CHAPTER VI

SUMMARY OF FINDINGS, CONCLUSIONS AND SUGGESTIONS

The present study aims at analysing the developmental and non-developmental expenditures of the Government of India. The expenditure performance of the Central government of India refers to the results of an overall expenditure pattern with reference to the observance of prudence, coupled with economy in the expenditure pattern, which is consistent with a high level of efficiency. India has a federal type of government. The Central government collects a number of taxes, and shares most of revenues collected with the State governments and the Union Territories. The Central government had been indulging in developmental and non-developmental expenditures on an ever-increasing scale.

Governments in the modern era are actively participating in the allocation, distribution and stabilization processes of the economy. As a result of the active participation of the government in various activities, the government’s finances have begun to play a crucial role in the social and community development of the country. The increase in the expenditure levels has been observed to be a phenomenon not only in India but also in a number of other countries as well. The fact that the government’s participation in the total economic activity of the country had increased is generally accepted.
An understanding of the government’s participation in the economic activities is possible only by analyzing the trends and the patterns of developmental and non-developmental expenditures and by a comparison with the expenditure behaviours of the other governments. This would help in assessing the expenditure behaviour of the government taken up for the study.

This study tries to analyse only some limited aspects of the expenditure items, on developmental and non-developmental activities of the Indian Government. It does not include the other aspects of the expenditure items such as the developmental and the non-developmental activities of the States’ expenditures, and the performance and the problems of both the governments put together.

In an analysis of the expenditures of India, like the developmental and the non-developmental expenditures of the Central government, an analysis of the direct taxes, indirect taxes, export duties and import duties have been included in this study. The validity of the Wagner’s Law has been tested for the overall expenditure of the government. For the analysis of the public expenditure pattern of India, the developmental and the non-developmental expenditures on various items have been included in the study. This study had covered a period of 24 years from 1980-81 to 2003-04.

The research study is presented in six chapters. The first chapter is introduction, and the second chapter includes a review of the studies on related literature, the statement
of the Research problem, the objectives, the scope, the methodology and the chapter schemes. A brief account of the scope of the study covering the contents of Chapters III and IV is given in the ensuing paragraphs.

The objective of the present study is to trace the trend in the developmental and the non-developmental expenditures of the Central government. The study had been planned to explore the reasons for the growing expenditure and for the priorities given to agriculture, industry, science and technology and health and sanitation in the matter of allocation of resources. It had attempted to examine the provisions given for the social infrastructure namely public health and education. In addition to all these, this study had tried to find out whether the political parties in power had any role in the trend of the developmental and the non-developmental expenditure patterns.

The study is based entirely on secondary data. The sources were the Central Government’s budgets, published books, review of budgets by journals like “Economic and Political Weekly”, “Facts for you”, “Yojana”, and “Southern Economists”. The data needed for the study have been compiled from the various issues of the Reserve Bank of India Bulletins, Budgets of India, India’s Development Report and India Information Book. For the analysis of the data, the simple and multiple regressions, the Chow test, Wagner’s Law, and Students’ t test had been used in the chapters to analyse the data. The regression equations have been estimated using the principle of the least squares.
The broad objectives of the study had been to analyse the trend and the growth patterns of development expenditure and those of non-development expenditure during the study period, to identify the determinants of the development and the non-development expenditures during the study period leading to the growth of public expenditure, and to identify the reasons for their increasing trend, both before and after the adoption of the New Economic Policy and to suggest a few ways and means to reduce the rising expenditure pattern in India.

The fifth and the sixth chapters deal with the conclusions of the study and the inferences deduced from the analysis along with some policy recommendations.

The Findings of the Present Study

Before the New Economic Policy, the Development Expenditure had increased by 4.35 times for the study period from 1980-81 to 1990-91. After the New Economic Policy it had increased by almost 4.73 times for the period from 1991-92 to 2003-04.

