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Growth and Composition of Public Expenditure in India

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Abstract

The present study has made an attempt to reinvestigate the Growth and Composition of public expenditure of India during 2001 to 2017. The study focused on trends of expenditure, revenue, social and economiccharacteristics of India, economic and social inequalities. Study includes expenditure and receipts (public, total, revenue, capital,education, health, development and non-development, economic and social services, social sector), trends of fiscal indicators.Despite many improvements in literacy, healthcare, per capita income, manufacturingand agriculture, infrastructure, crime, regional inequalities and hunger, a study of growth and composition of public expenditure in India reveals that even after many decades of independence, have not been fullyredressed. Thus, as predicted from the planning phase as well as from the introduction of new economicinitiatives, sustainable regional growth and improved quality of living of the people have not been entirelyaccomplished. In order to overcome these issues, the government's involvement through its well-designedcapital spending policy will undoubtedly be used as an important tool.

1. Introduction

Public spending contributes to enhancing sustainable growth in developing and developed nations (World Bank, 1988). The percent share of total expenditure to GDP has risen from 27 percent in 1960 to 48 percent in 1996 in developed countries, like the OECD (Oil Export Countries Development) (Gwartney, Hocombe and Lawson 1998). Their results show that government expenditure is an important tool in all countries of the world, particularly in India, for economic development.

At the time of independence in 1947, India was a less developed economy primarily based on agriculture.It is understandable that the British Government used India’s resources during the colonial era.As a part of a free trade policy, India and Sri Lanka were used as a market to supply their products during their regime.The manufacturing industries in India were therefore

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severely impaired and the people of India were unemployed and in misery.

In 1947 India was inherited from the British rulers as a disastrous country.It was therefore distinguished by poor technology and science, limited industrialization, and sloppy industrialization.Features of feudal and semi-feudal institutions resulted in low productivity in the agricultural sector.Transport and communication mechanisms were underdeveloped, as well as inadequate education and health facilities.There were practically no social welfare initiatives. Poverty was ultimately widespread and unemployment spread throughout India.As a result, all sectors in India during this period were severely affected.

The Government has implemented the Five Year Plan in 1951 shortly after independence in order to achieve macroeconomic objectives like higher economic growth, price stability, the balance of payment and reducing income inequalities among the people of India.There are also several changes to government expenditure programs in the budget that have to be implemented by the Government.On the other hand, during that time some public service sectors were nationalized, including steel, mining, machinery, insurance, and power plants.In collaboration between the public and private sectors, the government built heavy industries.

The government also launched the 'Green Revolution' for agricultural sector development.Government introduced high yielding seed and fertilizer varieties as well as enhanced irrigation facilities.Therefore, total agricultural output and productivity in India have increased.The importance of agriculture in LDCs, in particular, has been stressed by Nurkse and Arthur Lewis (1964). The overall development of a country is caused according to them by the improvement in the agrarian sector.

Public expenditure on social sector was increased on social benefits and poverty reduction during 1970's.Several job schemes have been initiated and small industries have been set up to promote job opportunities in rural and urban areas.As the public expenditure is used as an instrument for increasing the country's aggregate demand, it may supplement the fiscal policy to achieve economic development in 1981.In addition, the government announced a lower expenditure and fiscal deficit ceiling.The financial condition started to get worse by the mid-1988s and had been increasingly burdened. Consequently, the performance of public spending has increased.In the 1990s, as the Soviet Union collapsed, the Gulf War led to higher oil prices, resulting in a big problem in India's balance of payments. Such problems arose due to typical capital expenditures in growing trends in revenue expenditure.In the following years, there were systemic adjustment problems, the balance of payment problems, rupee devaluation, and insufficient capital resources. The fiscal structure in India was plagued by these issues.

In 1991-92Government of India introduced a new economic reform policy. This reform has introduced various aspects to the spending pattern and fiscal policy and has become part of India's fiscal structure. Indian government appointed the Committee on Expenditure Reform and proposed structural changes to the composition of the Indian public expenditure system. Consequently, policymakers considered and implemented efficient administration to manage public expenditure in order to achieve macroeconomic objectives.The Central Government and several State Governments in India implemented the policy changes. As a result of the policy changes in 2004, for example, new contributive pension schemes were implemented.

