be associated with the acceleration in the rate of expenditure growth during the eighties as compared to that of the seventies. This acceleration, partly represents the softening of the budget constraint as, a large part of the expenditure growth had to be financed through budget deficits. Thus, we see the transition from the conservative policy of holding expenditure growth under check in the seventies to enhancing both current and capital outlays in the eighties financed by even resorting to large scale borrowing and deficit financing. In this sense, this marks a transition from a situation where the constraint on resources affected the capital expenditure which was considered largely residual (Toye, 1981) to a case of enhancing capital outlays by softening the constraint itself. The long-term economic implications of these alternative strategies are very different and need to be fully examined. In contrast, at the State level, we see a significant deceleration in capital expenditure, particularly, on economic services in the eighties. This appears to be partly due to greater emphasis given to the social services. Also, as the Centre enhanced its outlay on agriculture and allied activities, energy and transport sectors, the States could shift their emphasis on social services. Besides, deceleration in capital expenditure noted above can also be due to the fact that capital expenditure continued to be a residual category in the case of the States, in view of the limited options in shifting their budget constraint.

4. An Explanation

The salient features of the trend in expenditure growth observed in India calls for some explanation. In particular, the high rate of growth of aggregate expenditure, the lower rate of growth of capital expenditure especially on economic services, as also the softening of the budget constraint in the case of the Centre need to be understood better. In what follows, an attempt at explaining the above phenomenon is made.

A number of explanations can be found to characterise the evolution of public expenditure pattern in recent years. Intuitively the most appealing to us is the one proposed by Rudolph and Rudolph (1987) in terms of significant changes in the political process beginning from the early eighties. The initial phase of Indian plan effort and government's role in fostering development may be characterised by `command' politics. During this phase, State policy reflected the concern for long term sustained growth of the economy which entailed substantial sacrifices in current consumption. Although in a pluralistic economy, various distributive coalitions or pressure groups attempt to maximise their gains in the initial phase after independence, the vigour of nationalism and patriotism dominates and the State accumulation policy realises the maximum potential advantages. The impressive record of resource mobilisation and capital formation in the governmental sector in the sixties and the seventies witnessed in the Indian context is a case in point.

However, the gradual transformation from **command politics** to what is called **demand politics** began, following the fading away of consensus based coalition politics and the emergence of plebiscitary politics in the Congress party during the late sixties and the early seventies. In a regime of **demand politics**, policies would focus mainly on consumption spending of

government sector which results in immediate but short term visible benefits to the population. This is usually achieved by substantial allocation to social services and direct transfer payments. There is, of course, a school of thought which says that even this, if it results in human capital formation, would yield long term benefit in terms of sustained growth.

The interaction of different pressure groups in their attempt to maximise their gains mainly determines the composition and growth of government expenditure. Naturally the emphasis shifts from expenditures having long-term benefits to those with immediate gains. The stability of the polity also requires distributing some benefits to the voters at large, but this is done more through rhetoric and very little by way of providing any appreciable real benefits to them. Such an approach is greatly supported by the persistence of ignorance and illiteracy among the majority of voters.

In a pluralistic polity like India, there are several pressure groups at work, but for analytical purposes, following Bardhan (1979), it is useful to classify them into three proprietary classes, namely, the farm lobby, the industrialist capitalist class and the professionals including the white collar workers. The farm lobby attempts to maximise its gains by ensuring remunerative prices on the farm products and provision of farm inputs and credit at subsidised rates. Increases in food and fertiliser subsidies, below cost charges on irrigation and power, subsidised credit and writing off of farm loans are some examples of maximisation by the farm lobby. The industrial capitalist class attempts to maximise its share by claiming a larger share of subsidies and ensuring subsidised provision of infrastructural facilities and inputs at the cost of the exchequer, besides ensuring higher rates of return through the general protectionist measures. The bureaucrats and white collar workers maximise their

