## CHAPTER - II

### LITERATURE REVIEW

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PUBLIC FINANCE - AN OVERVIEW

One of the basic functions of government, forming part of sovereign duty, is to collect revenues/taxes from public only to judiciously spend it for their own protection and welfare. The observation of Kalidasa is remarkable in this regard, “it is only good of the people that the king collects taxes from them just as the sun draws moisture from the earth only to give it back to a thousand”\(^1\). The revenue expenditure process of government i.e., taxing and spending, therefore, has been recognised essential for realising the objectives of the state. Public Finance, comes to be called the science of income and expenditure of government, strives to achieve the avowed goals of government.

In ancient times, however, the government spending was mainly confined to police, defence and protection of sovereign. It was the King’s magnanimity to expend and not his duty.\(^2\) The medieval feudal public finance was also not welfare oriented, rather it was tax driven. For, the medieval feudal lords exacted contributions from the dependent peasants and manorial craftsman without contributing anything back to them. Devitio Demarco\(^3\) has therefore referred to the feudal systems of public finance as one of patrimonial as distinguished from contributory finance.

The classical economists\(^4\) such as Adam Smith and Ricardo also limited the scope of public finance. Being ardent supporters of the philosophy of Laissez-faire, they opposed state intervention in the affairs of the public and proclaimed minimum function of the government limiting it to police, arms and justice. They were of the view that if the state raises its expenditure by taxation it would merely a substitution for expenditure by private person. They advocated private expenditure to public expenditure and opposed both taxation and public spending. According to them the duty of the state was not to interfere with the market forces but to provide the necessary administrative, defence, judicial and police setup for the free interplay of the market forces which in turn would result in the attainment of market equilibrium, economic stability, growth and of full
employment. This means that almost all economic decisions to be guided by the market forces of demand and supply which would act as an ‘invisible hand’.\(^5\) Hugh Dalton\(^6\) opposed this narrow concept of the state and its activities. Instead he advanced the alternative proposition called the principle of ‘maximum social advantage’, a principle underlying the science of Public Finance today.

The practice of limiting the scope of public finance to police, justice and arms continued with great enthusiasm till the dawn of the twentieth century. But the global depression of the 1930’s brought about some fundamental changes in the concept of the state and its functions, when the free market economy based on the philosophy of Laissez-faire, failed miserably to provide full employment, economic growth and stability. In his epoch-making book, “General Theory of Employment, Interest and money”, J. M. Keyns openly stressed that through the fiscal activities of the state, it was only possible to increase employment opportunities and to maintain it at a higher level. Keyns\(^7\) regarded fiscal policy as a balancing factor which would bring about an adjustment between propensity to consume and inducement to invest.

The theory in a sense, sounded the death-knell of the classical version of Laissez-faire based on Saye’s\(^8\) Law of Market - supply Creates its own demand. Thus, with the publication of Keyns theory in 1936, the influence of governmental fiscal operations on the overall level of economic activity and the level of employment became an integral part of the study of Public Finance.

MEANING AND DEFINITION OF PUBLIC FINANCE

The word ‘Public Finance’ is a collective whole made by combining two words Public and Finance. The ‘public’ represents Government (Central, State and Local), while ‘finance’ simply means income and expenditure. Therefore Public finance comes to be called the science of income and expenditure of the Government - State Finance. Public finance would be defined as the science which deals with the activity of the state in
obtaining and applying the material means necessary for the proper functioning of the state. The economics of public finance is fundamentally concerned with the process of raising and disbursement of funds—collection of revenue and its spending—for the functioning of the government. Thus it is the study of the principles underlying the spending and raising of funds by public authorities. 'Public Finance is a normative as well as positive science. In the positive aspect the study is concerned with what are sources of public revenues, items of public expenditure, constituents of the budget and formal as well as effective incidence of fiscal operations. Public finance has its normative aspect—norms or standards of governments fiscal operations are laid down, investigated and appraised i.e., the government have to exercise value judgement while fixing the rate of taxation or expenditures'.

According to Richard A Musgrave16 “The complex problems that centre around the revenue expenditure process of the government is traditionally referred to as public finance”. To Philip Taylor11 “Public Finance is concerned with the operation of the fisc or public treasury. Hence to the degree that it is science, it is the fiscal science, its policies are fiscal policies, its problems are fiscal problems”. By fiscal policy is meant the use of public finance or expenditure, taxes, borrowings and financial administration to further national economic objectives12. Harold Groves13 defines public finance as “a field of inquiry that treats the income and outgo of governments (federal, state and local). In modern times it includes four major divisions—public revenue, public expenditure, public debt and certain problems of fiscal systems as a whole, such as fiscal administration and fiscal policy”.

The science of public finance or state finance, thus, is a science that studies the collection of revenues from the public and its judicious spending for creating social welfare. It studies and analyses the effect of government budgetary practices of taxing and spending as (a) allocation of scarce resources (b) distribution of income wealth and (c) economic stability, full employment and growth. It is an integrated part of political
economy as it is on the borderline between economics and politics. It is concerned with the income and expenditure of public authorities, and with adjustment of the one to the other; adjustment not necessarily to equality, but to whatever arithmetical relationship in given condition is best.14

COMPONENTS OF PUBLIC FINANCE

Hugh Dalton has classified the various components of public finance as: (a) Public Revenue (b) Public Expenditure (c) Public Debt (d) Financial Administration and (e) Economic Stabilisation

Public Revenue

It concentrates on the study of the methods of raising public revenue, the principles of taxation and its problems. In other words, all kinds of income from taxes and receipts from public deposits are included in public revenue.

Public Expenditure

Public expenditure studies the fundamental principles that govern the flow of government funds into various streams. This is the most important component of public finance as it determines the destiny of a nation, for generally it involves heavy commitment of funds in long term projects; the failure of which may turn out to be disastrous to the nation.

Public Debt

This part of public finance studies the problem of raising loans. It further examines the problem of raising and repayment of loans along with interest. Public debt administration is also important as improper administration of which may land a nation in debt-trap.

Financial Administration

It deals with the problem of organisation and administration of the financial mechanism of the government. The fiscal or financial administration is concerned with
the government machinery which is responsible for performing various functions of the state. The budget is the master financial plan of the government. Government budget is the key that monitors the financial administration.

**Economic Stabilisation**

Economic stabilisation as well as growth are the two aspects that have gained ground recently in the discussion of public finance. This part describes the various economic policies and other measures of the government to bring about economic stability in the country.

**PUBLIC EXPENDITURE - VARIOUS ASPECTS**

The topic of Public Expenditure forms an integral part of the study of Public Finance. As U. K. Hicks\(^{16}\) observes, “since public expenditure and not revenue is the governing factor in public finance, it is more logical to start with the expenditure side of the account”.

Public expenditure refers to the expenditure incurred by the government for the maintenance of the government and to promote the welfare of the society as a whole. According to H. C. Adams\(^ {17}\) public expenditure has to perform the functions of: (1) Protective functions - Military, Police, Court and Protection against social diseases (2) Commercial Functions - Setting of commercial establishments under state control (public sector undertakings) and (3) Development functions - Education, Public Recreation, Maintaining equitable conditions for the execution of public business, Public investigation and Infrastructure development like public works, irrigation, forestry etc. Public expenditure, hence, signifies the expenditure incurred by public authorities i.e., Central Government, State Governments and local body for the satisfaction of collective needs of the citizens or for the promotion of economic and social welfare.
ROLE OF PUBLIC EXPENDITURE

Earlier writers were of the opinion that the function of the state should be restricted to justice, police and arms. They thought that the government expenditure is wasteful and that money can be used much better by private persons than by government. According to Sir Henery Parnell, "Every particle of expense that is incurred beyond what necessity absolutely requires for the preservation of social order and for protection against foreign attack is a waste and an unjust and oppressive imposition upon the public". "This barren and negative view of the proper economic activities of the state still finds some support, even if it is seldom expressed in such extreme terms. Taken literally this is a piece of hegelian nonsense; taken metaphorically, it is a wooly phrase which leads us nowhere".

The Marxist model suggests an alternative approach. It advocated a highly progressive income tax, listed in the Communist Manifesto as one of the means to hasten the breakdown of the capitalist system. They have seen the fiscal process as an instrument of class struggle shaped by the diverse interest of capital and labour.

Notwithstanding these diverse views, "it is accepted that it is the business of the state to ensure that every citizen can enjoy primary necessities of life - sufficient and correct food, adequate shelter and wealth and education service commensurate with needs". The role of public expenditure is explained herewith special reference to its effect on (a) Developing countries (b) Income distribution (c) Production and employment and (d) Mixed economy.