Public investment has been identified as a positive determinant of economic growth by Barro (1990)

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and Nkurunziza et al (2003). Public spending was viewed as a detrimental determinant of economic growth by Sheehey (1993), D. Shantayanan et al. (1996), Furceri and Ribeiro (2008), Romar and Romar (2010), Alperet et al. (2016). Other aspects have also been examined by Dar and Amir Khalkhali (2002), Gregoriou and Ghosh (2009), Taiwo and Abayomi (2011), and Maitra and Mukhopadhyay (2012), such as how the nature and composition of public expenditure affect economic growth? Such conflicting results provide a motive for investigating the relationship between public spending and growth not only at the national level but also on the regional level.

2. Trends in Receipts of Central Government of India

The 1957-58 budget split government taxes and expenses into income and capital budgets. Total government receipts are thus graded as 81 in receipts of profits and receipts of money. Revenue receipts shall include tax and non-tax revenue received. The capital receipts compose, on the other hand, of retail financing, small savings assets, special investments, debt recovery, disinvestment receipts, and foreign loans. Therefore, the central government's profits and capital earnings are part of its income and capital accounts.

All non-returnable receipts can be referred to as revenue receipts. These include revenue from taxation and non-tax sources of revenue, such as wages, the center's other responsibilities, interest and dividend on Public spending, commissions, and other state benefit receipts, income from public sector undertakings such as mail and telegraph, railways, etc.It includes government loans from public authorities known as commercial loans, loans from the government of the Reserve Bank of India and others through the selling of Treasury Bills, loans obtained from foreign governments and institutions and recoveries from Central State and Union governments and other government loans provided by the central government. The income from government equity disinvestment in public companies was also included.

Taxation is used as a tool to minimize private spending and also as investment in the growth and development of the economy. The taxation policy also aims to reduce income inequalities among the poor. Indian Government has taken various steps for reforming the tax structure and one of them is implemented the Modified Value Added Taxes (VAT). The most important considerations in the 1990s were the process of tax reform.In 1991 the structural adaptation schemes for the resolution of the economic crisis were initiated. The mechanisms for tax reforms are still continue to this day.

Tax reforms for structural changes to the tax system were initiated during 1991 by the Union Government. Reforms were carried out in direct as well as indirect taxes. They relied with a broader foundation and better enforcement on moderate tax rates.Equity and efficiency in the tax system were the key priorities in these reforms.First, with major improvements, from specific to *ad-valorem* duties to revenue elasticity, excise duty was strengthened.The number of *ad-valorem* excise duty rates have been reduced to 10 per cent. Secondly, the MODVAT (Modified Valued Added Tax) has been expanded to include capital goods.

Direct taxation is considered a fairer way to increase revenue. The share of direct taxes in GDP increased from 2.33 per cent 1990-94 to 2.89 per cent in 1995-99.The share of direct tax revenue has increased by about 12.5times during the study period.The Direct Tax Proposal was tabled in 2000-2001, to maintain tax rate stability and extend the tax base. There was also a great deal of interest in the fields of IT sectors and capital market growth.With the introduction of a

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CENVAT (Central Valued Added Tax) of 16 percent*ad-valorem* on all manufactured goods with a small number of exceptions, the central excise system had been drastically reworked.The Member States were therefore encouraged to introduce the negotiated sales tax programs to become VAT by 2002(Economic Survey 2003-04).

In addition, certain fiscal actions were taken by reducing customs duties' peak rates. Secondly, the revision of the exemption from taxes was taken up by the streamlining of excise duties to a medium CENVAT rate. Thirdly, the implementation of the VAT by the State level was put in place to achieve self-imposed measures of expenditure productivity through the budget outcome. In 2003-04, the Indian government adopted a higher growth strategy. Thus, significant improvements with higher economic growth
rates in the following years have been achieved. In 2004-05 the Union government also introduced the essential legislation of the Fiscal Responsibility and Budget Management (FRBM) Act.However, the implementation of VAT only marginally enhanced the state economy (Economic Survey 2010-11).The 12th Finance Commission estimates that Member States' share of net tax revenue was increased from 29.5 per cent to 30.5 per cent.

