

CHAPTER III

TRENDS IN PUBLIC EXPENDITURE

A review of the broad trends in public expenditure in India, following the survey of the revenue structure in the last chapter, is of value for a general appraisal of the country's fiscal system. The character and distribution of public expenditure modifies the economic effects arising from the levy of taxes. The extent to which taxation may be felt as a burden partly depends on the objects on which tax revenues are spent and the manner in which the benefits of expenditure are distributed. A precise view of the benefits accruing from public expenditure to different classes in the community is not, however, possible. The character of public expenditure has also some bearing on the appropriate methods of its financing, and these methods fall within the purview of the Commission's enquiry. Besides, it appears desirable at the outset of an enquiry encompassing, among other things, the investigation of possibilities of fresh additional sources of revenue, to underline the need of ensuring the most effective utilisation of existing tax resources for promoting the community's welfare and development, before new and higher burdens are imposed on the people. This last consideration emphasises the vital concern of a Commission, charged to enquire into the tax system, with the evolution of proper expenditure policies by Governments—Central and State. A detailed enquiry into public expenditure from this point of view, however, falls beyond our terms of reference. It is a large enough subject for full-scale separate investigation. The need for utmost restraint on the growth of non-development expenditure can hardly be over-emphasised. Besides, during a phase of intensive development effort when targets in terms of expenditure also assume a certain degree of significance, there is likely to be, even within the development sector of expenditure, some loss in effectiveness and possible room for economy and avoidance of waste. We are ourselves impressed with the need for thorough and careful enquiry both in the Central Government and the States into the whole question of public expenditure and suggest that such enquiries should be undertaken and entrusted to sufficiently high-powered bodies.

2. An integrated picture of the country's finances, of public expenditures as well as public revenues, on a comparable basis is possible only since 1950-51, after the financial integration of Part B States was completed. This period practically coincides with the working of the Constitution, and also with the planning phase, as 1950-51 was the base year for the Five year Plan estimates. In fact, it is this period which is most relevant from the point of view of the work of the Commission. All the same, it would be useful to give a summary survey of the changes in the character of public expenditure in India during the last few decades.

3. The following table shows the expenditure on revenue account of the Central Government and nine (Part A) States/Provinces in selected years during the period of over three decades since 1921-22*.

*While the main grants-in-aid to States have been deducted from Central expenditure, certain departmental grants to States have not been so adjusted and a certain degree of duplication remains in the totals.

TABLE 1.—Expenditure on revenue account of Central and State Governments in selected years since 1921-22

	(Crores of Rupees)					
	1921-22	1936-37	1938-39	1950-51	1953-54 R. E.	1954-55 B. E.
Centre	109·93	80·92	82·03	335·87	388·78	418·35
Provinces/Part A States	70·12	76·69	80·53	293·08	380·54	400·89
Part B States				91·53	115·85	127·65

Centre:—Figures for 1921-22 and 1936-37 are inclusive of those for Burma; figures for 1938-39 relate to undivided India. Main grants to States are excluded.

Provinces:—Figures for 1921-22 exclude those for Burma, but include those of Sind (as part of Bombay); figures for 1936-37 and 1938-39 exclude those for Burma, N.W.F.P. and Sind.

4. During the first half of the period, *viz.*, 1921-22 to 1936-37, when the Government of India Act, 1919 was in force, the contraction in the order of the Central expenditure stands in contrast to the moderate expansion of provincial public expenditure. While Central expenditure was half as much again as provincial expenditure in 1921-22 when the Provinces made significant amounts of contributions to the Central Government, Provincial expenditure had attained a level of approximate parity with Central expenditure by 1936-37. During the War and early post-war period (1939-40 to 1950-51), both Central and provincial expenditures expanded rapidly, by about four times; the comparison is vitiated by changes in the territorial jurisdiction of Central as well as State Governments. During the last four or five years, for which comparable figures are available, there has been a larger expansion in the expenditure of the State Governments than of the Central Government. This, as observed in the last Chapter, results from a good part of the elasticity in the revenues of the Central Government being transmitted to the resources of State Governments, which now form the channels for the larger part of expenditure met out of current public revenues.

5. The following table gives the broad trends in the composition of public expenditure of the Central and State Governments during the same period, *viz.*, since 1921-22. Figures are generally comparable as between 1921-22 and 1936-37 and between 1950-51 and 1953-54.