Effect of Public Expenditure in Developing Countries

It is now unanimously agreed that the state plays a positive role in the economic development of a developing country. The problems of developing countries are in such a magnitude, that they cannot be left at the mercy of the old laissez-faire concept. The fiscal policy has to play distinct roles in the process of economic development in case of advanced and underdeveloped countries. Broadly speaking, whereas maintenance of
stability will be assigned the first priority in advanced economy like the United States, capital accumulation would have to be assigned first priority in an underdeveloped economy.\textsuperscript{23}

'The development goals that are being sought to be achieved in the low development countries are higher and better levels of living for the mass of the people and a reasonable degree of social and economic equality. These social and economic objectives can be realised only through the agency of the state'.\textsuperscript{24} It follows that in developing countries the government has the responsibility not only of creating the infrastructure but also seeing that the level and quantity of private investment forthcoming be as high as possible.\textsuperscript{25}

In developing countries private investment being deficient, the state had to supplement it by a public investment on a large scale. Here the state works as an entrepreneur to promoting economic growth. Public expenditure an instrument of promoting economic development has two aspects, quantitative and qualitative. 'In its quantitative aspect, it aims at the growth and expansion of the volume and rate of investment in both public and private sector. In the qualitative front, it has the objective of changing the content, the composition and the flow of investment in such a way that the social essential and productive constituent of aggregate investment becomes increasingly more important and unproductive and non-essential total investment is discouraged'.\textsuperscript{26}

The least controversial field of public expenditure is in improving technical conditions for the establishment of the industry and for raising the productivity of agriculture i.e., the provision for capital funds on reasonable conditions and in the quantities required by firms making a start, the provision of informations, suitable sites, legal assistance in the acquisition of land undertaking of technical research into the adoption of machinery, appropriate for local condition of climate and labour skills\textsuperscript{27}

Underdeveloped countries are susceptible to certain sources of instability. They experience economic fluctuations due to the result of business cycles originating in the
advanced countries. That is why they are called 'exposed economies'. To protect their exposed economies, the under developed countries can adopt an integrated fiscal programme by drawing up budget providing surpluses in the boom and deficits in recession by having its expenditure increased at a steady rate while revenue rises in booms and declines in recession. Under developed countries are also susceptible to inflationary pressures from within. The pattern of investment also influences inflation. Growth and inflation are inter related. Development is a de-stabilising process in many ways and one of the factors whose stability must be disturbed is the price level.\(^{28}\)

**Effect of Public Expenditure on Income Distribution**

Public expenditure is a powerful tool in the hands of government to bring about equitable distribution of income and wealth. Planned expenditure policy of the government can bring the desired results. Any state authority tries to achieve this object partly by means of taxation and partly by the way of public expenditure. To quote Prof. Dalton again, “other things being equal, that system of public expenditure is the best, which has the strongest tendency to reduce the inequality of income”\(^{29}\). Further, more progressive expenditure leads to reduce inequalities.

One of the goals of public expenditure for a long time has been the minimisation of inequalities in the distribution of income and wealth resulting from uncontrolled working of the market system. “The public consumption expenditures on education services to modify considerably the income distribution. Because earning power is directly related to education and the value of human capital from education is to a large percentage of reproducible wealth. Primary education though available to all, acts in a progressive manner since lower income groups have large families. In this case, a long run distribution also seems apparent”\(^{30}\).

Another way to approach the problem of incidence of government budget on different income groups is to explore the spatial distribution of public consumption expenditure
and taxes between richer and poorer regions and to measure the extent of any net re-
distribution. 'If the ratio of public expenditure rises, then no apparent spatial
distribution occurs. If the ratio falls as per capita expenditure rises, an apparent spatial
programme of re-distribution through government budgets has taken place'.

According to A.C. Pigou, "the optimal intersectoral allocation is in realised when
the marginal unit of any sort of expenditure would yield equal marginal utility if
used either in the public sector or in the private sector. At this point the total utility
of the community will be maximised"

**Effect of Public Expenditure on Production and Employment**

The effect of public expenditure on production and employment is better given by
Prof. Dalton. He conveyed, where as taxation, taken alone, may check production,
public expenditure taken alone, should almost certainly increase it. Expenditure on Police,
and armed forces, if not overdone and on the other apparatus of order and security, treats
the conditions under which alone organised production can take place at all.

According to J. M. Keynes the problem of overproduction and mass unemployment
could only be solved through the intervention of the government and through the doses
of public expenditure even financed by printing more currency notes. To quote his own
words "I conceive therefore, that somewhat comprehensive socialisation will prove
only the means of securing an approximation to full employment".

Since unemployment is the main characteristic of economic disorder, Keynes
implies full employment as a state of things in which the number of persons actually
employed is equal to the number of would be employed minus fractional
employment. Keynes' "General Theory of Employment, Interest and Money" asserts
the positive role of public expenditure in measuring the volume of employment and
achieving full employment in a short span of time. During depression, following
Keynes, pump priming and compensatory spending are the two forms of public
spending, used in offsetting the crisis.
Effect of Public Expenditure in Mixed Economy

A mixed economy is characterised by a dominant public sector supplemented by an equally competitive private sector which reduces the burden of the government spending with regard to satisfying the collective wants of the citizens. The two sectors tend to maintain a liberal compromise in the supply of publicly produced and privately produced goods within the given social framework. Under this system the relationship between the public expenditure and private sector activities can be viewed as a dynamic process i.e., changes in one sector necessitates commentary as well as countervailing changes in the other sector in an infinitesimal series. A desirable state of this relationship between supply of privately produced goods and those of the state has been characterised by J. K. Galbraith as social balance.

The discussions on public expenditure reveal that public expenditure plays a significant and to a certain extent, a unique role especially in an era of democracy. Therefore it is the need of the hour that the state should participate in almost every field and the government is responsible even for small matters. As Prof. Musgrave advocated public expenditure should be freed to deal with many day-to-day activities to secure a reallocation of resources, redistribution activities, stabilising activities and commercial activities. Public expenditure has a great role to play in the form of stimulating saving and capital accumulation.

CLASSIFICATION OF PUBLIC EXPENDITURE

Different authorities have classified public expenditure in different ways. Some of the acceptable classifications are given below.

C. C. Plehn classified public expenditure on a benefit basis, viz., (1) Expenditure which confers common benefit, eg. Defence, (2) Expenditure which confers special benefit on certain people eg. Poor relief (3) Expenditure confers a special benefit on certain persons and common benefit to the rest, eg. Administration of justice and (4) Expenditure which confers only a special benefit on individuals, eg. Expenditure of state enterprises.
Adam Smith's classification of public expenditure is given under three duties of the sovereign, relating to (a) Defence (b) Establishment of Justice and (c) Erection and Maintenance of certain public works such as roads, bridges, canals and educational institutions.

Joan Robinson has classified public expenditure on the basis of productivity. According to him expenditure may be; (i) productive or (ii) unproductive. It follows that much of the expenditure only in war and on ornaments during times of peace is unproductive while others which results in the creation of further wealth is productive.

G. F. Shirras classified public expenditure on the basis of importance (1) Primary Expenditure - (a) Defence : Navy, Army and Airforce (b) Law and order - Law & Justice, Police and (c) Civil Administration - General Administration, Cost of collection and Political (2). Secondary; (a) Social - education, and Other social expenditure, (b) Government public undertaking and (c) Miscellaneous

Hugh Dalton Classified public expenditure into (a) Expenditure which was designed to preserve the social life of community against violent attack-internal and external and (b) Expenditure which improves the quality of social life.

Kautilya classified public expenditure according to (a) the heads expenditure and (b) the nature of expenditure (daily expenditure & investments)

A. C. Pigou has classified public expenditure into two parts, viz., (a) Transferable expenditure and (b) Non transferable expenditure

Economic/Accounting Classification

According to Hugh Dalton it is conventional to classify public expenditure into various economic categories. Accounting Classification has been there for centuries because it enables the State Executive to maintain an effective control and check over public expenditure and possible leakages and wastages, diversions and misappropriations.
It may be departmental classification or classification according to heads of expenditure".
The following are the major accounting / economic classifications.

**Plan and Non-Plan Expenditure**

Plan expenditure comprises all the expenditure of the government which are included in the plan. Plan heads include those programmes and projects financed by the government on the recommendations of the planning commission. The expenditure related to new projects and programmes becomes plan expenditure during the period of a five year plan.

Non plan heads include those functions which are taken into account by the finance commission while recommending financial assistance from the Central Government to the state. Non-plan expenditure is a committed expenditure on completed schemes of earlier plans. Expenditure on continuing service and activities at levels already reached in a plan period is shifted to non-plan expenditure in the next plan, eg. education and health facilities etc. Thus as more plans are completed a large amount of expenditure on operation and maintenance facilities and articles created, get added to non-plan expenditure besides the interest on borrowing to finance capital.

**Capital & Revenue Expenditure**

Capital expenditure comprises all capital transactions including defence and capital transactions of public commercial undertakings. It includes expenditure on acquisition of assets like land and building, machinery, investments in shares etc and loans and advances. The benefits of capital expenditure extend over a period of time.

Revenue expenditure includes all current expenditures on administration including defence and public commercial undertakings. Revenue expenditure does not result in creation of assets. All grants given to state governments and other parties are also treated as revenue expenditure.
Development and Non-Development Expenditure

Expenditure which directly or indirectly develops natural or human resources of the nation or national wealth as a whole can be termed as developmental expenditure. It is said to be directly related to the promotion of development of backward economy. It includes items such as education, medical care, public health, family planning, labour and employment, agriculture, etc. Expenditure which does not result in any rise of national income can be termed as non-developmental expenditure, eg., defence expenditure.

Voted and Charged Expenditure

Any public expenditure made by the government after discussion and passing the vote on account motion in the parliament/legislature is voted expenditure. Expenditure other than voted expenditure earmarked for contingencies are termed as charged expenditure (Article 113 of the Constitution of India) for eg. expenditure incurred on draught relief and other natural calamities.

It may be noted that the total of ‘plan and non-plan’, ‘capital and revenue’, ‘developmental and non-developmental’ or ‘voted and charged’ expenditure is one and the same.

