

PREFACE

THE National Institute of Public Finance and Policy is an autonomous, non-profit organisation whose major functions are to carry out research, do consultancy work and undertake training in the area of public finance and policy. In addition to carrying out on its own research studies on subjects that are considered to be important from the national point of view in terms of policy formulation, the Institute also undertakes research projects on subjects of public interest sponsored by member governments and other institutions.

The present study was sponsored by the Planning Commission, Government of India. In view of the lack of authoritative information on the growth of government expenditure and the factors accounting for it, we felt the need for an in-depth study of Central government expenditure. A research proposal for this was sent to the Planning Commission in January 1979. We had proposed that we would undertake a study of the causes of growth of Central government expenditure, its commodity composition and the impact of government purchases on sectoral output. The Planning Commission, while agreeing to our proposal, wanted us to cover a few more aspects of public expenditure such as the income elasticity of major categories of expenditure and the commodity composition of the expenditure of at least one State government. After extended discussions with the Planning Commission, it was agreed that the project should have the following terms of reference:

- i. To study the growth of Central government expenditure in real terms by using appropriate price deflators;
- ii. To identify the extent to which the growth of expenditure can be attributed to increase in prices, wages, employment and volumes of goods purchased;
- iii. To examine the growth of expenditure by different functional categories;
- iv. To estimate the income elasticity of the major categories of expenditure;

- v. To study the impact of Central government purchases on different sectoral outputs through (a) the examination of the commodity composition of government purchases and (b) the application of the input-output matrix;
- vi. To study the impact of one of the State governments' purchases on different sectoral outputs of the economy through (a) the examination of the commodity composition of the State government's purchases and (b) the application of input-output table.

The study was begun in October 1979 and was completed by the end of June 1981. Report writing took up the months July-October, 1981.

The study has been conducted by a team of economists headed by K. N. Reddy who was the project leader. In this capacity, he planned and supervised the study. The other members of the project team were J.V.M. Sarma and Narain Sinha. In the initial stages of the project, Srinivasa Madhur was also associated with it.

In addition to his overall responsibilities as the project leader, Reddy carried out the conceptual, statistical and economic analysis of the growth of Central government expenditure and the structure of Central government expenditure. He was also responsible for working out the income-elasticities of different categories of Central government expenditure (Chapters 1 to 5). K.K. Atri helped the team in working out the percentage shares of the increase in government expenditure attributable to various factors such as increase in employment, increase in prices, increase in volume of goods bought and so on. J.V.M. Sarma undertook the study of the commodity composition of Central government expenditure and its impact on sectoral outputs. Narain Sinha undertook the study of the commodity composition of the purchases of Gujarat government and its impact on different sectors of the economy (Chapter 7).

Gautam Naresh rendered research assistance throughout the duration of the project and helped the team in various ways. Sitamahalakshmi, Sujata Datta and O.P. Bohra also worked on

the project for varying periods of time, mainly in relation to data collection and tabulation.

The Governing Body of the Institute does not take responsibility for any of the views expressed in the Report. The responsibility for the conclusions arrived at and the views expressed belongs to the Director and the staff of the Institute, and more particularly, to the authors.

R. J. CHELLIAH
DIRECTOR

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IN view of the multiple objectives of the study, the considerable volume of conceptual and statistical problems that had to be tackled, several people had to work together as a homogeneous team. In this regard, I was fortunate in having, as members of the team, Shri J.V.M. Sarma and Shri Narain Sinha, who extended their cooperation fully and ungrudgingly. Their respective contributions have been mentioned in the preface. They participated in all the discussions and made useful suggestions. Shri Gautam Naresh took immense pains in building up the time-series data and bore the brunt of data processing. Smt. Sitamahalakshmi, Shri O.P. Bohra and Smt. Sujata Dutta gave excellent support in data collection.

Dr. R.J. Chelliah took keen interest in the project throughout its duration. He went through the report meticulously and not only made useful suggestions but also improved the style of presentation. Shri K.K. Atri, Econometrician, gave useful suggestions on whatever statistical problems that were referred to him. A.K. Halen ably handled all our computer operations.

A large number of persons in the different departments of the Central government and the Government of Gujarat helped us in various ways. Among those from the Planning Commission, Government of India, we would like to mention Prof. D.T. Lakdawala (formerly Deputy Chairman), Prof. Raj Krishna (formerly Member), Dr. Manmohan Singh, (formerly Member) Shri S.K. Govil, Dr. Y.K. Alagh, (formerly Adviser) Dr. D.R. Gupta, Dr. P.R. Panchmukhi (formerly Joint Adviser), Shri K.C. Mazumdar, Shri S.G. Apte and Dr. R.N. Lal. Among the Financial Advisers of different Ministries, Sarvashri N.K. Panda, R.S. Raghavan, A.V.N. Iyengar and M.P. Agarwal of the Ministry of Finance; Smt. Uma Roy Chaudhury of CSO; Sarvashri P.C. Sarkar and Shri B.R. Zulka of DGS & D; and Shri C.P. Sampat and other officials of the Government of Gujarat; and Shri S.P. Gupta of Sambalpur University, helped us in a variety of ways. To all of the above mentioned we are deeply grateful.

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We are thankful to all of them.

K.N. REDDY
PROJECT LEADER