TABLE 2.—Expenditure of Central Government on Revenue Account
(Crores of Rupees)

	1921-22	1936-37	1938-39	1950-51	1953-54 (R.E.)
Non-development*	104·03	74·94	76·02	295·02	331·78
Social services	2·31	1·74	1·62	14·62	21·21
Economic Development	3·59	4·23	4·39	26·23	35·79
TOTAL†	109·93	80·92	82·03	335·87	388·78
*Of which Debt services.	16·12	12·64	14·19	37·37	38·85
Defence	69·81	45·45	46·18	164·14	199·69

†Excludes the main grants to Provinces/States.

Expenditure of Provinces/State Governments on Revenue Account
(Crores of Rupees)

	1921-22	1936-37	1938-39	1950-51		1953-54 (R.E.)	
				Part A States	Part B States	Part A States	Part B States
Non-development*	42.09	47.43	49.25	144.59	48.39	188.68	52.43
Social services]	12.00	16.40	17.27	73.85	23.99	92.70	28.12
Economic Development.	16.03	12.86	14.01	74.64	19.15	99.16	35.30
TOTAL	70.12	76.69	80.53	293.08	91.53	380.54	115.85
*Of which							
Debt services	3.65	7.55	6.56	9.34	4.83	15.42	6.90
Police	10.34	9.94	10.12	40.12	11.93	40.60	12.03

6. During 1921-22 to 1936-37, there was a marked fall in the Central budget, mostly on account of the decline in defence expenditure; there was some increase in provincial expenditure mainly on account of debt services.

7. During the second half of the period, the change-over in importance from what may broadly be described as unproductive to productive expenditure is significant both in the Central Government and in the States. Details are given in Statement II for the Central Government, and Statements III to VI for the States. We may draw attention here to some significant elements of this change. Thus, expenditure on defence has dropped from 54 per cent. of Central expenditure in 1938-39 to 48 per cent. in 1953-54 and expenditure on administrative services has declined from 13 per cent. to 9 per cent. between the two years. Expenditure on debt services has recorded a steep fall from 17 per cent. in 1938-39 to 9 per cent. in 1953-54, while expenditure on social services and on developmental services has risen from 2 per cent. and 5 per cent. in 1938-39 to 5 per cent. and 9 per cent. respectively, in 1953-54. A significant increase has taken place in the volume of grants-in-aid to States which are being increasingly made for developmental purposes, the figure having gone up from 4 per cent. in 1938-39 to 6 per cent. in 1953-54. Productive expenditure as a whole, including that on social services, on developmental services and by way of grants-in-aid to States has gone up from 11 per cent. in 1938-39 to 20 per cent. in 1953-54, thus underlining the change that has taken place in the character and composition of Central Government expenditure in India.

8. As regards the State Governments, figures in respect of 1938-39 relate to the nine Provinces (including undivided Punjab and Bengal) which are now called Part A States. Taking these nine States, non-development expenditure (excluding Debt Services)

fell from 53 per cent. in 1938-39 to 45.5 per cent. in 1953-54. Expenditure on administrative services declined from 42 per cent. in 1938-39 to 27 per cent. in 1953-54. Expenditure on social services increased from 21.5 per cent. in 1938-39 to 24 per cent. in 1953-54, while that on developmental services increased from 17 per cent. in 1938-39 to 26 per cent. in 1953-54. Development expenditure as a whole, including social services, developmental services and the major part of grants-in-aid to local bodies, has thus gone up from 39 per cent. in 1938-39 to 50 per cent. in 1953-54; this shows the importance of the change that has taken place in the nature and composition of public expenditure of Part A States.