share by agitating and obtaining security of service, indexation of salaries and pensions to price increases, periodic pay and pension revisions and enhanced bonuses and fringe benefits like housing and medical benefits and subsidised credit for the purchase of immovable property and consumer durables. To ensure stability of the polity, as mentioned earlier, some allocation is made on programmes like poverty alleviation and minimum needs programme and even here, first, the objective is achieved more through rhetoric than by real allocations and second, distributive coalitions attempt to take a share of allocation to these programmes also through leakages at various stages of impelementation. While each `pressure group' attempts to maximise its gains, the growth and actual expenditure pattern at any given point of time depends on the combined strength of these forces in demanding higher allocation and the relative strength in claiming their individual shares. The claimants succeed in higher allocations subject to the overall budget constraint. But with the passage of time, as observed earlier, even ideas on budget constraints undergo change and conservative budgetary policies give way to increasing resort to borrowing even to finance revenue expenditure. In fact, such instruments of fiscal illusion provide convenient methods of enhancing the shares of the distribution coalitions.

Annexure 1

Economic Category	Level of Government	Deflator/Price index used
Salaries & Wages	Centre	CSO's deflator for compensation to Central Government Employees
	States	CSO's deflator for compensation to all State Government Employees.
Commodity purchase	Centre	CSO's deflator for Central Government purchases
	States	CSO's deflator for State government purchases
Subsidies	Centre & States	CSO's private consumption deflator
Current transfers to local bodies	Centre & States	CSO's deflator for consumption expenditure of the Local Bodies
Other current transfers	Centre & States	Consumer price index for urban non-manual employees
Purchase of land & second hand assets	Centre & States	CSO's deflator for gross capital formation in the Public sector
Building outlay, road outlay, construction outlay	Centre & States	National income deflator for Construction Sector
Transport outlay	Centre & States	Wholesale price index for Transport equipment
Machinery outlay	Centre & States	Wholesale price index for electrical & Non-electrical machinery
Stock outlay	Centre & States	National income deflator for change in stock
Capital transfers	Centre & States	CSO's gross capital formation deflator for the Public Sector
Financial outlay	Centre & States	CSO's gross capital formation deflator for the Public Sector
Loans	Centre & States	CSO's gross capital formation deflator for the Public Sector

Notes

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1. See, Peacock and Wiseman (1965), Beck (1981).

2. For different interpretations of Wagner s Law see Gandhi (1971).

3. In order to obtain growth rates during the two sub-periods consistent with the overall rates of growth, we have estimated them using the kinked exponential model as suggested in Boyce (1986), by introducing dummy variables.

   (D_1 and D_2) for the sub-periods separated by the kihk (k = 1979-80, in our case). The estimating equation is:

   $$\ln G_t = a_1 D_1 + a_2 D_2 + (b_1 D_1 + b_2 D_2 2)t + ut \quad \ldots \quad 1$$

   where D_1 takes the value 1 for the period 1970-71 to 1979-80 and 0, otherwise. Similarly, D_2 takes the value 1 for 1980-81 to 1985-86 and 0, otherwise. Discontinuity is eliminated via a linear restriction to intersect at the breakpoint k:

   $$a_1 + b_1 k = a_2 + b_2 k \quad \ldots\ldots \quad 2$$

   substituting a_2 (and noting that, $a_1 D_1 + a_2 D_2 = a_1$) we get the restricted form:

   $$\ln G_t = a_1 + b_1 (D_1 t + D_2 k) + b_2 (D_2 t - D_2 k) + ut \quad \ldots. 3$$

   The OLS estimates of b_1 and b_2 from (3) give the exponential growth rates for the two sub-periods.