As far as the non-developmental expenditures of the Central government over the study period was concerned, they had been increasing year after year. Before New Economic Policy, the non-development expenditure had increased by almost 2.51 times. After the New Economic Policy, the non-development expenditure had increased by almost 9.53 times and the size of the non-development in 2003-04 was expected to be Rs.317821 crores.
In the pre-reform period, the value of the slope co-efficient for economic services was estimated as 118.75. This had shown that on an average, the development expenditure on ‘Economic Services’ had increased by Rs. 1118 crores annually over the period of eleven years just before the structural changes had taken place. The slope co-efficient was positive; and there was an upward trend in the expenditure on economic services. For the post-reform period, the value of the slope co-efficient was 1951.38, which had shown that on an average, the development expenditure on ‘Economic Services’ had increased by Rs.1951 crores per year.

In the pre-reform period, the value of the slope co-efficient was 284.16 for social services. This shows that on an average, the development expenditure on social services had increased by Rs.284 crores per year over the eleven-year period just before the structural changes had taken place. In the post-reform period, the value of ‘b’ was 1880.97, which shows that on an average, the development expenditure on ‘Social Services’ had increased by Rs.1880 crores per year during the period from 1991-92 to 2003-04.

In the pre-reform period the estimate of the slope co-efficient for agriculture and allied activities was found to be 67.13. This shows that on an average the development expenditure on agriculture and allied activities had increased by Rs. 67 crores per year over the eleven year period just before the structural changes had been adopted. For the post-reform period, the slope co-efficient was 166.15, which shows that on an average, the development expenditure had increased the agricultural and allied activities by Rs.166
crores a year on an average. The estimate of the slope co-efficient was found to be statistically significant.

Before the New Economic Policy, the development expenditure on education, arts and culture had increased by 0.38 times for the study period from 1980-81 to 1990-91. After the New Economic Policy, it had increased by almost 1.73 times for the period from 1991-92 to 2003-04.

Before and after the New Economic Policy, the ratios of the expenditure on industry and minerals in relation to the development and the non-development expenditures were analysed. In 1980-81 the ratio was 7.96 and then it went on decreasing till the year 1985-86 and then it had decreased to the level of 6.48 in the year 1986-87 and again it went on decreasing till the year 1992-93 and the ratio at the end of the year 2003-2004 stood at 0.70. The fluctuating ratios clearly reveal the fluctuating trends in respect of the ratios of expenses on industry and minerals to the development and non-development expenditures of the Central Government during the study period.

Medical health and family welfare to the development and non-development expenditures of the Central government was concerned, over the study period, it had been increasing year after year. Before the New Economic Policy, the expenditure on medical health and family welfare had increased by almost 0.99 times. After the New Economic
Policy, the expenditure on medical health and family welfare had increased by almost 1.38 times.

**In the pre-reform period** the value of the slope co-efficient for defence expenditure was found to be 1275.09 which means that on an average the annual non-development expenditure on defence had increased by Rs. 1275 crores over the eleven-year period just before the adoption of the structural changes. For the post-reform period, the slope co-efficient value was found to be 4024.40, which had disclosed that on an average the non-development expenditure on defence had increased annually by 4024 crores during 1991-92 to 2003-04.

In the pre-reform period, the regression co-efficient for interest payments was found to be 1608.32. This shows that on an average the non-development expenditure on interest payments had increased annually by Rs. 1608 crores over the eleven years period just before the structural changes were introduced. For the post-reform period, the value of the slope co-efficient was 8222.03, which shows that on an average, the non-development expenditure on interest payments had increased by Rs. 8222 crores every year during 1991-92 to 2003-04.

In India, the expenditure on subsidies had grown by 4.1 times during the period from 1980-81 to 2003-04. The calculated time series trend had shown that the average annual growth rate was Rs.1598 crores and the expected value of the expenditure on subsidies was calculated to be Rs.49907 crores for the year 2003-04. From this, it is clear that the subsidies had played a very important role in the economic development
of the country and hence had accounted for a significant proportion of the total expenditure of the Central Government during the study period.

It is clear that a larger proportion of the capital receipts, either through borrowings or through non-debt receipts like the proceeds of disinvestments had been used to meet the non-development expenditures of defence, interest payments and subsidies instead of being used to finance the needs of the social sector and for developing the infrastructure like roads, bridges, hospitals, airports and the like.