9. It is interesting to observe in particular developments in the main categories of expenditure during the last three or four years. It may be seen from Table 2 that between 1950-51 and 1953-54 there was an aggregate increase in development expenditure (including social services) on revenue account of about Rs. 80 crores, for the Central Government, Part A States and Part B States combined. In the same period, the increase in non-development expenditure was higher, being nearly Rs. 85 crores. Part of the increase in non-development expenditure was due to occurrence of famine conditions in parts of the country and transfers to zamindari abolition funds in certain States. The main increases under non-development heads were under Defence (Rs. 36 crores), Administrative Services (Rs. 19 crores), Debt Services (Rs. 10 crores) and Direct Demands on Revenue (Rs. 14 crores). The increase under administrative services was mainly at the Centre and in Part A States, which accounted for as much as Rs. 18 crores, and was distributed mainly under General Administration, Privy Purses and Allowances of rulers of ex-princely States and Superannuation Allowances and Pensions. The larger appropriation for Debt Services reflects greater dependence on loans to finance development outlay. The increase under Direct Demands on Revenue is mainly at the State level due to expenditure connected with land reforms, consolidation of holdings and survey and settlement operations. These factors go to explain the increase that has taken place in expenditure under non-development heads.

10. We may now offer a few remarks on some of the details of the growth in the expenditure of the Central and State Governments. Taking the Central Government first, there has been a considerable increase in the expenditure on General Administration, which has increased from Rs. 2 crores in 1938-39 to Rs. 9 crores in 1950-51 and to Rs. 12.4 crores in the current year (*vide* Statement II). Apart from the general rise in the price level, the increase is mainly due to expansion of Government activities in several directions, including the setting up of several new Ministries. The working of democratic institutions itself raises the costs of administration; and this is equally true of the States. The increase in Defence expenditure is partly due to the rise in prices and partly to the increased responsibilities following on the advent of independence. Yet another factor contributing to the increase in expenditure is the administration of various regulatory measures, particularly in respect of labour and industry. Besides, the growth of population throws increased responsibilities on Government at

**Factors of growth
in expenditure of
Central and State
Governments**

all levels leading to an increase in public expenditure. Another feature common to expenditure patterns of both Central and State Governments is the increase in governmental responsibilities, such as maintenance of law and order and provision of housing and health facilities consequent upon the growing concentration of people in urban areas, particularly in large cities. A subsidised housing scheme, aimed at encouraging the building of new houses for industrial workers, was inaugurated in 1952-53; Central grants to the States for this purpose amounted to Rs. 1.2 crores in 1953-54 and the budget provision in the current year is Rs. 6 crores. The cost of relief and rehabilitation of displaced persons is borne mainly by the Union Government who spent up to 31st March 1954 nearly Rs. 161 crores under this head, exclusive of loans amounting to Rs. 40 crores. Grants to States for the purpose amounted to Rs. 85 crores during the period. The scheme of subsidy on imported cereals was introduced by the Central Government from 1st April 1946 to make available supplies of foodgrains to consumers at controlled prices. The subsidy was abolished with effect from 1st March 1952, but imported rice (coarse and broken) and milo continued to be supplied by the Central Government to States at reduced prices for another two years. No provision has been made on this account in 1954-55. The total cost of food subsidies was about Rs. 89 crores during the period the scheme was in force, viz., 1947-48 to 1953-54.

11. Legislation undertaken in pursuance of the provisions of the Constitution regarding particular sections of the community who are economically backward, has also contributed to the increase in expenditure, for instance, the cost of schemes for ameliorating the conditions of scheduled tribes, scheduled castes and backward classes. Thus, in 1953-54, in addition to grants to States for promoting the welfare of scheduled tribes and raising the level of administration in scheduled areas amounting to nearly Rs. 2.5 crores [under Article 275(1) of the Constitution], a sum of Rs. 89 lakhs was included in the Central budget for grants-in-aid to State Governments to supplement their efforts for the removal of untouchability and for the welfare of backward classes. There has also been some extension of activities on the part of the Central Government in fields which are primarily the concern of State Governments and of local bodies, such as education, public health, and social welfare, presumably in an effort to quicken the pace or improve the quality of development. This expenditure is in addition to that incurred by way of grants to States for certain beneficent and development activities. Thus, grants for community development and local works, national extension service, training of village level workers, welfare of backward classes, social welfare and basic and social education are of recent origin and expenditure under this head shows definite signs of expanding.