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Table 1

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

INDIA

(Per cent

Expenditure Categories	Growth of Expenditure (1971-72 To 1985-86)		Ratio To GDP at Market Prices (Current Prices)								Ratio To GDP at Market Prices (1971-72 Prices)							
	Current Prices	Constant (1971-72) Prices	1971-72	1975-76	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1971-72	1975-76	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
A. Current Expenditure :	15.81	6.94	12.02	11.57	13.36	13.27	14.15	14.35	15.06	17.36	11.96	11.31	14.38	14.05	14.94	14.70	15.65	17.85
I [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
a. Compensation to employees	14.19	6.15	4.96	4.99	5.06	5.00	5.41	5.41	5.56	6.19	4.98	5.01	5.11	5.01	5.35	5.05	5.30	7.03
b. Net maintenance expenditure	15.85	5.14	2.80	2.85	3.22	3.34	3.49	3.42	3.11	4.29	2.75	2.54	2.84	2.88	3.01	2.92	2.65	3.61
II. Transfers	14.92	6.18	3.11	2.56	2.99	2.94	3.12	3.12	3.28	3.60	3.08	2.60	3.20	3.13	3.27	3.19	3.39	3.68
a.Subsidies	22.66	13.85	1.15	1.16	2.08	1.98	2.14	2.39	3.11	3.27	1.14	1.16	2.22	2.13	2.30	2.54	3.31	3.53
b.Current transfers to local bodies	11.01	2.55	1.56	0.87	0.95	0.88	0.91	0.93	0.94	0.97	1.54	0.84	1.04	0.94	0.98	0.95	0.97	1.00
c.Other Current transfers	17.21	8.34	1.55	1.69	2.04	2.06	2.20	2.19	2.35	2.63	1.54	1.76	2.16	2.19	2.29	2.24	2.42	2.68
B. Capital Expenditure	11.76	1.59	11.09	7.13	7.45	7.39	7.80	7.22	7.66	8.35	11.11	6.48	6.84	6.73	6.85	6.23	6.48	6.90
I.Gross Fixed Capital Formation	16.71	6.80	1.70	1.19	1.72	1.77	1.85	1.85	1.86	2.13	1.65	1.17	1.74	1.81	1.70	1.72	1.64	1.82
II.Financial Outlay	14.09	3.66	1.67	1.44	1.35	1.64	1.64	1.65	1.75	1.84	1.67	1.29	1.21	1.44	1.42	1.39	1.46	1.50
III.Total Capital Transfers	22.31	11.13	0.47	0.27	0.70	0.69	0.72	0.62	0.89	0.84	0.47	0.24	0.62	0.60	0.63	0.52	0.75	0.69
a. Capital transfers to local bodies	24.38	13.01	0.15	0.09	0.27	0.26	0.26	0.26	0.40	0.37	0.15	0.08	0.24	0.23	0.23	0.22	0.33	0.30
b. Other Capital transfers	21.06	9.99	0.32	0.17	0.43	0.43	0.46	0.37	0.49	0.48	0.32	0.16	0.38	0.37	0.40	0.31	0.41	0.39
IV.Total Advances	11.38	1.19	4.24	3.75	3.65	3.32	3.69	3.18	3.17	3.46	4.22	3.35	3.25	2.91	3.19	2.69	2.65	2.83
a. Advances to local bodies	11.72	1.50	0.47	0.30	0.34	0.32	0.42	0.22	0.18	0.27	0.47	0.27	0.30	0.28	0.36	0.19	0.15	0.22
b. Advances to others	8.00	-1.88*	3.77	3.45	3.31	3.00	3.27	2.96	2.99	3.19	3.75	3.08	2.95	2.63	2.83	2.50	2.50	2.61
C. Total Expenditure	14.21	4.96	23.10	18.69	20.80	20.65	21.95	21.57	22.72	25.71	23.07	17.79	21.22	20.78	21.78	20.93	22.13	24.76