Sector wise Classification

Expenditure of governments are classified into three main sectors; (a). General Services: Consists of expenditure on organs of state, fiscal services, interest payment and servicing of debt and Administrative services etc. (b). Economic Services: include expenditure on agriculture and allied activities, rural development, special areas programmes, irrigation and flood control, industry and mineral, transport etc. (c) Social Services: include expenditure on education, sports, arts and culture, health and family welfare, water supply, sanitation, housing and urban development, information and broadcasting, welfare of scheduled casts, scheduled tribes and other backward classes, labour and labour welfare, social welfare and nutrition and (d). Grants-in-aid and contributions to various Panchayati Raj institutions
THEORIES OF PUBLIC EXPENDITURE GROWTH

The classical theorists as well as the ancient jurists were against the expansion of the public sector requiring heavy doses of public expenditure. Even during the nineteenth and the first half of twentieth century, the concept of the State was very narrow. Their conception of a police state defined the activities of governments on the basis of the traditional functions embracing police, justice and arms. But the multiple orientation of modern day governments necessitated a drastic shift in emphasis from a traditional police state to a modern welfare state. This new philosophy of state and its functions, propelled the level of state activities in all directions resulting in profuse expansion of the public sector and the consequent growth of public expenditure. In an attempt to theorise the phenomena, for the first time, Adolph Wagner a fiscal theorist propounded an empirical law to the effect of growing public expenditure. This is followed by the war hypothesis of Peacock and Wiseman. Thus the well known important theories of increasing public expenditure are: (1). Wagners’ Law and (2). Peacock and Wiseman’s hypothesis.

Wagner’s Hypothesis

One of the earliest attempt to ascertain the growth of public expenditure was that of Wagner, a German economist writing towards the end of the 19th century. He propounded the ‘law of increasing expansion of public and particularly state activities’, which is referred to as the ‘law of increasing expansion of fiscal requirements’. His prognosis of increasing state activity states that the level of economic development is a causative factor for the growth of public expenditure. This law is the result of empirical observation in progressive countries in western Europe. According to him an increase regularly takes place in the activity of both the central and local governments of such countries. This increase is both extensive and intensive, the central and local governments constantly undertake new functions, while they perform both old and new functions more efficiently and completely.
Wagner argued that social progress brought increasing state activity which in turn meant to more public expenditure. According to this hypothesis of increasing state activity, public expenditure can be divided into two viz. (a) Expenditure for internal, external security and (b) culture and welfare. Thus the pressure for social progress is the basic cause for the growth of government outlay, followed by decentralisation of administration and the increase in the expenditure of local bodies. It follows from the hypothesis that, the specific reason for increasing public expenditure are, Extension of social activities, War, Population growth and urbanisation, World depression, Rise in prices, Democratic institutions, Economic planning, Complexities of modern life and Expansion of public sector. Wagner’s thesis contained important insights. He appreciated some of the market limitations. But his thesis in part depended on a particular organic view of the state which was not a necessary interpretation of the situation.

**Peacock-Wiseman Hypothesis**

Peacock and Wiseman have considered the role of emergency such as war, in raising the level of public expenditure. They developed the hypothesis that expenditure grows because revenue grows rather than the other way out. In normal times size of public expenditure is limited broadly by the level of taxation which the general public is prepared to tolerate. And this tolerable level can not be high. But the major disturbance like war, changes the tolerance limit. Once the war is over, the tax ratio does not return to the pre-war level. Hence the growth trend of revenue and expenditures is moved upward permanently. This movement has been termed as the ‘displacement effect’. The displacement effect is supported by a ‘scale hypothesis’.

This hypothesis is based on a statistical study which shows public expenditure rising rapidly during war time and subsequently levelling to a ‘plateau’ below the peak of the war years but substantially above pre-war levels of expenditure. Major disturbance creates new and emergency demands on government in the civilian sector as well. New social
welfare schemes may be adopted. Thus displacement effect is supplemented by scale hypothesis causing a permanent increase in the level of government expenditure. Their hypothesis indicate that in the absence of major disturbances like war government outlay would increase only gradually. Peacock and Wiseman hypothesis have been approvingly referred to by Musgraves. They state, “national emergencies, particularly war may cause a temporary but compelling increase in the need for public expenditure for which voters are willing to overcome to old ‘Tax threshold’ and to accept an increase in the level of taxation which they otherwise would resist”

**REASON FOR THE GROWTH OF PUBLIC EXPENDITURE**

‘The level of government expenditure set in any country at any point of time, not in accordance with some sweeping law of historical development (Wagner), nor in obedience to the displacement caused by exogenous socio-economic crisis. (Peacock Wiseman), nor yet as the result of the unrestrained actions of power hungry bureaucrats. Though influences in all these directions may play some role, they are never the only and seldom crucial determinants of government spending. Accordingly the following can be some of the obvious reasons for the growth of public expenditure:

1. Shift from Laissez-Faire to Welfare Economy
2. Defence Needs
3. Development of Agriculture
4. Urbanisation
5. Democratic and socialistic structure of the government
6. Rural Development Scheme
7. Industrial Development
8. Rising Population
9. Growth of Transport and Communication
10. Business Fluctuations
11. Adoption of Planning
12. Increasing Price Levels
13. Increase in National Income
14. Expenditure on Traditional Functions
15. Social Progress
16. Defective Administration
17. Pressure of New Economic Legislations
PUBLIC EXPENDITURE IN INDIA

ANCIENT INDIA

In ancient India the king with a depleted treasury was looked down upon. The treasury was considered as the source of all powers and hence it was the duty of the king to keep his treasury in full. In determining the nature and quantum of expenditure, the king was bound by the dictates of the ancient jurists. The doctrine of surplus budget was a favourite doctrine in India followed with great enthusiasm as dictated by the jurists. Accordingly the king was to spend as little as possible leaving a sizeable portion of revenue as surplus. The expenditure on police, justice and arms formed major heads of expenditure in India during those days. Little money was spent on other activities.

Thus in earlier periods the volume of revenue determined the quantum of expenditure, contrary to the modern practice where expenditure determines the size of the revenue. 'The modern idea is first get the size of the coat and then go for the cloth, while ancient practice was to cut the coat according to the cloth'. Since revenue determined the size of public expenditure, the role of public expenditure was not recognised as important as revenue in ancient India.

PUBLIC EXPENDITURE UNDER THE BRITISH RULE

If we were to track the evolution of financial policy in the British India, we may conveniently divide the period into four phases viz., (a) pre 1872 period (b) 1872 -1921 (c) 1921-1937 and (d) 1937-1947.

Expenditure Policy prior to 1872.

Prior to 1872, there was no clear cut expenditure policy. Expenditure was largely governed by such requirements as Territorial Expansion, External Security and Internal Law and Order. Thus in the accounts of the earlier period of the company's rule, the expenditure was shown under three main heads namely, civil, military and building and fortifications. But the single major head of expenditure in this period was defence.
For instance, in the year 1857-58, the proportion of defence expenditure in total government expenditure was 47.7 percent. In addition to military expenditure, a considerable portion of India's revenue was annually spent in great Britain in the form of 'Home charges'—a tribute paid by India to England. Every year India had to pay about 16 million pounds on account of Home Charges.

After the assumption of direct rule by the crown in 1858, the attitude of the government towards expenditure was that of economy in the sense of (a) minimising the expenditure and (b) efficient utilisation of resources. For example James Wilson, who introduced the first budget of India in Modern form in 1860, proclaimed it as the duty to reduce all expenditures to the lowest point, consistent with security and good government in order to secure economy. The expenditure policy enunciated by James Wilson continues, as can be verified from the evidence given by various Finance Ministers and Administrators before the select committee of Indian Finance in 1857. However, in the absence of statistical data, we can rightly conclude that the expenditure per head of population was increasing at a faster pace. The critique of Indian finance is more justified, if we consider that in a period of 66 years to the end of East India Company, the revenue of the company showed a deficit during nearly forty years.

**Period from 1872 - 1921**

This period is significant in many ways because firstly, most importantly the data of government expenditure are available in continuous and reasonably comparable form as from 1872 onwards. Secondly this period fits well for international comparison as similar studies have been done for the U. K., Germany and Japan. Thirdly it marks the first step towards federal finance.

It is only after 1872, changes were introduced in the legislative control over the purse. For instance in 1877, the government of Lord Lytton took a major step on the road to decentralisation. Several heads of expenditures such as land revenue, excise, stamps, general administration, stationery, law and justice were transferred to provincial
governments. Similarly in 1882 Lord Ripon made certain changes. He introduced the system of imperial, divide and provincial heads of revenue by which the revenues from all sources were divided into three categories. This settlement was made for five years and was renewed in 1887, 1892 and 1897. In 1904, Lord Curson tried to remove the defects of the settlement of 1882. In 1907, the Decentralisation commission was set up by the British Government and the Government of India accepting the recommendations of the commission passed a resolution on provincial finance on 18th May 1912. But certain defects continued till 1921, when Montague Chelmsford reforms were made.

**Period From 1921-1937**

The Government of India Act (known as Montague Chelmsford reforms) was passed in 1919 and came into force from 1921 onwards. As a step towards financial autonomy for the provinces, the 'divided heads' were abolished and complete separation of heads of revenue between the centre and provinces came to be effected. The Montague Chelmsford reforms of 1919 did not satisfy the political aspiration of the Indian people giving rise to many political uprisings against the British. The consequence was the passing of the Government of India Act 1935. The Act granted provincial autonomy to the provinces. It provided for a three-fold division of powers between the Federal Government and the Provinces laying the foundations of federal finances of modern India. To work out the details especially in regard to sharing of taxes mentioned above, Sir, Otto Neiyeer was appointed in 1936.

**Period from 1937-1947**

The Government of India Act 1935 continues to reign with some modifications restoring the provincial autonomy. This was a period when the British Government was forced to be more lenient towards India mainly due to mass uprising in anticipation of the dawn of independence. The Quit India Movement added impetus to this process. The Indian Independence Act proposed to give freedom to India with full autonomy and freedom in
all matters. Thus this period reflected some fundamental changes in the attitude of the British Government towards more financial and political freedom of the people of India.