12. We have already remarked on the change in the pattern of the expenditure of State Governments in the direction of greater attention to social and developmental services. A feature of the expenditure of the States today is the place assigned to education. We may point out, however, that while there has been an absolute increase in the expenditure on Education in Part A States from Rs. 12 crores in 1938-39 to Rs. 44 crores in 1950-51 and Rs. 56 crores in 1953-54, in percentage terms the increase has not been significant.

being only 15.4 per cent. of the total in 1953-54 compared to 15 per cent. in 1950-51 and 14.5 per cent. in 1938-39. In Part B States also the order of increase in the expenditure on Education has not been very different, expenditure having risen from Rs. 14 crores in 1950-51 to Rs. 18 crores in 1953-54 or from 15.7 per cent. of total expenditure to 15.8 per cent. Proportionately, expenditure on Public Health and Medical relief has remained almost static. A feature of the increase in public expenditure to which we have already drawn attention is the increase in non-developmental expenditure which has taken place both at the Centre and in the States.

13. With this brief discussion of trends in Indian public expenditure, we may now give a broad picture of the current public expenditure of all Governments in India for 1953-54. Details are given in Statement I. We give below a table showing how a rupee of the total revenue expenditure of all Governments in India was spent in 1953-54.

TABLE 3.—Expenditure of all Governments on revenue account [1953-54 (R.E.)]

(in terms of per rupee of total costs)

	Rs. A. P.
<i>I. Non-Development</i>	
Direct Demands on Revenue	0 0 9
Interest on Debt and Other Obligations	0 0 10
Debt Retirement	0 0 3
National Defence (Net)	0 3 5
General Government—	
External Affairs	0 0 1
General Administration	0 1 0
Administration of Justice	0 0 2
Jails and Convict Settlements	0 0 2
Police	0 1 0
Others	0 0 9
Miscellaneous	0 1 2
Sub-total Group I	<u>0 9 6</u>
<i>II. Social Services</i>	
Education	0 1 5
Public Health	0 0 3
Medical	0 0 6
Others	0 0 11
Sub-total Group II	<u>0 3 2</u>
<i>III. Economic Development</i>	
Agriculture	0 0 6
Veterinary	0 0 1
Co-operation	0 0 1
Community Development projects	0 0 2
Irrigation and Forests	0 0 5
Industries and Supplies	0 0 5
Civil Works	0 1 5
Others	0 0 2
Sub-total Group III	<u>0 3 4</u>

14. It will be seen that a substantial part of the expenditure, about 60 per cent., is incurred on Defence, Administrative items, Debt Services and collection charges or what may be termed non-developmental functions, less than 20 per cent. on social services, and 21 per cent. on economic development and analogous functions. National Defence alone is responsible for a little over one-fifth of the total, and general administrative activities come a close second, with 19.5 per cent. Education (8.8 per cent.) is the major item in social services, followed by Medical and Public Health. A substantial part of the outlay on development services is on Civil Works (roads, bridges and buildings). Next in importance in this group are Agriculture and Forests, and Industries and Supplies. Expenditure on Police exceeds that on any single item in the social services and economic development categories, except Education and Civil Works. Police expenditure is even more prominent in the States' expenditure pattern taken by itself; in fact, the combined provision under Police and Jails (at Rs. 62 crores) forms 12 per cent. of the total expenditure of all States, and constitutes the largest item of States' expenditure.* Education accounts for 11.5 per cent., Civil Works 9.9 per cent. and Agriculture and Veterinary for 5.7 per cent. in States' expenditure. Agriculture, Co-operation and Veterinary are insignificant in the overall picture, accounting for only Rs. 38 crores in the total revenue expenditure of Rs. 927 crores.

15. So far we have dealt with State Governments as a whole and have said little about individual States. State-
Comparative picture of State expenditures ments III to VI in the Statistical Appendix to this Volume give details of public expenditure under defined categories for Part A, Part B and Part C States, as well as for the individual Part A and Part B States. We give below a table showing the per capita expenditure in Part A, Part B and Part C States in 1953-54:

	Part A States			Part B States			Part C States		
	Rs.	A.	P.	Rs.	A.	P.	Rs.	A.	P.
Non-development	6	12	4	7	11	2	8	9	5
Social Services	3	5	2	4	2	0	7	3	7
Economic Development	3	8	10	5	2	11	7	13	5
TOTAL	13	10	5	17	0	2	23	10	5

Total per capita expenditure is higher in Part B States than in Part A States and is the highest in Part C States. The disparities may be explained partly in terms of the density of population. The average density of population is higher in Part A States than in Part B States and is the lowest in Part C States. Generally speaking, with a scattered or low density population, it costs more per capita to run schools and maintain hospitals because more teachers and doctors are required; similarly costs of administration and other overhead expenditure are higher. The concentration of population also results in higher per capita costs of certain services

*If State grants to local bodies for Education are not deducted from States' expenditure, Education would be the largest single item. This is referred to later in some detail.

like public health, but in most cases the greater the density of population, the larger is the number of services which can be performed more economically in a collective manner. The per capita cost of General Government in Part C States is estimated at Rs. 5-8-7 as compared to Rs. 4-3-7 in Part B States and Rs. 3-11-0 in Part A States.