Table 1.1: DIRECT AND INDIRECT TAX REVENUES OF CENTRAL GOVERNMENTS FROM 2001 TO 2017

(Rupees Crore)

Year	**Centre (gross) - Direct Taxes**	**Centre (gross) - Indirect Taxes**	**Centre (gross) - Total Tax Revenue**
2001	68306	120040	188346
2002	69197	117177	186374
2003	83085	131581	214666
2004	105090	147658	252748
2005	132847	170546	303393
2006	165249	199398	364647
2007	230249	241263	471512
2008	312243	279104	591347
2009	333854	269645	603499
2010	377487	243881	621368
2011	445994	343178	789172
2012	493946.94	391231.5	885178.44
2013	558658.05	474766.56	1033424.61
2014	638541.81	495541.12	1134082.93
2015	695743.86	545679.79	1241423.65
2016	741944.71	708013.4	1449958.11
2017	849713.38	866109	1715822.38
CAGR	**0.170646713**	**0.13146314**	**0.14807364**

DIRECT AND INDIRECT TAX REVENUES STATE GOVERNMENTS FROM 2001 TO 2017

Year	States - Direct Taxes	States - Indirect Taxes	States - Total Tax Revenues
2001	12856.78	99769.22	112626
2002	15678.91	106894.09	122573
2003	17216.86	120135.14	137352
2004	20213.07	135137.93	155351
2005	23981.05	158000.95	181982
2006	30179.01	181767.99	211947
2007	38828.54	213682.46	252511
2008	43446	242703	286149
2009	44132	278673	322805
2010	47387	315856	363243
2011	62725	398169.87	460894.87
2012	77299.27	480273.98	557573.25
2013	92568.46	561965.53	654533.99
2014	88231.31	624231.13	712462.44
2015	107695.7	671608.85	779304.55
2016	88175.93	758967.11	847143.04
2017	109914	796409	906324.64
CAGR	**0.143523384**	**0.138632888**	**0.139207461**

Source:*Various Issues of Handbook of Statistics on State Government Finances and State Finances: A Study of State Budgets, Reserve Bank of India.*

The above table 3.1 shows the Direct and indirect tax revenues of states and the central government of India from 2001 to 2017. The table shows the share of centre (gross) direct tax revenue increased by 1244 per cent from 68306 crores in 2001 to 849713 crore in 2017. As a result,direct taxes have shown a healthy development than that of indirect taxes. Indirect taxes increased with a low rate as compared to direct taxes by 721.5 per cent from 120040 crores in 2001 to 866109 crore in 2017. The total tax revenue of centre increased from 188346 crore in 2001 to 1715822 crore in 2017 by 911 per cent. The share of the customs duty in gross tax income has decreased marginally in the case of indirect taxes. In the last 20 years, the Union's share of excise duties was sharply reduced. The sudden decrease in the Union excise duty was primarily due to rate cuts and the downturn in output growth. Owing to service tax the proportion of indirect taxes drops. In the case of state direct tax revenue, 12856 crores in 2001 to 109914 crore in 2017 increased by 855 per cent. Indirect taxes 99769 crores in 2001 to 796409 crore in 2017 increased by 798 per cent. Total tax revenue of states 112626 crores in 2001 to 906325 crore in 2017 increased by 805 per cent.

3. Trends in Public Expenditure of India

From 1950-51 through 1989-90, public expenditure in India has shown significant growth. The proportion of overall GDP spending rose from 9 per cent in 1950-51 to 28.15 per cent in 1989-90. Thus, the size of public expenditure tended to grow and the public sector was

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significantly commanded by the flow of economic resources (Economic Survey 1990-91).

In 1990, however, the increasing fiscal imbalances lead to macroeconomic disturbances. To order to address these issues, fiscal consolidation policies were introduced. In the Indian economy, fiscal corrections were taken in 1991-92 on the expenditure and revenue side. There are also other fiscal changes made by the government of the country, including cutting interest payments, subsidies, and security costs. Additionally, cuts in public sector budget funding have been included. Third, attempts have been made by way of indirect taxation to increase the available income.Furthermore, the government also implemented improvements in fiscal performance. This tax performance had led to export subsidies being eliminated and fertilizer prices rose.(Economic Survey 1992-93).

Government appointed a committee to examine the structure of direct and indirect tax headed by Raja Chelliah in 1991. Chelliah Committee proposed significant changes in tax structure. Welfare expenditures, in particular in sectors such as health, schooling, agriculture, population control, poverty alleviation, irrigation, and investment, are controlled by the State Governments. (Economic Survey, 1993-94).