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

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

Table 2

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

INDIA

(Per cent

Expenditure Categories	Growth of Expenditure (1971-72 To 1985-86)		Ratio to GDP at market Prices (Current Prices)								Ratio to GDP at market Prices (1971-72 prices)							
	Current Prices	constant (1971-72) Prices	1971-72	1975-76	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1971-72	1975-76	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86
1. GENERAL SERVICES	12.940	3.922	6.79	5.89	5.45	5.70	6.55	5.88	5.74	7.30	6.77	5.62	5.76	5.83	6.59	5.83	5.80	7.18
a.General Administration	12.496	3.771	3.62	2.59	2.44	2.62	3.34	2.68	2.83	3.16	3.61	2.49	2.68	2.78	3.42	2.73	2.91	3.23
b.Defence	13.357	4.079	3.17	3.30	3.01	3.08	3.21	3.20	2.91	4.13	3.15	3.13	3.09	3.05	3.17	3.10	2.88	3.95
2. SOCIAL SERVICES	16.720	7.659	4.46	4.24	5.26	5.37	5.71	5.81	6.25	6.76	4.44	4.22	5.66	5.71	5.96	5.89	6.32	6.76
a.Education	15.451	6.849	2.49	2.57	2.86	2.86	3.07	3.06	3.19	3.39	2.48	2.60	3.17	3.14	3.32	3.20	3.36	3.57
b.Health	17.346	8.375	0.53	0.57	0.72	0.73	0.77	0.78	0.81	0.87	0.53	0.55	0.78	0.78	0.81	0.80	0.84	0.89
c.Social welfare, Culture,religion etc.	16.747	7.543	0.91	0.48	0.77	0.84	0.95	1.05	1.09	1.02	0.92	0.48	0.80	0.86	0.96	1.03	1.08	1.00
d.Housing & community services	20.895	10.463	0.52	0.62	0.91	0.94	0.92	0.92	1.16	1.48	0.51	0.59	0.90	0.93	0.87	0.86	1.04	1.30
3. ECONOMIC SERVICES																		
Capital Expenditure	11.287	1.105*	8.59	5.99	6.14	5.85	5.68	5.68	5.91	6.31	8.61	5.43	5.60	5.28	4.97	4.88	4.97	5.21
Total	14.091	4.538	10.89	8.39	9.87	9.47	9.54	9.65	10.61	11.34	10.91	7.79	9.59	9.12	9.07	8.99	9.89	10.52
a.Agriculture, Forestry & Fishing																		
Capital Expenditure	2.45*	-7.18	2.93	1.04	0.78	0.69	0.67	0.59	0.59	0.54	3.01	0.95	0.72	0.63	0.59	0.51	0.50	0.44
Total	11.467	2.662	4.02	2.21	2.68	2.39	2.41	2.25	2.76	2.58	4.09	2.11	2.77	2.46	2.47	2.26	2.79	2.63
b.Mining,Manufacturing and Construction																		
Capital Expenditure	12.01	1.79	2.65	2.50	2.35	2.32	2.19	2.22	2.53	2.44	2.63	2.23	2.10	2.03	1.90	1.88	2.12	2.00
Total	15.041	5.283	2.79	2.77	2.78	2.84	2.91	3.13	3.65	3.89	2.77	2.50	2.56	2.60	2.68	2.84	3.31	3.56
c.Energy,Water supply and Gas																		
Capital Expenditure	21.02	10.11	0.88	1.09	1.69	1.66	1.84	1.83	1.82	2.07	0.87	0.99	1.53	1.49	1.60	1.57	1.53	1.72
Total	20.504	9.865	1.17	1.26	1.97	1.90	2.12	2.08	2.17	2.38	1.16	1.15	1.83	1.74	1.90	1.82	1.89	2.03
d.Transport and communition																		
Capital Expenditure	9.33	-0.41*	1.60	1.02	1.00	0.92	0.82	0.82	0.82	1.01	1.59	0.95	0.96	0.89	0.73	0.73	0.70	0.84
Total	10.835	1.103	1.89	1.32	1.41	1.34	1.21	1.18	1.17	1.38	1.87	1.23	1.35	1.29	1.11	1.06	1.02	1.17
e.Other Economic Services including administration																		
Capital Expenditure	5.91	-3.63*	0.52	0.34	0.31	0.26	0.17	0.23	0.15	0.25	0.52	0.31	0.29	0.23	0.14	0.20	0.12	0.22
Total	13.611	4.952	1.02	0.83	1.03	1.00	0.90	1.00	0.86	1.11	1.02	0.80	1.07	1.03	0.93	1.02	0.88	1.13
4. Relief on calamities	7.358	-1.466*	0.69	0.14	0.19	0.10	0.14	0.16	0.12	0.23	0.68	0.14	0.19	0.10	0.14	0.15	0.11	0.22
5. Other Miscellaneous services	-4.040	-12.327	0.27	0.04	0.02	0.01	0.01	0.07	0.01	0.07	0.27	0.04	0.02	0.01	0.01	0.06	0.01	0.07
6.TOTAL EXPENDITURE																		
Capital Expenditure	11.76	1.59	11.09	7.13	7.45	7.39	7.80	7.22	7.66	8.35	11.11	6.48	6.84	6.73	6.85	6.23	6.48	6.90
Total	14.214	4.960	23.10	18.69	20.80	20.65	21.95	21.57	22.72	25.71	23.07	17.79	21.22	20.78	21.78	20.93	22.13	24.76