**The Aftermath of British Rule**

The economic conditions of India on the eve of the British conquest, one finds a balanced economy of agriculture and industry, providing employment for all castes. There were self-sufficient village communities with hereditary professions for different groups. The colonial rule which aimed imperialism was gradually plundering India of her wealth, leaving herewith depleted resources.

The imperial rulers sued thousand and one methods to skin India. In case of British rule the plunder was a part of the existing system of government and was therefore ceaseless and continuously increasing from year to year, the wounds were kept perpetually open and the resource drain was like a running sore. ‘The former rulers of India were like ‘butchers’ chopping irregularly here and there. But the mechanised efficiency of England was cutting the very heart of the country almost with sharp surgical knives’.

In a series of well written articles contributed to the New York Daily Tribune in 1853 Karl Marx made an excellent comment on British rule in India. Regarding the destructive role of Britain in India, Marx referred to Britain’s wanton destruction of indigenous society with the comment that ‘England was actuated by vested interests and was stupid in her manner enforcing it. England’s economic role in India was crude plundering of India’s wealth and its parasitic battening on Indian economy. British destroyed it by breaking up the native communities, by uprooting the native industry and by levelling at all that was great and elevated in the native society’.

The reckless plunder coupled with improper management of public money for centuries left the world’s most fabulous and refractory land with depleted resources, pausing serious challenges to the administrators of independent India to come. To tackle
these grave problems paused by the successive invaders, the government of independent India has to take up some constructive steps in resurrecting the economy, which set the role of public sector at commading heights.

The economic stagnation, mass poverty, unemployment, extreme economic inequality that prevailed in the country, if allowed to persist, might threaten the newly earned freedom of the nation. It was, therefore, up to the public sector to play a crucial role in solving the problems of capital formation, introducing new and advanced techniques of production, extension of social services and over all in re-alignment of production process, all requiring heavy doses of public expenditure.61

CONSTITUTIONAL PROVISIONS OF PUBLIC EXPENDITURE

Article 112 of the constitution of India insists that the President shall in respect of every financial year cause to be laid before both houses of Parliament a statement of the estimated receipts and expenditure of the government of India for that year, in this part referred to as the annual financial statements. The estimates of expenditure embodied in the annual financial statements shall show separately (a) the sums required to meet expenditure described by the constitution as expenditure charged upon the consolidated fund of India and (b) the sums required to meet other expenditure proposed to be made from the consolidated fund of India and shall distinguish expenditure on revenue account from other expenditure.

Under article 113, so much of the estimates as relates to expenditure charged upon the consolidated fund of India shall not be submitted to the vote of parliament, but nothing in this clause shall be construed as preventing the discussions in either house of parliament any of those estimates. So much of the said estimates as relates to other expenditure shall be submitted in the form of demands for grants to the house of people. Again no demand for a grant shall be made except on the recommendations of the President.
METHOD OF ACCOUNTING

Under Articles 266 & 267 of the constitution, the Accounts of the Union and State governments are kept in the following three parts, viz; PART I Consolidated Fund (Article 266), PART II Contingency Fund (Article 267) and PART III Public Account (Article 266)

Part I Consolidated Funds of India - (Article 266)

Subject to the provisions of article 267 and to the provisions of this chapter with respect to the assignment of the whole or part of the net proceeds of certain taxes and duties to states, all revenues received by the government of India, all loans raised by that government by the issue of treasury bills, loans or ways and means advances and all moneys received by the government, repayment of loans shall form one consolidated fund to be entitled “the consolidated fund of India”; all revenues received by the government of a state by the issue of treasury bills, loans or ways and means advances and all money received by that government in repayment of loans shall form one consolidated fund to be entitled “the consolidated fund of the state”. No moneys out of the consolidated fund of India or the consolidated fund of a state shall be appropriated except in accordance with law and for the purposes and in the manner specified in the constitution.

In Part I, viz, consolidated fund comprises (A). Revenue Account, (B) Capital Account and (C) Debt Head. The Revenue division deals with the proceeds of taxation and other receipts classed as revenue and the expenditure met therefrom, the net results of which represents the revenue surplus or deficit for the year. In Capital division, the section Receipt Heads (Capital Account) deals with receipts of capital nature which can not be applied as a set off to capital expenditure. The section Expenditure Heads (capital account) deals with expenditure met usually from borrowed funds with the object of increasing concrete assets of material and permanent character. The section ‘Public Debt, Loans and Advances etc’. comprises loans raised their repayments by the
government such as internal debt and Loans and Advances made (and their recoveries) by government. This section also includes certain special types of heads for transaction relating to Appropriation to the Contingency Fund and inter state settlement.

**Part II Contingency fund** *(Article 267)*

Parliament may by law establish a Contingency Fund in the nature of an imprest to be entitled, the Contingency Fund of India into which shall be paid from time to time such sums as may be determined by such law and the said fund shall be paid at the disposal of the President to enable advances to be made by him out of such fund for the purpose of meeting unforeseen expenditure and pending authorisation of such expenditure by parliament by law under article 115 and 116.

The Legislature of a state by law establish a Contingency Fund in the nature of an imprest to be entitled “the Contingency Fund of the state” into which shall be paid from time to time such funds as may be determined by such law, and the same shall be placed at the disposal of the Governor of the state to enable advances to be made by him out of such funds for the purpose of meeting unforeseen expenditure and pending authorisation of such expenditure by the Legislature of the state by law under article 205 and 206. Any expenditure incurred from the contingency fund is to recouped by obtaining supplementary grants with the concurrence of the parliament / legislature.

**Part III Public Accounts** *(Article 266)*

All other public moneys (remaining after consolidated fund and contingency fund) received by or on behalf of the government of India or the government of a state shall form the Public Account of India or the Public Account of the state, as the case may be. In this part of the Accounts, the transaction relating to Debt (other than those included in Part I) Deposits, Advances, Remittance and Suspense are recorded. The transaction under Debt, Deposits and Advances in this part are those in respect of which government incurs a liability to repay the moneys received or has a claim to recover the amounts
paid together with repayments of the former (Debt and Deposits) and recoveries of the latter (Advances). The Public Account exhibits transactions in respect of which government functions as a bank. For payments out of the Public Accounts no demand is required to be presented to the parliament or the state legislature and the actual requirements are met from time to time as they arise.

The government follows the cash system of accounting. ‘Despite the cash system of accounting manifests disadvantages, the system has some merits of its own, which account for its adoption in England, the United States and some other leading countries of the world. There the accounts of the fiscal year are closed on the last day of the year, all outstanding amounts whether due to or by the state, are carried to the accounts of the next year and all appropriations not used their annualled. The promptness with which the accounts are closed and the financial position of the government exhibited is the main recommendations of the system. Every year new beginning can be made and the public within a few weeks can ascertain the state of the nation’s financial affairs’. 62

**BUDGETING IN UNION AND STATES**

**BUDGETING - AN OVERVIEW**

Budgeting is a politico-economic process. Budget reflects the objectives and approaches of the government. Budgeting may have to achieve three sets of balance in an economy viz., sectoral, regional and fiscal balance.

Budgeting is considered to be the heart of administrative management. It serves as a powerful tool of co-ordination and balance in economic activity and an effective device of eliminating duplication and wastage. These objectives are accomplished by devices such as justification of estimates, supervision of the use of funds, timing of the share of
expenditure etc. Budgeting creates cost consciousness and provides opportunity for evaluating programmes and policies, thereby identifying absolute or unnecessary activities and enable their discontinuance.

Budget is an arrangement of an economy's estimated or planned income and expenditures in a forthcoming period, usually an year. Besides being planned, it is an administrative instrument because, once adopted, the budget guides the administration of fiscal operation during the period it covers. The budget also provides a record of the fiscal operation of past years. The following are perhaps the most important purposes which budget services:-

(a) A reasonable evaluation of the total income and expenditure of the state, (b) A sensible balancing between the various items of expenditure and the various components of income. (c) An evaluation of the macro-economic effects of the fiscal policy which is implied in the state budget and (d) Provides opportunity to the representatives of the people to exercise some control on the finances of the state. The control is affected by keeping accounts corresponding to the arrangement of the budget, so that by comparing accounts with budget it can be seen whether the government has followed the resolutions of the Parliament / Legislature.

SYSTEMS OF BUDGETING

Performance Budgeting

It is a system of presentation of public resources in terms of functions, programmes, performance units viz., activities / projects etc, reflecting primarily the governmental output and its cost. Performance budgeting system tends to highlight the needs for clearly defined objectives, choices between alternative programmes based on their cost benefit implication; spelling out of the future cost repercussions of near term financial
commitments etc. Essentially it emphasizes the need for overall programme management in the light of the long time objectives. The crux of performance budgeting on the other hand, has been on improvement of internal management on the basis of volume of work to be accomplished and its cost. It involves development and application of refined management tools such as work measurement, performance standards, unit cost etc.

**Planning, Programming Budgeting System (PPBS)**

Under this system the budget is classified in terms of programmes, rather than along organisational lines because the key to PPBS is the programme - a public policy objective along with the steps necessary to attain it. It explicitly focuses on budgetary choices among competing policies. Programme budgeting requires that programme objectives stretch beyond a single fiscal year and that the programme objectives are variable. It is a resource allocation system requiring management of output and outcomes. It places greater emphasis on allocative efficiency and application of quantitative techniques of analysis from a medium term perspective. While performance budgeting was designed to discover the most efficient method of accomplishing a given objective, PPBS treats the objectives themselves as variable.