16. Leaving aside Part C States, there are marked differences in per capita expenditure among individual Part A and Part B States. Mysore has the highest figure, with Rs. 24-3-6, followed by Saurashtra, PEPSU, West Bengal, and Bombay. The lowest in the scale are Bihar (Rs. 8-12-9), and Orissa (Rs. 10-0-9). The largest proportion of expenditure on non-development heads, *viz.*, between 55 to 60 per cent. was found in Uttar Pradesh, Punjab and Hyderabad, but in Uttar Pradesh this was due partly at any rate to transfers out of land revenue collections to the Zamindari Abolition Fund. The largest single item of expenditure in the two western border States of Rajasthan and Punjab was Police. In Hyderabad, Police expenditure which was as high as Rs. 6 crores in 1951-52 was reduced to Rs. 3-5 crores in 1953-54. At the other extreme in this respect were Mysore and Travancore-Cochin where the proportion spent on Police was as low as 5 per cent. Bombay and Mysore have the highest figures of expenditure, Rs. 5-12-8 and Rs. 5-8-5 on social services, while Bihar and Orissa lag a long way behind with only Rs. 1-15-8 and Rs. 2-1-8 respectively. Education took the first place in as many as ten Part A and Part B States except in Punjab, Rajasthan, West Bengal, Assam, PEPSU, Orissa and Saurashtra. In the last mentioned four States, Civil Works accounts for large expenditures; in Assam more than a quarter of the total expenditure and in PEPSU a little less than one-fifth was incurred under this head in 1953-54. Better and more communication facilities are given a high priority in these States. West Bengal spent relatively more on Medical and Health Services (10 per cent.) than any other State; this may be compared to 5-6 per cent. spent in Madras, Uttar Pradesh and Madhya Pradesh. It is evident that apart from variations in the relative place of non-developmental and developmental expenditure, the fiscal importance of individual functions also varies among the different State Governments.

17. So far we have only dealt with public expenditure on revenue account. Expenditures on capital account have assumed importance with the inauguration of the development programme. In Chapter VI of this Volume, we review the whole subject of investment in the public sector. We shall, therefore, make only a brief mention here of capital expenditure.

18. Details of capital expenditure of the Central Government and States are shown in Statement VII. Loans to local bodies, port trusts, agriculturists, and others are not included in the Statement. The total capital expenditure in 1938-39 was Rs. 13-4 crores, of which the share of the Central Government was Rs. 9 crores, mostly incurred on Railways and Posts and Telegraphs, and the remaining Rs. 4 crores represented the share of the Provinces, mainly under Irrigation, Electricity Schemes, and Civil Works. In 1945-46, Defence was the main item, with over Rs. 35 crores out-

of a total of a little over Rs. 39 crores. The small size of capital outlays and their distribution in pre-war and War years are indicative of the restricted role of Government in the economic development of the country before Independence. In 1950-51, the Central Government and the States together spent over Rs. 166 crores on capital account schemes and by 1951-52 the figure reached Rs. 243 crores; expenditure was maintained at about that level in 1953-54. In 1954-55 total capital outlay is placed at about Rs. 320 crores. In the first three years of the Plan, total capital outlay was of the order of Rs. 657 crores, of which Rs. 503 crores or more than three-fourths (77 per cent) was spent on development schemes and the remainder on non-development items. Of the latter, a main part was in respect of State Trading Schemes and the transfer of the sale proceeds of American loan wheat. However, not all State trading schemes are of a non-developmental character and mention may be made of land reclamation schemes which are included in this category, on which Rs. 2.4 crores was spent in 1952-53 and a similar amount in 1953-54. Out of Rs. 503 crores representing the outlay on development schemes in 1953-54, the share of the States was Rs. 357 crores, and of the Central Government Rs. 146 crores; a large portion of the expenditure on State schemes is financed from loans by the Central Government. During the three years 1951-52 to 1953-54, Central loans and advances to States aggregated to Rs. 271 crores. The multi-purpose river valley schemes are being financed entirely by the Central Government although the shares of participating States are being debited against them as loans.