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

Total	14.214	4.960	23.10	18.69	20.80	20.66	21.55	21.51	22.12	25.11	23.07	17.76	21.22	20.18	21.76	20.93	22.13	24.76

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

Table 3
Growth of Public Expenditure in India

	At Current Prices			At 1971-72 Prices		
	1971-72# To 1979-80	1980-81# To 1985-86	1971-72 To 1985-86	1971-72# To 1979-80	1980-81# To 1985-86	1971-72 To 1985-86
ECONOMIC CATEGORIES :						
A. Current Expenditure :	13.71	19.03	15.81	5.24	9.55	6.94
I. Consumption Expenditure						
a. Compensation to employees (salaries & wages)	11.82	17.82	14.19	4.44	8.76	6.15
b. Net maintenance expenditure (commodity purchases)	14.01	18.16	15.65	3.34	7.90	5.14
Total Consumption Expenditure (Current Exhaustive)	12.63	17.97	14.74	4.06	8.50	5.82
II. Transfers						
a.Subsidies	22.63	22.69	22.66	14.14	13.42	13.85
b.Current transfers to local bodies	7.28	16.85	11.01	-0.68*	7.60	2.55
c.Other Current transfers	15.83	19.32	17.21	7.70	9.31	8.34
Total Current Transfers	12.37	18.86	14.92	4.30	9.07	6.18
B. Capital Exhaustive Expenditure	10.94	22.43	15.40	1.98	10.39	5.26
a.Gross Fixed Capital Formation	13.49	21.72	16.71	5.30	9.09	6.80
b.Financial Outlay	8.23	23.49	14.09	-1.69	12.23	3.66
c.Total Capital Transfers	22.05	22.70	22.31	10.87	11.52	11.13
1. Capital transfers to local bodies	22.67	27.01	24.38	11.42	15.43	13.01
2. Other Capital transfers	21.76	20.03	21.06	10.59	9.09	9.99
d.Total Advances	10.97	12.00	11.38	0.79*	1.79*	1.19
1. Advances to local bodies	11.61	11.87	11.72	1.38*	1.68*	1.50
2. Advances to others	4.53*	13.42	8.00	-5.05	3.08*	-1.88*
Total Capital Expenditure	7.40	18.65	11.76	-2.22	7.58	1.59
C. Total Exhaustive Expenditure	12.16	19.16	14.91	3.51*	8.98	5.66
D. Total Expenditure	11.10	19.04	14.21	2.26	9.15	4.96

Note : 1.# Growth Rates are Calculated Using the Kinked Exponential Model.
2.All Growth Rates except those marked (*) are significant atleast at 10 % level of significance.

Table 4
Growth of Public Expenditure in India

(Per cent)