**Zero Base Budgeting (ZBB)**

Under this system of budgeting process each manager has to justify a budget request from the "scratch" or "zero" base. This is done on the basis of evaluation of programmes, its alternatives and also the levels of performance of various alternatives such an analysis is pointed out to help in better ordering of expenditure priorities. Funds are allocated to those programmes which would realise the objectives with an optimum degree of efficiency. ZBB involves (a) Identification of decision units (b) Formulation of decision package (c) Prioritisation or ranking of decision package and (d) allocation funds to the decision packages. Planning, programming and budgeting are integrated into a single process in ZBB. Planning implies the determination of long term objectives, programming
gives an opportunity to select appropriate programmes on the basis of cost benefit consideration and budgeting leads to allocation of funds to those programmes. This combination/integration enhances efficiency in public finance management.

**Incremental Budgeting**

It is a traditional way of budgeting. Under this system next year's budget allocation for each department/sector is made on the basis of possible increase in the demand for funds, taking into account variables such as the rate of inflation, estimated cost of each program, availability of financial resources etc. In practice, as per this system of budgeting, a specific percentage of increase over the budget provision of the current year is given for the coming year. It is more an arbitrary exercise than normative. The major drawback of this type of budgeting is the absence of review/feedback mechanism of activities/programmes undertaken. Therefore it offers little opportunity for review of activities or scrapping of programmes which are less useful and/or economically non-viable. Thus it directly militates against the basic objectives of budgeting.

**BUDGETARY PRACTICES IN UNION AND STATES**

India follows the incremental system of budgeting. There is little arrangement under this system to question and review projects and activities in vague even if they run counter to the very concept of budgeting. In addition, the results of expenditure and/or the extent of objectives are seldom ascertained. Under this system, expenditure for each on-going programme in the current year is taken for granted and coming years budget allocations are made by allowing a margin on that of the current year. By adding up the requirements of individual items, the total expenditure for the financial year is worked out. Then the total revenue from all the sources is calculated. This is also done by allowing a margin on the current year's receipts and/or last year actuals. The difference between expenditure and revenue is left as uncovered deficit.
In India the budgets are prepared for the financial year commencing from April 1st of each year and ending on the March 31 of the following year. The budget is prepared by the executive and presented to the legislature for its sanction. This gives an opportunity to the legislators to review and criticise the department and Minister and to stop or reduce the grant of any ministry. This procedure is perfect in accordance with the democratic ideals of a parliamentary form of government. India being a Federal State, the Central Government and the State Governments prepare their budgets separately.

Each budget speech of the Finance Ministers contains references to the budget figures of three years. The budget is presented about a month before the beginning of financial year. It gives accounting figures of the preceding year, the revised estimate of the current year and the budget estimates of the following year. A budget is divided into two parts; the income side and the expenditure side. In the Government finance the expenditure is first estimated and it is on the basis of the estimated expenditure the Government plans to raise money. If estimated revenue exceeds proposed expenditure the budget is a surplus budget, and if it is contrary, the budget is a deficit budget. The deficit or surplus is mentioned as the last item of the budget.

**Estimation of Expenditure**

The budget estimates are finally prepared by the Ministry of Finance of the Government of India in the centre and the respective Finance Ministries in the State. As per the present practice the procedure for the preparation of the budget start in the month of September in the current year. All the heads of departments are given instructions to send their proposals of expenditure requirements for the coming year by the middle of October. Department Heads in turn request their subordinate officers to assess their resources requirements for the next financial year. The request for the expected resource requirements for the coming year, put forward by the subordinate officers are compiled and send to the finance department by the middle of November by the heads of departments.
On the basis of the estimates of all the departments, the Ministry of Finance prepares an estimate of income and expenditure of the Government as a whole.

The budget estimates separately show (1) the sums required to meet expenditures to be charged upon the Consolidate Fund, and (2) sums required to meet other expenditures to be made from the Consolidated Fund. The first kind of funds are non-votable and are not to be discussed, reduced or revised by the Parliament/Legislature. All other estimates of the expenditure are submitted in the form of demand for grants to the Parliament / Legislature which has power to assent or to refuse to assent to any demand.

Each demand for grant is subject to separate debate and voting. After the voting on each demand of grant an Appropriation Bill is submitted to the house, the passage of which amounts to legal sanction to the demands for grant. In other words, this Bill empowers the Government to incur expenditure in accordance with the wishes of Parliament / Legislature.

The method by which the department heads and subordinate officers arrive at the next years requirements for funds are adding up a margin on the current year’s allotments, not even actual expenditure. The margin is discretionary and varies from officer to officer and from each time point. This practice results not only in unrealistic estimates but also in the continuance of relatively less important projects and schemes and allotments of funds for even works which are already completed. It does seldom provide a chance to monitor programmes and schemes which are less useful to the economy. It also results in gross underestimation of certain items of expenditure.

Quoting Musgrave\(^6\) "Voting bias is not the only cause, so the critics argue, which leads to the over expansion of the budget. ‘Bureaucrats’ and politicians also contributes thereto. They do not serve to implement the wishes of the voter, as the theory of representative government assumes, but strives to impose their will. They find it in their
interest to expand the budget and they are in a position to do so. The empire building bureaucrat will submit a budget request which (1) ask more funds than needed to perform a given function, (2) overstates benefits derived from a given level of services and (3) inflates the total in anticipation of expected cutbacks”. It is not from the benevolence of the butcher, the brewer, or the baker, we expect our dinner but from their regard to their own interest

**CONTROL OF PUBLIC EXPENDITURE**

Control in general and more specifically in relation to expenditure financed by the proceeds of taxation is an ambiguous concept. The central problem in expenditure control as the Plowden Committee noted is that of have “to bring the growth of public expenditure under better control, and how to contain it within such limits as the government may think it desirable”. But at the same time expenditure control does not mean mere compression or containment of expenditure alone, but it certainly means reprioritisation and rationalisation of expenditure in such a way as to effect suitable change in its mix and composition.

Broadly however, it refers to a specified administrative process in which the roles and tasks of various agencies in policy formulation and implementation are specified and where there is constant interaction among them to ensure that the policies are people oriented and cost effective. In a narrow sense control refers to a verification process where the intent is to ensure that the laws of government have been fully complied with and proposed actions have gone through the specified tests of financial discipline.

It is in this narrow sense that the expenditure control is actuated by the government machinery through the various methods of control falling mainly under three vast tracts of territories viz., (a) Budgetary Control, (b) Administrative Control and (c) Parliamentary/ Legislative Control.
BUDGETARY CONTROL

Budget preparation is the most primary stage of expenditure control. It is a well thought financial plan of government activities in terms of revenues and expenditures. It specifies the functions and objects of public expenditure. How much of the public funds is to be spent for which particular purpose and which particular department, what should be the attainment of physical targets against the specific expenditure and what should be the allocation of funds for the use of particular department are all specified in the budget frame.

DEPARTMENTAL/ADMINISTRATIVE CONTROL

For the routine supervision of the executive, Parliament relies on the Treasury. The operation of treasury or the Finance Department is a continuous day-by-day process, all proposals for new expenditure or new services or extension of existing services require the approval of the Finance Department before they are put in hand. This practice ensures that the financial policy would be on a sound economic principles since the personnel in the Finance Department are supposed to be well versed in such matters. Moreover this practice ensures that the Financial Policy of the Government does not run adrift overwhelmed by political sentiments and emotions.

PARLIAMENTARY/LEGISLATIVE CONTROL

After the budget plan is prepared, it has to be presented in the legislature for its approval. There occurs debate in the legislature where the members seek clarification and justification of expenditure programme. After critical study of budget plan, expenditures estimated originally may be curtailed or enhanced according to the merit of the case.

In democratic countries, the ultimate control over Public expenditure is exercised by the Parliament. In India, Parliament exercises control over public expenditure through the following institutions. 1. Direct control by the Parliament / Legislature. 2. Control
by Parliamentary or Legislative Committees - (a) The Estimates Committee (EC), (b) The Public Accounts Committee (PAC) and (c) The Committee on Public Undertakings (CPU). 3. The Audit Department under the Control of Comptroller and Auditor General of India (CAG)

**Direct Control by the Parliament**

The Parliament/Legislature as the case may be has the direct control over the public expenditure in the following manner:– (i) No expenditure can be incurred without the sanction of the Parliament or legislature, (ii) No expenditure is sanctioned unless initiated and asked for or by the executive and (iii) All expenditures other than those specifically charged by an enactment are sanctioned on an annual basis.

**Control by Parliamentary / Legislative Committees**

i) **The Estimates Committee (EC)**- In India, the first Estimate Committee was constituted in 1950 after the coming into force of the constitution and now is elected every year from amongst the members of the Lok Sabha only on the basis of proportional representation by means of single transferable vote. The chairman of the Committee is nominated by the Speaker, but if the Deputy Speaker happens to be a member of the committee, he becomes the chairman automatically.

The functions of the Estimates Committee, as laid down in the rules of Procedure of the House, are: (1) to report what economies, improvements in organisation, efficiency or administrative reform, consistent with the policy underlying the estimates, may be effected, (2) to suggest alternative policies in order to bring about efficiency and economy in administration, (3) to examine whether the money is well laid out within the limits of the policy implied in the estimates and (4) to suggest the form in which the estimates shall be presented to Parliament. In terms of the Rules of Procedure of the House, the Speaker may, from time to time, issue directions to the chairman of the committee as he may deem it necessary, for regulating the procedure and organisation of the work of the Committee.
ii) Public Accounts Committee (PAC): Under the provision of the Indian constitution, the Public Accounts Committee is constituted by both the houses of Parliament, and is composed of 22 members: 15 members from the Lok Sabha and 7 members from the Rajya Sabha. The public account committee examines and makes a review of the audit reports submitted by the Comptroller and Auditor General of India and such review completes the cycle of parliamentary control over finance.

iii. Committee on Public Undertakings: The Committee on Public Undertakings was constituted on May 1, 1964. It consists of 15 members - 10 members to be elected from the Lok Sabha according to the principle of proportional representation by means of a single transferable vote and 5 associated members to be nominated by the Rajya Sabha.

