Until the early eighty's, India enjoyed a surplus on revenue account which was available to finance in part the deficit on capital account, a deficit that is normal for a developing country. However, since 1983-84, current revenue surpluses turned into deficits. This meant that the government had to borrow at home and abroad, not only to finance its investment, as would normally be the case in a developing country, but also its current consumption. Fiscal deficits, as published in government budget documents, have tended to understate the real imbalances.

Unfortunately, continued high level of fiscal and revenue deficits combined with imbalances in other macro economic parameters contributed to the crisis of 1991. Therefore, one of the objectives of the then Finance Minister Dr. Manmohan Singh's reform of 1991 was to reduce the Central government’s fiscal deficit to a considerable extent (less than 4%). A significant part of the fiscal correction in the early nineties was through reduction in development spending, particularly capital spending, a not very desirable outcomes. On the other hand, almost half of the Central government’s expenditure was accounted for by interest payments, defence outlays and transfers to State governments. Central government’s decisions not to accept recommendations of the fifth pay commission to reduce government employment by 30 percent over 10 years, fiscal slippages in 1997-98, conflicts in Kargil and the associated increase in expenditure in 1999, etc. have added to the rapid growth of non developmental expenditures, and that too, more on revenue account. Government’s decision to set up Expenditure Reforms Commission, reintroduction of zero-base budgeting and passing of Fiscal Responsibility and Budget Management (FRBM) Act were considered hopeful signs. Hardening of the budget constraint on the one hand, and greater awareness to improve efficiency in transforming public expenditures into outputs and outcomes, on the other, underlined the need to improve process and strengthen institution in Public Expenditure Management.

It is against this backdrop that the present study is undertaken. It focuses on those areas of Central government finances where some rationalisation is possible. Therefore, in this study, an attempt has been made to analyse empirically trends in aggregate Central government expenditure, developmental and non-developmental
expenditures and their components for the period 1980-81 to 2003-04. For a more comprehensive analysis, we have divided the study period into two sub-periods, namely, the pre-reform period from 1980-81 to 1990-91 and the post-reform period from 1990-91 to 2003-04. Identification of major factors that are likely to influence the growth of government expenditure in India has also been attempted using multiple regression analysis. The basic limitation of this study is that it excludes expenditure of the States, which forms a large part of total combined expenditure of the Centre and States.

According to the need of the present work, the whole study is divided into eight chapters. The first chapter begins with the concept and growing significance of public expenditure. It also describes some of the prominent expenditure growth theories. An attempt is also made to examine the issue of reforming any system, in general and the system of public expenditure management, in particular. The chapter ends with the brief description of data base and research methodology.

In chapter 2, a brief survey of the theoretical and empirical studies on public expenditure is presented so as to have enough idea for empirical analysis to be carried out in the subsequent chapters. In fact, this study is inspired by ample literature concerning various issues of government finances which need a careful examination in case of India. But neither theoretical underpinnings nor empirical formulations could indicate any satisfactory generalization, which may be utilised for our analysis. Our understanding of various efforts to reform the system of public expenditure management in India has been made easier by the recent work of Premchand (2008).

In chapter 3 of this study, trends in aggregate Central government expenditure have been examined, while fourth chapter deals with the analysis of developmental and non-developmental expenditures. Chapter 5 and chapter 6 are devoted to the analysis of components of developmental and non-developmental expenditures respectively.

Amongst various factors that may affect the growth of government expenditure directly or indirectly, prices and population have been found to be the significant ones in our case. In addition to this, multiple regression analysis is carried out in chapter 7 of this study to identify other explanatory variables affecting the growth of government expenditure.

Finally, chapter 8 presents the main findings of the work and outlines some policy recommendations in the light of our findings.