	Growth At Current Prices			Growth At Constant Prices		
	1971-72# To 1979-80	1980-81# To 1985-86	1971-72 To 1985-86	1971-72# To 1979-80	1980-81# To 1985-86	1971-72 To 1985-86
FUNCTIONAL CATEGORIES :						
1. ***General Services***	9.101	18.952	12.940	0.560*	9.175	3.922
a.General Administration	7.619	20.229	12.496	-0.427*	10.403	3.771
b.Defence	10.510	17.765	13.357	1.531	8.021	4.079
2. ***Social Service***	14.456	20.199	16.720	6.096	10.047	7.659
a.Education	13.951	17.738	15.451	5.979	8.166	6.849*
b.Health	16.879	18.049	17.346	8.223	8.602	8.375*
c.Social welfare, Culture,religion etc.	10.851	26.182	16.747	2.468*	15.630	7.543
d.Housing & community services	18.851	24.028	20.895	9.128	12.496	10.463
3. ***Economic Services***	11.448	18.175	14.091	2.113	8.283	4.538
a.Agriculture, Forestry & Fishing	8.583	15.939	11.467	-0.085*	6.923	2.662
b.Mining,Manufacturing and Construction	11.347	20.812	15.041	1.503	11.219	5.283
c.Energy,Water supply and Gas	21.355	19.238	20.504	10.770	8.522	9.865
d.Transport and communition	8.626	14.233	10.835	-0.381*	3.369	1.103*
e.Other Economic Services including administration	11.648	16.619	13.611	3.359	7.388	4.952
4. Relief on calamities	-3.360*	25.705	7.358	-11.008	14.799	-1.466*
5. Other Miscellaneous services	-12.954*	11.071*	-4.040*	-21.030	2.552*	-12.327
6. **TOTAL**	11.104	19.042	14.214	2.259	9.147	4.960

Note : 1.# Growth Rates are Calculated Using Kinked Exponential Model.
2. All Growth Rates except those marked (*) are significant atleast at 10 % level of significance.

Table 5
Growth of Public Expenditure by Level of Government
(1971-72 to 1985-86)

(Per cent)

	All States						Centre					
	At Current Prices			At 1971-72 Prices			At Current Prices			At 1971-72 Prices		
	1971-72 To 1979-80	1980-81 To 1985-86	1971-72 To 1985-86	1971-72 To 1979-80	1980-81 To 1985-86	1971-72 To 1985-86	1971-72 To 1979-80	1980-81 To 1985-86	1971-72 To 1985-86	1971-72 To 1979-80	1980-81 To 1985-86	1971-72 To 1985-86
ECONOMIC CATEGORIES :												
A. Current Expenditure :	15.80	18.20	16.86	7.55	8.02	8.06	11.26	16.66	14.60	2.82	19.34	5.84
I. Consumption Expenditure	14.72	18.18	16.80	6.37	8.02	7.34	16.66	17.76	13.38	1.73	8.83	4.28
a. Compensation to employees	14.76	18.14	16.86	7.13	8.06	7.80	7.89	17.16	11.58	0.76@	8.15	3.85
b. Net maintenance expenditure	14.86	17.87	16.18	4.16	7.76	5.56	13.65	18.81	15.38	2.88	7.78	4.88
II. Transfers	14.73	17.43	15.88	6.46	7.76	8.88	4.17	24.26	11.76	-3.25@	13.88	3.27
a.Subsidies	52.23	18.78	38.32	41.68	16.74@	28.38	17.33	23.46	18.72	8.28	14.87	11.12
b.Current transfers to local bodies	11.87	15.41	12.78	2.83	8.28	4.18	-13.35	24.18	8.87	-18.76	14.38	-7.55
c.Other Current transfers	17.33	18.38	17.75	8.18	8.48	8.84	11.19	21.88	15.35	3.38	11.87	8.82
B. Capital Expenditure	18.88	15.81	17.33	8.77	3.84	6.81	8.58@	21.23	8.38	-8.75	18.24	-1.58
I.Gross Fixed Capital Formation	18.45	28.31	17.68	7.84	7.58	7.74	4.98	28.44	13.88	-2.81@	14.28	4.28
II.Financial Outlay	18.82	11.84	14.72	6.11	1.48@	4.23	8.48	28.33	13.87	-3.35	14.82	3.54
III.Total Capital Transfers	27.31	24.34	28.11	15.84	13.81	14.58	14.72	18.52	15.43	4.28@	5.98@	4.88@
a. Capital transfers to local bodies	22.88	28.33	24.28	11.88	14.81	12.82	18.22	38.38	25.18	7.38	23.85	13.73
b. Other Capital transfers	33.13	21.73	28.45	28.82	18.83	18.78	14.48	14.34	14.41	3.88@	3.82@	3.84@
IV.Total Advances	28.82	8.88	15.35	8.81	-1.22@	4.88	5.81	14.42	8.85	-4.88	3.88	-8.83
a. Advances to local bodies	21.18	8.78	18.85	18.85@	-1.13@	5.44	8.48	14.82	8.38	-3.38	3.83	-8.82
b. Advances to others	12.74	7.88@	18.82	2.41	-1.85@	8.88@	-5.42	28.88	4.33	-14.88	8.85	-5.22
C. Total Expenditure	16.82	17.15	17.81	7.82	7.38	7.78	8.17	28.75	11.78	-2.82	18.75	2.52