The functions of the committee on Public Undertakings are: (a) to examine the reports and accounts of such public undertakings as have been specifically allotted to the Committee for this purpose, (b) to examine the reports if any, of the CAG on public undertakings, (c) to estimate, in the context of the autonomy and efficiency of public undertakings, whether the affairs of public undertakings are being managed in accordance with sound business principles and prudent commercial practices, and (d) to exercise such other functions vested in the PAC and the EC in relation to the public undertakings specified for the committee as are not covered by the clauses (a) and (b) above and as may be allotted to the Committee by the Speaker from time to time.

The Audit Department Under the Control of Comptroller and Auditor General

The Audit of government transactions is one of the most important instruments of Parliamentary control over the finance of the country. Independent Audit is a very important safeguard of the Public Money. It is considered essential for protecting the interest of the tax payers. Auditing of government transaction is the process of ascertaining
whether the administration has spent or is spending its funds in accordance with the terms of the legislative instrument which appropriated the money. Audit of Government money, in democratic country, is done by an independent officer, who performs this duty on behalf of the legislature. It is his duty to see that money has been spent economically and honestly. In India this function is carried out by the Comptroller and Auditor General of India (CAGI) appointed by the President under the provisions of the constitution. He not only maintains the accounts of the government in the capacity of an accountant, but also conducts the audit of the public money disbursed.

RECENT REFORMS IN PUBLIC EXPENDITURE MANAGEMENT (PEM)

The recognition of the inadequacies of the conventional approaches in budgeting accounting and management has contributed to the emergence of a new approach to PEM. These new developments can be categorized into: 1. New Management Philosophy 2. Extended application of the Commercial Type of Accounting in Government 3. Application of market principles to budgetary allocations and their use 4. Innovations in sectoral controls 5. Deficit reduction packages 6 Greater application of Computer Technology and 7. Professional financial management in spending agencies.

New Management Philosophy

This is also known as New Public Management (NPM). The main ingredients of NPM, as identified by Hood (1991), are hands-on-professional management, explicit standards and measures of performance, emphasis on output controls, shift to disaggregation of units in the public sector, greater competition in the public sector, stress on private sector styles of management practice, and stress on greater discipline and parsimony in resource use. The basis idea of NPM, pioneered most notably in New Zealand, is that government shall seek to improve quality by giving managers broad discretion in running their programmes and holding them accountable for results.
**Extended application of the Commercial Type of Accounting in Government**

A number of countries switched over to double entry book keeping and adopted the accrual based system of accounting during the 1980’s. In Australia, New Zealand and United States accounting standard boards were setup to specify accounting standards. According to the prevailing practices, government agencies were obliged to prepare annual balancesheets, statement of uses and sources of funds, and income and expenditure statements. In addition they were to show the incomes due liabilities as well as contingent liabilities. These, it was expected, would provide a more balanced judgement on the financial status of the country. ‘Owing to traditional maintenance of accounts on a cash basis government activities are in many cases managed with poor quality financial information. It is often unreliable, unaudited and untimely with inconsistencies in reporting practices from one year to the next’.

‘The government balance sheet as prepared on the accural basis of accounting would indicate the networth. Erosion in networth as compared to earlier periods provide a measure of the fiscal deficits and the long run solvency of the government’.

**Extended Application of Market Principles**

As an extension of privatisation principle that came into vogue during the early 1980’s, most governments in the industrial world resorted to contracting out services (outsourcing) to the private sector with a view to reducing the size of public outlay. The application of the market principles involved the liberation of the spending agencies from the government monopolies and the freedom to seek their inputs from the best source available on the basis of competitive bids. Thus government agencies are expected to be commercial in their approach based on market testing on the basis of competitive tenders and contracting out. Moreover, it envisages public-private partnership in the process of shared decision making.
Innovations in Sectoral Controls

A variety of norms applicable to different sectors have evolved recently to supplement the general framework of controls. In some cases more detailed controls reflecting the nature of the activity has involved. The important development in this area during the 1980’s is the special attention that has come to be paid to the development of controls aimed at containing the growth of the costs of medical care. During the last four decades, governments have come to provide an extensive safety net for the poorer section of the community. To contain the growth of the cost of medical care, they applied management and financial control measures including global budgets and ceilings. Accordingly hospitals were begun to be recognised as both a management centre and a cost centre and each major hospitals is treated as autonomous decision making centres.

Deficit Reduction Packages

As the fiscal deficit expanded governments took several measures aimed at containing it. These measures covered personnel restraint, sectoral cuts including frequent abandonment of newly initiated capital projects half way through implementation, consistent under funding of operations and maintenance expenditures, freeze of wages and other changes and across-the-board cuts. Such measures aims at stemming the inertial growth in expenditures and at minimizing the wide spread uneconomic practices in procurement, personnel practices and utilisation of available technology. In addition, efforts have been initiated in many countries to undertake fiscal consolidation - euphemism to review both revenue and expenditure policies.

Greater Application of Financial Management Information System

Budgetary process in most countries is now computerised and budget submissions by the spending agencies are made either on an online basis or in floppy disks. Further most of the financial statistical informations is already available in the computer. Similarly with regard to fiscal reporting, the introduction of online systems have helped
the central agencies to have access to information even as transactions are being made. The computer technology also facilitated the introduction of new and user friendly payment systems.

With the object of controlling aggregate spending, strategic prioritisation of expenditures across policies and better use of budget resources, the spending agencies in many countries have started making extensive use of Financial Management Information System (FMIS). Financial Management Information System maintains data on approved budgeted appropriations, sources of financing for programs and projects, budget transfers, supplementary allocation, fund release against budgetary allocations and commitments and actual expenditures against budgetary allocations.

**Professional Financial Management in Spending Agencies**

During the 1980s, in the USA, UK, Canada and New Zealand professional financial management practices were begun to gather momentum. The major innovations in this area is the installation of internal control system in government spending agencies. This is followed by the performance and output based budgeting, activity based costing and commercialisation and market testing.

Control is much broader than the traditional internal control over financial reporting, compliances and asset safe guarding. The International Organisation of Supreme Audit Institutions (INTOSAI) noted that the establishment of demanding internal control standards is necessary particularly in government in view of its size, diversity, the volume of transactions, the multiplicity of records and numerous rules, regulations and laws.

Internal control refers to a system of control that provides reasonable assurance of effective and efficient operations, internal financial control and compliance with the rules and regulations. It envisages managerial commitment, supporting organisational structure, professional approach to financial reporting and internal management
information systems. It seeks to establish design of accounting systems that shows financial transactions and possible exposure to loss of assets. Moreover, it aims at procedures to ensure compliance of law and regulations and effective monitoring system.

An important element of modern internal control throughout government is a professional and internal audit function that is an integral part of an Integrated Financial Management System (IFMS). Integrated Financial Management System consists of an inter-related set of subsystems such as accounting, budgeting, cash management, debt management and related internal controls that plan and report upon resources and quantifying them in financial terms.

**STUDIES IN PUBLIC EXPENDITURE**

Related relevant studies, research works and analytical reports on public expenditure from the time of Adam Smith till date is presented in chronological order as given below.

Adam Smith in Wealth of Nations (1776) made one of the earliest explicit mentions of the phenomenon of the growth of public expenditure. He attributed this phenomenon to an increasing function of national income.

Wagner (1880), had the same view and he empirically tested this hypothesis. His prognosis of increasing state activity states that the level of economic development is a causative factor for the growth of public expenditure.

A contemporary view of Wagner, Adams (1898) also substantiated the views of Wagner from a utility and income constraint angle. He professed factors other than national income which are responsible for growth in government expenditure, such as political pressures, population density and local spirit, social and individualistic philosophy, propensity to emulate, etc.

Bright Singh (1944) brought out a historical review of the financial developments in the erstwhile kingdom of Travancore for a period of 140 years from 1800-1940. In
the absence of reliable data and other published sources, he went after the piles of Cadjan records like 'Thirattus' etc (Thirattus: Annual financial accounts of the state). He was, in a way, able to state the increasing trends of public expenditure especially for war purposes (Military Expenses) during the period.

Fabricant\(^7\) (1952) established that there exists a relationship between interstate variations in state and local expenditure and a set of determinants consisting of per capita income, population density and the percentage of population living in urban areas.

Mathew\(^7\) (1958) analysed the pattern of public expenditure during the period 1937-1956 and considered only the large items of expenditure significant in the process of economic development. One of the purposes was to examine the extent which the changes in the pattern of expenditure are the result of deliberate policy or whether they were the outcome of circumstances beyond the control of the government. According to him the expenditure pattern that emerged at the end of the first five year plan was mostly the result of deliberate policies of the government.

Sacks and Harris \(^8\) (1964) stressed the role of inter governmental fiscal transfers or the source of revenue fund and found to be positively related to the expenditure level.

Fisher\(^8\) (1964) postulated that distribution of income is also an important factor along with tax capacity in influencing public expenditure.

Mukherjee’s\(^8\) (1965) study was an exercise in the reconstruction of historical statistics and related to the developments during the first half of this century.

Adams\(^8\) (1966) has indicated a positive influence of social philosophy and a negative influence of individualistic philosophy on the level of public expenditure.