The ratio of the development and the non-development expenditures to Gross Domestic Product in the year 1980-81 were 0.06 and 0.10 percent respectively and it had decreased to 0.05 percent in respect of development expenditure in the year 2003-04. This had increased to 0.13 percent in 2003-04 indicating the increasing tendency of the ratio of non-development expenditure to Gross Domestic Product over a period of time.

The Chow test was used to measure the structural changes that had taken place before and after the adoption of the New Economic Policy. It was mainly used to calculate the development and the non-development items of the expenditure of the Central government.

The development and non-development expenditures were mainly determined by the size of the population, the gross domestic product, direct taxes, indirect taxes, exports and imports, public debt and the fiscal deficit. As far as the determinants of the
development and the non-development expenditures were concerned, the dependent variables were the gross domestic product, the population, direct taxes, indirect taxes, exports and imports. The gross domestic product and the population determined the extent of the development and the non-developmental expenditures generally. The imports and the indirect taxes have a very high influence on the non-developmental expenditure.

Suggestions

From the study, the following suggestions have emerged. It is true that the expenditure on the development sector is an appreciable feature and the policy makers should pay a very great attention to an increase in the expenditure on the development sector.

There should also be a uniform and steady increase in the development expenditure. The wide variations of the development expenditure should be reduced to a certain extent so that the rule of uniformity in the development process could be followed.

As far as the non-development expenditures were concerned it is suggested that these expenditures should be reduced so that the government’s debt position might be within manageable limits. At the same time, one should also pay greater attention to promote public welfare. A reduction in the non-developmental expenditures should, in no way, affect the public welfare and public security. The policy makers should play their
role in such a way that the overall developmental expenditure would increase steadily and continuously and the non-development expenditure should be concentrated on providing for the requirements of the social sector and the infrastructural facilities.

Through the budget of 2005-06, the government had committed itself to the continuation of the fiscal policies designed earlier to promote the savings, to device ways and means to channel these savings into productive investments and to provide funds necessary for the social sector expenditures. The central theme that runs through the various schemes and programmes is the creation of fresh jobs, the strengthening of the social infrastructure and providing succour to the weaker sections of the society. The sectors targeted for special attention are agriculture, industry, rural health care, child care, urban development in mega cities and in nurturing a knowledge-based economy. Recognizing the lack of an automatic link between the outlays and outcomes, the budget had emphasized on the need to improve the quality and the efficiency of the delivery mechanism and also to put in proper place a mechanism to measure the development outcomes of all the major programmes.

Interest payments nowadays have been increasing due to the ever growing public debt and other liabilities. In addition, the Government of India is now forced to raise funds from the market by paying market related rates of interest. This too will increase the interest payment obligations of the Government sharply. So, to reduce this interest payment obligation, first of all, the total debt should be reduced and the value of the Indian money should be maintained and improved at the international level. The
devaluation of the currency might also help to reduce the interest payment obligations of the Government.

Defence expenditure is increasing at an alarmingly fast rate nowadays, because of the increased use of the highly expensive technology in war preparedness. The defence expenditure would also increase due to too much of the war threats and the terrorists’ activities, nowadays. The defence expenditure is used for providing finance for the refugees entering into the country also. It is very essential to speed up the economic development of the country and to make the country ready to face the threats to its security from foreign aggression. The defence expenditure is necessary for this purpose. The scarce resources should be diverted prudently for the developmental needs and for reducing criminal activities and all the political parties should function efficiently and help the government to bring down the level of defence expenditure.

The fiscal policy of the government should be pursued on a continuing basis. Irrespective of the political changes, the economic policy, the monetary policy and the fiscal policy should have long run objectives and should be continued without violent changes in their approaches. Otherwise, the political instability would discourage the foreign investors, who would not take decisions to invest in India on a long-term basis with much confidence. The government had been successful in keeping the fiscal deficits within the targeted levels. It is, of course, true that the total revenue had been increasing
every year but the Government expenditures have been growing beyond the targets fixed for expenditures. Unless there is a check on the growth of developmental and non-developmental expenditures, the fiscal deficit could not be reduced by merely cutting down the government expenditures and by increasing the tax revenues through tax reforms.