19. We may now conclude this brief review of Indian public expenditure with an attempt at assessing its bearing on fiscal policy. The combined expenditure (on Revenue and Capital Accounts) of the Central Government, States and local authorities amounted to Rs. 1170 crores in 1953-54 and formed 11 per cent. of the probable level of national income of the Indian Union. The extent to which Indian public expenditure brings about a reduction in inequalities of economic circumstance and thus helps the tax system to achieve one of the objectives which have been suggested for it is modest partly because the total volume of public expenditure constitutes a small proportion of the total national income and also because the expenditure on social welfare or subsidies by way of transfers to the lower income groups is of little significance. Apart from food subsidies and expenditure connected with relief and rehabilitation of displaced persons (which are temporary), Industrial housing and amelioration of scheduled and backward classes, there are hardly any other directly re-distributive expenditures of importance in the Indian budget.

20. At the same time, a certain measure of territorial or regional redress of inequalities is a conspicuous feature of Indian public expenditure as also of the entire system of public finance. This redistributive process takes place both directly through the redistribution of Central expenditure regionally or indirectly through the division of shared taxes on the basis of population and by way of larger grants-in-aid to the more backward or financially weaker States. In a sense, the proportion of total public revenues raised and spent by the Central Government is a good measure of the extent

to which overall national considerations enter into public finance operations as a whole. For Central revenues are raised under uniform national tax laws without regard to their higher tax incidence on larger regional incomes, while the distribution of Central expenditure is again determined in terms of broad national requirements without being inhibited by the larger relief that may be brought to the more needy regions. This by itself is an important redistributive process. A striking illustration of this process is furnished by the manner in which the river valley projects, which will raise the productive capacity and income levels of comparatively backward areas, are financed out of Central resources which are raised to a larger extent, by taxation and borrowing, from the more prosperous parts and affluent sections of the community. Important, again, are the grants-in-aid to 'backward' States and the high place accorded to population in the scheme of distribution of the divisible revenues collected by the Central Government. There are, of course, limits to this process of regional equalisation, but there is no doubt that it forms a significant feature of the system of public expenditure in this country.

21. The redistributive process operates not only on the national plane in lessening inter-State disparities of resources, but also within the States themselves, perhaps in an even more significant measure, by reducing the disparities between resources and needs among rural and urban areas. This fact is brought out in a striking manner in the Report of the Finance Commission, which gives a Statement showing the collections and expenditure, respectively, under main heads of (State) revenue and expenditure in the three cities of Bombay, Calcutta and Madras.* The table shows the large contribution of the cities (particularly in the case of Calcutta, its preponderating importance), to the tax resources of their respective States, as against the comparatively small share of State expenditure incurred within their limits. It is true that the figures cannot be taken as precise, as collections within city limits are no index of the effective incidence of taxes, which in respect of several heads, e.g., sales tax, would be transmitted outside their areas. But they indicate the manner in which re-distribution occurs through the operation of public finance at State level. In addition, the grants-in-aid made by State Governments to the Local Bodies are a counterpart to the Central grants-in-aid to States, and help to some extent to carry forward the process of equalisation within the State areas.

22. Finally, the increasing role which is being assigned to expenditure on social services serves to diminish the unpopularity of the tax system, while, what is of even greater value, the increasing importance given to developmental expenditure tends, in the long run, actually to increase the taxable capacity of the people.

23. The composition of Indian public expenditure as also the trends therein in recent years serve to bring about a moderate reduction in inequalities, both economic and social in the country; and, to this extent, should reconcile the people to an increase in the

*Report of the Finance Commission, Appendix, pp. 194-195.

total burden of taxation. It must be emphasised, however, that for an effective advance in these directions the objective of the widest possible distribution of benefits, both regionally and by income-groups, needs to be pursued vigorously. Finally, we may add that the re-distributive effects of public finance operations in India cannot attain really significant dimensions as long as the ratios of public-revenues and public expenditure to national income remain as small as they are at present.