Note : 1.8 Growth Rates are Calculated Using Sinked Exponential Model.
2. All Growth Rates except those marked (@) are significant atleast at 18 % level of significance.

Table 6
Growth of Public Expenditure by Level of Government
(1971-72 to 1985-86)

(Per cent)

	All States						Centre					
	At Current Prices			At 1971-72 Prices			At Current Prices			At 1971-72 Prices		
	1971-72# To 1979-80	1980-81# To 1985-86	1971-72 To 1985-86	1971-72# To 1979-80	1980-81# To 1985-86	1971-72 To 1985-86	1971-72# To 1979-80	1980-81# To 1985-86	1971-72 To 1985-86	1971-72# To 1979-80	1980-81# To 1985-86	1971-72 To 1985-86
FUNCTIONAL CATEGORIES:												
1. *General Services*	13.498	16.995	14.884	5.242	7.815	6.264	7.403	19.694	12.161	-1.313*	9.705	2.955
a.General Administration	13.487	17.020	14.887	5.232	7.827	6.262	-0.718*	25.818	9.149	-8.615	14.968	0.174*
b.Defence	14.127	15.570	14.701	5.802	7.224	6.366	10.475	17.791	13.345	1.488	8.034	4.058
2. *Social Services*	15.744	19.801	17.350	7.267	9.754	8.255	7.418	22.003	13.030	-0.368*	11.086	4.065
a.Education	14.815	17.520	15.889	6.775	7.987	7.258	6.170	19.615	11.357	-1.254*	9.660	2.975
b.Health	15.751	18.390	16.800	7.195	8.930	7.885	27.918	14.997	22.583	18.346	5.683	13.109
c.Social welfare, Culture,religion etc.	17.679	23.944	20.146	8.469	13.901	10.610	-1.495*	23.865	7.899	-6.143*	20.406*	3.690*
d.Housing & community services	18.205	24.762	20.785	8.580	13.245	10.422	23.400	19.037	21.636	13.022	7.270	10.686
3. *Economic Services*	21.442	13.820	18.334	11.528	3.963	8.438	5.558	21.272	11.583	-3.446	11.386	2.234
a.Agriculture, Forestry & Fishing	22.243	14.803	19.211	12.857	5.454	9.835	-0.403*	15.055	5.514	-8.484	6.623	-2.717
b.Mining,Manufacturing and Construction	21.675	15.386	19.119	11.379	5.832	9.126	9.908	21.693	14.478	0.097*	12.115	4.741
c.Energy,Water supply and Gas	24.180	13.354	19.731	13.299	3.233	9.160	15.287	33.769	22.352	5.401	21.463	11.554
d.Transport and communition	17.818	11.288	15.161	8.279	0.448*	5.075	-1.848*	18.433	5.810	-10.326	7.634	-3.533
e.Other Economic Services including administration	17.962	16.344	17.312	8.849	6.668*	7.971	8.218	17.725	11.925	0.384*	8.605	3.595
4. Relief on calamities	3.246*	25.004	11.453	-4.919*	14.010	2.243*	-25.417	21.215	-9.426	-31.106	11.686*	-16.417
5. Other Miscellaneous services	-21.763	6.439*	-12.377	-29.063	-0.658*	-19.704	-3.314*	19.542*	5.251*	-12.440*	10.407*	-3.931*
6. TOTAL	16.915	17.149	17.009	7.915	7.390	7.705	6.173	20.750	11.780	-2.622	10.754	2.523

Note :1.# Growth Rates are Calculated Using Kinked Exponential Model.
2. All Growth Rates except those marked (*) are significant atleast at 10 % level of significance.

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