Peacock and Wiseman\(^8\) (1967) questioning the Wagner’s Organic Theory, postulated the Displacement Effect Hypothesis/War Hypothesis. This hypothesis is based on a statistical study which shows public expenditure rising rapidly during war time and
subsequently levelling to a plateau below the peak of the war years but substantially
above the pre-war levels of expenditure. Accordingly wars and other unforeseen events
are the major causes for the growth in public expenditure.

Panchmukhi\(^8\) (1967) having presented the applied theory of public expenditure,
has brought out the importance of cost benefit analysis in the process of public
expenditure. His study represented a step towards clarifying the economic aspects of
the effects of expenditure on education and health, the knowledge of which is so essential
for making rational decisions in these fields.

K. N. Reddy\(^9\) (1968) conducted a study using the statistical data, of Government
of India and some other select countries, for the period 1872-1966. By comparing and
contrasting the Wagner's hypothesis of increasing state activities with Peacock and
Wiseman War hypothesis, he postulated that public expenditure during this period had
shown tremendous increase. To substantiate his arguments, he went in line with the
Peacock and Wisemen's war finance hypothesis disregarding the organic theory of
Wagner. He tried to establish the expenditure growth as an outcome of the national and
international unrest of that period.

Borcherding and Deacon\(^10\) (1972) viewed public expenditures as responses to
collectively exercised demands.

Zahir\(^11\) (1972) examined the impact of public expenditure on income distribution
during 1952-1966. He concluded that the growing public expenditure in India made
very insignificant contribution towards the achievement of social justice which is a very
important objective of public policy in our country.

Bergstrom and Goodman\(^12\) (1973) also went in line with Borcherding and Deacon,
viewing public expenditure as a bye product of collectively exercise demands.
Wagner and Buchanen\(^9\) (1977) established that deficits rather than expenditure increases money supply.

Ansari and Singh\(^9\) (1977) using annual data from 1951-1987 analysed the causal relationship between public spending on education and economic growth for India. The study finds a bi-directional causal relation between government expenditure and economic growth in India.

Nagarajan\(^9\) (1978) made an attempt to test the displacement hypothesis for central government expenditure in India as a consequence of a less pronounced social upheaval such as the Indo-China hostilities of 1962 which he called ‘non-global’ crisis’. He made the crucial assumption that the crisis did not affect public expenditure in 1961-62 and the impact of the crisis was felt from 1962-63 onwards. He found empirical support for the displacement effect hypothesis in public expenditure associated with the Indo-China hostilities of 1962.

Barro\(^9\) (1978), in an attempt to test empirically the relationship between expenditure, deficits and money growth, developed an equation based on the annual data of the USA for the periods from 1941-1976 and 1946-1976. He established that it is government expenditure rather than deficits increases money supply, contradicting the earlier views held by Wagner and Buchanen in this regard (deficits rather than expenditure increases money supply). The same view is held by Niskanen\(^9\) (1978) with empirical proof in USA.

Ahuja\(^9\) (1978) conducted an investigation for the Socio-Economic Research Unit of the Planning Commission, with a view to examining the distribution of benefits from government expenditure. The study identified areas of government expenditure which benefited the poor and suggested selective actions in realising the redistributive objectives of the budget.
Sharma\textsuperscript{95} (1978) found that Fiscal Effort to be the most significant factor affecting expenditure growth in the context of a state in India.

Allan Peakcock\textsuperscript{96} (1979) attempted a critical analysis on the determinants of the growth of government expenditure in post-industrial societies/countries. He carried out his analysis by conducting a brief survey in major industrial countries in western Europe together with the United States and Canada. The study revealed a uniformly experienced long-term growth in government expenditure often coupled with growing centralised control of public expenditure. He lists out reasons to this phenomena by pointing at the demand supply condition for publicity provided government goods and services and he correlates the growth of government expenditure to the structure and evolution of political decision making process in democracy.

Gupta A. P.\textsuperscript{97} (1980) estimated the distribution of benefits from the combined expenditure of the central government, state governments and union territories by using “money flow approach”. He found that, public expenditure benefits those who receive it as their income i.e., the salaried class.

Govinda Rao\textsuperscript{98} (1981) exposed that the ideological leaning of the parties in power did not affect significantly the level of expenditure in the states in India but intended to create imaginary output differentiation.

With empirical proof in USA, Hamburger\textsuperscript{99} (1981), lending support to the views of Barro (1978) and Niskanen (1978), substantiated that expenditure rather than deficits increases money supply.

K.K. George\textsuperscript{100} (1982) examined the problem of revenue expenditure spiral in Kerala, leaving a heavy revenue deficit year after year. To resolve this problem he suggests the need for more central transfers.

In 1982, Misra, P. N\textsuperscript{101} worked out the distribution of impact of government expenditure for the state of Gujarat three talukes only. The net result of these exercises,
according to Misra, was that, “most government expenditure (on education and health) ultimately reaches those in secondary and tertiary sectors and very little goes to producers of food crops who are the actual majority in the country.

Bhattacharya\textsuperscript{102} (1984) analysed the behaviour of major macro-economic variables in the mixed developing economy of India and concluded that the introduction of government budget constraints in a macro-model alters many of the standard Keynesian policy conclusions.

Examining causality between public expenditure and national income, Sahni and Singh\textsuperscript{103} (1984) find a bi-directional causality between national income and public expenditure in India using the framework of Granger Causality.

Sarma and Tulasidhar\textsuperscript{104} (1984) attempted to assess the impact of central government expenditure on the different sectors of the Indian economy using the Leontief static input-output model for the year 1971-72. Compared with the earlier studies, the distinguishing feature of this study is the inclusion of the impact of the expenditure on salary dispersals. They found that the direct effect of salary disbursements was higher than that of commodity purchases.

The study by Reddy et. al\textsuperscript{105} (1984) covering period 1951-1975, brought out that expenditure per head of population varied from state to state. This variance was explained by per capita federal transfers to state upto 1962, the influence of this explanatory variable declined, pointing to the fact that federal transfers moved by and large, in favour of relatively underdeveloped states.

Sibani Dutta\textsuperscript{106} (1985) made a comparative study on the trends in public expenditure at state level covering a period of 24 years from 1951-75 with special reference to the state of West Bengal. It revealed that the Public Expenditure or revenue account registered an enormous growth of about ten times within a period of twenty three years. Similar is the case with capital expenditure galloping by 11 times during same period. He concludes
that expansion of public wants, the size of modern welfare state, war with Pakistan, rising prices, growth of population, influx of refugees and so forth have contributed to the conspicuous growth of public expenditure in West Bengal.

Maitra, Taresh (1985) tried to estimate 'budget incidence' by using deductive reasoning and inductive reasoning. According to him the net effect on the personal income / consumption of the payment of taxes and of receipts and services provided through public expenditure is budget incidence. He found that indirect taxes exceeded expenditure on the public services. Consequently the general level of the distributive schedule, derived from the consumption of the public services were lower than what would have been had the excess taxes been spent and accounted for the budget incidence analysis.

In a subsequent study K. K. George (1988) shed light on the revenue mobilisation and spending by the state of Kerala. He observed that the government spending was constrained by the low share of central transfers and own tax revenue.

Mahendra Pratap Singh (1988) analysed the growth of public expenditure in India with a special reference to central government development expenditure for the period 1950-85. He tried to empirically test the growth pattern and composition of development expenditure of Government of India with the help of some indicators of measures of growth such as compound growth rate, elasticity of expenditure to GNP and other econometrics techniques, etc. He equated the quantitative growth of central government development expenditure with the development of Indian economy taking into account both actual and the desired expenditure. The study reveals that the proportion of National Income devoted to public expenditure showed a high rate of increase.

Diamond (1989) has lent support to the Keynesian view implying a direction of causation from public expenditure to income.

K. N. Reddy and S. Sudhakar (1989) probed into the incidence of Public expenditure in Andhra Pradesh covering only allocable expenditure for the period 1975-84. The study
sought to clarify certain issues like expenditure incidence vs. benefit incidence, the base of incidence, classification of expenditure, time lags in accrual of benefits and criteria for distribution of expenditure benefits. The study revealed marked variation in the benefits accrued to different income groups lending widespread dissatisfaction among middle income families.

Bhat et al.\textsuperscript{112} (1991) use three causality tests (viz., Granger, Sims and Multiple Rank F-test) to explore the causal relationship between national income and public expenditure in India over the period 1969-1990. In contrast, the findings do not support the Wagner’s Hypothesis but lend support to the Keynesian view, implying a direction of causation from public expenditure to income.

By using multiple linear regression equation, Sham Bhat and Uma Shankar Patnaik\textsuperscript{113} (1991) examined the determinants of public expenditure and their variability across Congress and Non Congress ruled Indian states for the year 1985-86. They found that in addition to socio-economic variables, change in political party in power significantly influences total expenditure, expenditure on education and expenditure on economic services.

Abhey Pethe and Ajith Karnik\textsuperscript{114} (1992) probed into the inflationary impact of financing public expenditure. By using a prototype macroeconomic model they developed a design suitable for raising finances with minimal inflation. It is handicapped to the extent of being an empirical issue; the solution in each case must be sought from an online model.

The study by R. Ramlingom Aiyar and K. N. Kurup\textsuperscript{115} (1992) for the period 1974-90 revealed that the pressure on the Kerala’s budget, started worsening since the late 1980s, originated from its revenue account, of which the non-plan revenue expenditure is a dominant component.
K. K. George\textsuperscript{116} (1993), lending support to R. R. Aiyer and K.N. Kurup, found that the preponderance of the non-plan revenue expenditure is the root cause of the financial crisis in Kerala.