Public revenues should be increased steadily to meet the increasing public expenditure. Sales tax could be increased and the subsidies could also be reduced to balance the income and expenditure of the country. Strict law and order can be maintained for increasing the public revenue to meet the public expenditure. The growth rates of the revenues have also not been quite encouraging leading to fiscal deficits. The essential and the necessary commodities only will have to be imported, and the imports of the consumer durable goods should be kept to the minimum, which will create more funds for the expenditure of the government. The political instability also is another reason for the increasing expenditure of the government. Hence, the stability in the functioning of the government should be ensured by the cooperation of the different political parties in the country.

Tariffs and quotas would also help to reduce the public expenditure as they would improve the functioning of the economic system. The new economic policy of globalisation would help to encourage the exports of the economy. The imposition of the tariffs would restrict the spending of the people on foreign goods. Thus the imports could be reduced and the balance between the revenues and the expenditure of the country
could be brought about. Quotas are very useful for protecting the industries in the home country against foreign competition and for strengthening the foreign exchange reserves by limiting imports, which would help to increase the revenues of the country to meet the growing expenditure.

The public expenditure on economic services on an average per person had been falling and this had resulted in specific economic problems in the urban areas such as acute shortage of water supply, poor communication service, and poor and improper roads, lack of proper sewage facilities and the like. It should be noted that among the characteristics of the coefficients corresponding to the rate of growth on urbanization, the income per capita and the literacy rates were statistically insignificant.

The expenditure on health and medical facilities had been increasing quite rapidly. The provision of medical facilities and public health services is another important and necessary responsibility of the Central Government. The maintenance and the upkeep the people in good health would result in keeping the standard of efficiency of the workers at a high level and in increasing the national income. The establishment and maintenance of the dispensaries, the hospitals, the training programmes and the keeping of a large number of doctors, nurses and compounders, and the maintenance of public health services for the prevention of diseases and similar other facilities should be provided by the Central Government for this purpose.

The grants-in-aid to the States and the Union Territories were mere transfers of resources to them for developmental activities by the Central Government. The administrative local government units of our federation have also been allocated several
functions in connection with the social and the economic development of the country. They, however, did not have enough resources from the sources of income assigned to them. It had, therefore, become essential that they should be provided with funds in the form of grants-in-aid. The grants-in-aid had enabled them to carry out the development activities on their own. The expenditure on grants-in-aid to the States and the Union Territories for developmental purposes had been increasing steadily.

The expenditure on tax collections was also found to have increased steadily over a period of years. The oft-repeated reason attributed to such an increase in the expenditure on tax collection was that the salary bills and the perquisites for the employees of the tax department, which constituted the single major item of expenditure under the overall general category of expenses, had continued to increase steadily over a period of years.

Subsidies had increased steeply contributing much to the rapid increase in the amount of public expenditure. No doubt, a large variety of publicly produced services, such as the defence, the general administration and the maintenance of law and order is in the nature of pure public good and they could not be always offered only at a price. However, in the other publicly provided services, there may be some externalities.
Therefore, if the government provides them at user cost prices, the private optimal level of their consumption may turn out to be a socially optimal level of consumption.

Severe action should be taken against tax evasion, and remedial measures should be taken to unearth black money, which would increase the revenues of the Government. The Center - State financial relations and their co-operation should be promoted and maintained for the smooth performance of the fiscal activities.

The developmental and the non-developmental activities and the tax collections have contributed to the major administrative developments, which have carried forward the task of promoting economic viability and the income re-distribution and the socio-economic cohesion among the various sections of the population of the country.

The above-mentioned suggestions should be followed carefully, so that the economy could be improved in its status and the overall development of the economy could be realized. People may also feel secure, which will make them work hard for the building up of the nation. As a result, the economy would achieve the goals of social justice and equity to a greater extent.

Conclusion