Jose Jacob\textsuperscript{117} (1993) probed into the finances of Kerala, for the period 1950-90. He listed out the major factors contributing to the state’s fiscal crisis in a general way with special emphasis laid on the non-plan revenue expenditure. According to him, the crux of the fiscal crisis of the state lies in the practice of determining the non-plan non-developmental expenditure first before raising the resources required to meet it.

D. N. Dwivedi\textsuperscript{118} (1994), came out with the revelation that the public sector activity in India has expanded very rapidly over the past four decades between 1950-90, recording an increase in the ratio of public expenditure of the centre, states and union territories to GNP from 8.1 percent to 40.8 percent. He attributes this phenomenon to the role of public sector in post war period at ‘commanding heights’ for achieving economic growth in Low Developing Countries. He calls for fiscal policy reforms inspite of his visualisation of a Liberalised market economy where the role of Public Sector is the minimum.

Sudipto Mandle\textsuperscript{119} (1997) set focus on the growth of public expenditure in India since the mid seventies. The analysis reveals from distinct phases (1974-81, 1981-86, 1987-90, 1991-94) that the growth of government expenditure maintained an alarmingly increasing tempo leading to serious fiscal imbalances. He attributed this phenomena to the growth of revenue expenditure and the low level of cost recovering in general and the rising interest burden, the compensation of government employees, resource drain and failure to control the growth of government consumption expenditure in particular.

By using four variables namely; income, government expenditure, interest rate and inflation rate Zain A. B.\textsuperscript{120} (1998), developed a model to investigate the role of government expenditure in explaining variations in the demand for money in the kingdom of Saudi Arabia for the period 1971-98. Applying the technique of co-integration, they
found that a long run demand for money exists if the government expenditures, interest rates and the inflation rate are taken as explanatory variables.

Studies by Sohrab Abizadeh and Mahmoud Yosefi\textsuperscript{121} (1988) considered the political dimensions in the determinants of public expenditure in western countries.

Uma Kapila\textsuperscript{122} (1999) attempted to highlight certain facts regarding the public spending pattern of government of India for the period 1990-99. Her study reveals only certain statistical highlights about the growth of government expenditure, where the growth of revenue expenditure was exorbitantly high as it showed a nine times increase during the decade.

Using multi-variate analysis, Richard et. al.\textsuperscript{123} (1999) found that productive government expenditure chances growth while non-productive expenditure does not. At the same time the study focuses on the issue of efficiency and pattern of expenditure while analysing the long run link between government expenditure and growth in OECD countries.

Rakesh Mohan\textsuperscript{124} (2000) attempted to analyse the significance of fiscal correction to attain sustainable economic growth. He analysed data on the state and central government revenues and expenditures for the period 1985-2000, to suggest ways to climb out the debt trap. He pointed fingers at the colossal increase of non-plan expenditure especially that of interest payments of both central and state governments. According to him this rising debt-service obligation is a key threat to sustainable economic growth as it resulted in substantial reduction in investment expenditure which would have otherwise been directed to productive purposes.

ALLEN ROY et. al.\textsuperscript{125} (2000) utilising the pooled data for Indian states over a period of six years, from 1992-97, attempted to estimate the normative expenditure levels for providing a standardised unit of service with regard to three disaggregated expenditure heads viz., primary education, secondary education and higher education. The findings
of their study are consistent with the generally maintained hypothesis that “rich states spend more than poor states spend as far as social sectors are concerned”.

Mukta S. Adi\(^{126}\) (2000), swords at the existing system of procedural weakness of expenditure control of India by comparing the on going reforms in the developed countires like USA, Newzealand, etc. She asserts the need for a fresh approach to the problems. She suggests a serious, well directed and sustained effort required to move from a mere adhoc control to proper expenditure management.

Shenqen Fan et.al\(^{127}\) (2000) using state level data for 1970-93 developed a simultaneous equation model to estimate the direct and indirect effects of different types of government expenditure on rural poverty and productivity growth in India. The results of the study show that in order to reduce rural poverty, the Indian government should give highest priority to additional investments in rural roads, agricultural research and education.

Vathsala et.al\(^{128}\) (2001) attempted to explore the deteriorating financial position of state governments in India worsening since the 1980’s and the period of economic reforms from 1990-01. The study pinpointed certain areas of weakeness as lack of fiscal consolidation and integrity, audit and accountability and sanctity associated with obtaining legislative approval. The authors sought to address the central question of public expenditure management as a vital development imperative emphasising the need for Micro Management in public expenditure administration.

Pravakar Sahoo\(^{129}\) (2001) probed into the implications of the Wagner’s Hypothesis for India within the framework casualty co-integration and error correction mechanism in the presence of a structural break using advanced unit root tests for the period 1970-99. Identifying the structural breaks in different time periods the study finds supports for long run equilibrium relationship between public
expenditure and economic growth. The error correction mechanism reveals a bi-directional casualty in absolute terms supporting both Wagner's Hypothesis and Keynesian view.

Swathi Raju\textsuperscript{130} (2001) in his paper examined money deficit relationship by empirically estimating the Barro hypothesis, government expenditure rather than deficits influence money growth for India over 1950-51 to 1997-98. A replication of the Barro model to Indian data shows support emerging for with Barro's hypothesis as well as the Buchanan and Wagner conjecture - of the significance of deficits on money supply while a strong support to the Barro model emerges in its variations.

N. Kumar and Mittal\textsuperscript{131} (2002) studied the Pattern of Defence spending in India over a period of 50 years from 1950-51 to 2000-01. As usual they came out with the generalisation, validating the hypothesis that the defence expenditure is galloping like anything. From Rs. 168 crores in 1950-51, it increased to Rs. 58,587 crores, registering a growth rate of about 348.73 times in a fifty year period. They attempted to correlate the gigantic growth of defence expenditure with the increasing tensions on the borders.

Chia Ngee Choon\textsuperscript{132} (2002), reiterated the need for fiscal restructuring in Asian countries pursuing sustainable growth. It needs to examine both the revenue raising capacity and spending needs of governments and to make necessary changes. On the revenue side the study calls for vertical equity (unlike treatment for unlike situation) and horizontal equity (like treatment for like situation) for raising funds. On the expenditure side, he projects that old age and health care financing will become increasingly important as long run policy challenges for Asia.

B. N. Narayanan\textsuperscript{133} (2002), investigated into the growth of public expenditure of Government of India & State Governements for the period 1950-02 based on statistical data of the RBI. He attributed this growth to several generalised reasons like boarder tensions, inflation, liberalisation effects, etc.
Usha\textsuperscript{134} (2003), devoted her study covering certain aspects of Health expenditure pattern in Kerala, for the period 1975-01. Making use of the statistical data of State Planning Board, she concluded that government expenditure on water supply and sanitation increases year by year indicating the fact that health expenditure pattern of Government of Kerala is improving during the period under study. She attributes this improvement to the better health consciousness among the people.

Sreenivasa Rao\textsuperscript{135} (2003) carried out a study on the expenditure pattern of Andhra Pradesh Government by comparing and contrasting the expenditure pattern of the government of Andhra Pradesh in the pre and post reform periods from 1980-2002. He came out with the observation that the proportion of capital, development and plan expenditures underwent diminution in the post reform period (1991-2002). He concludes by asserting the need for higher allocations to social sector to ward off the evil effects of liberalisation for it caused the growth rate of the state’s economy dwindled to 5.3 percent in the post reform period as against 6.4 percent in the pre reform period.

Compiling statistical data from various published sources, Sanjeev K. Sobhee\textsuperscript{136} (2003) developed a theoretical model based on utility maximisation of the community welfare represented by a constant elasticity of substitution function to provide additional empirical evidence regarding the effects of demand management policies on inputs and governments choice of modes of financing fiscal deficits in the sub-Saharan economy of Mauritius. He also made an attempt to test the debt neutrality proposition (tax financed increase in PE has the same effect as bond financed increase in PE) and Policy - neutrality proposition i.e. bond or printing press may not alter output. His study confirms that government spending has a stimulatory effect on output.

The studies reviewed above invariably bring out, from a macro perspective, the world wide phenomenon of the growth of public expenditure. They have been successful in explaining this phenomenon, empirically, as the outcomes of social
progress or exogenous socio-economic crisis like wars, etc or unrestrained action of bureaucrats and politicians.

But in most occasions, the studies seemed to have reduced to model building exercises, which alone is not enough to trace the micro bases of this fueled crisis of expenditure growth. For, scientific management of expenditure requires detailed and consistent analysis of different elements of public expenditure touching their micro foundations; to address the central question of Public Expenditure Management as a vital development imperative.

But unfortunate to say studies in this regard, particularly in India and in Kerala suffered serious neglect leaving many areas unexplored. This opens up new avenues of research throwing lights on certain vital aspects of public expenditure management in the context of the fiscal crisis in Kerala.

To materialise fiscal consolidation a reality and to live upto the challenges of the liberalised market setup, the government spending agencies should also come out of the veil of official secrecy incorporating such sound ingredients of Public Expenditure Management as transparency, accountability, contracting out, customer orientation and cost effectiveness.

The present study aims to fill this literature gap by incorporating these vital aspects that surround the contents and contours of public expenditure, thereby suggesting a micro approach to Public Expenditure Management for Government of Kerala.
References


15. Ibid, P. 3.


35. Ibid.


55. James Wilson, *India's First Finance Minister who made the First Budget Speech in February 1860*.

56. Select Committee on Indian Finances was appointed by Mr. Gladston, the then British Prime Minister in 1871 to enquire into the alarming growth of public expenditure in India.