The mid-term analysis of India's spending and revenue strategies was examined in 1993. The state budget policy's primary goal was to monitor subsidies and identify infrastructure investment goals. In 1993-94, the Food Corporation of India dedicated itself to subsidies for foodstuffs, required procurement price moderation, rises and changes to issue prices and cost savings were made in the short term.

Throughout 1996-97, the Union government took a number of policy initiatives to reinforce the social and infrastructure sectors. Some institutions have been set up to provide long term finance, such as the IDFC (Infrastructure Development Finance Corporation). Moreover, the financial position of the Indian National Highways Authority (NHAI) was strengthened. On the other hand, there were several initiatives from the social sector in the areas of drinkable water, sanitation, elementary schools, primary health centers, public housing, and mid-day meals and irrigation.In the following years, a variety of farm development projects were focused on. Some of these schemes have been developed, such as watershed growth rapid irrigation; benefits, and a rural infrastructure development fund were created. (Economic Survey 1998-99).

In the year 1999, the Union Government made medium-term tax adjustments. The main purpose of this correction was to reduce revenue deficits and budget deficits to below 2 per cent of GDP within 4 years. This was not, however, an easy task to achieve in the short term. The Commission for Expenditure Reforms was therefore appointed in 2000 (Economic Survey 2001), to suggest the overall restructuring of public expenditure in India.

At this time the government of India also initiated a restructuring of the public sector. The public sector reforms were aimed primarily at increasing equity and efficiency and strengthening the administrative system of the public sector. In addition, the reform process has included certain institutions such as the legal, insurance, banking, capital markets, and power and telecom sectors. The Indian economy was hit in 2000 by major disruptions such as the Kashmir unrest, political instability, cyclones in Odisha, and a poor monsoon.These unforeseen events impacted national security, elections, and cyclone allocation spending of the country. Due to implementation of the Fifth Pay Commission's recommendations there was an additional burden on the government.

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This led to a rise in public spending and therefore an increase in the fiscal deficit.

3.1 Trends in Total Expenditure in India

Increasing GDP patterns in revenue and capital investment over seven decades. The share of revenue expenditure as a percentage of GDP has risen from 7.3 per cent in 1950–51 to 22.15 per cent in 1989–90. With growing economic development and demographic growth, the share of revenue spending has increased over the period. Likewise, the share of capital expenditure on GDP grew by an increase in revenue expenditures from 1.7 per cent in 1950–501 to 6 per cent in 1989–90.

In the following table, the revenue spending rose by 1412745 crore INR, from 277839 crores in 2001 to 1690584 crore in 2017. The average rate of growth over 17 years is 0.121278 per cent. In this duration, the capital expenditure of the Union Government rose from 47753 crore in 2001 to 284610 crore in 2017. The amount of 236,857 crore INR during the study period increased with a growth rate of 0.149618 per cent. The Union government's overall budget has risen to 1975194 crore INR from 325592 crores in 2001 to 2017. Overall the rise in the ratio of total expenditure was positive at 0.120737 per cent.

The major component of Union revenue spending is spending on interest payments, defense, salary and allowances, and subsidies. Two-thirds of the total budget expenditure in India was provided by such spending. There has been a significant rise in interest payments of 381400 crores, from 99314 crores in 2001 to 480714 in 2017. This was motivated by the high interest rate. Defense costs increased from 37238 crores in 2001 to 165410 crore in 2017 by 128172 Crore.

Table: 1.2 Total Expenditure of Central Government of India from 2001 to 2017

(Rs. In Crore)

Year	Revenue expenditure	*of Which*			Capital expenditure (7+8)
		Defense expenditure	Interest payments	Subsidies	
1	2	3	4	5	6
2001	**277839**	37238	99314	26838	**47753**
2002	**301468**	38059	107460	31210	**60842**
2003	**338713**	40709	117804	43533	**74535**
2004	**362074**	43203	124088	44323	**109129**
2005	**384329**	43862	126934	45957	**113331**
2006	**439376**	48211	132630	47522	**66362**
2007	**514609**	51682	150272	57125	**68778**
2008	**594433**	54219	171030	70926	**118238**
2009	**793798**	73305	192204	129708	**90158**
2010	**911809**	90669	213093	141351	**112678**
2011	**1040723**	92061	234022	173420	**156605**
2012	**1145785**	103011	273150	217941	**158580**
2013	**1243514**	111277	313170	257079	**166858**
2014	**1371772**	124374	374254	254632	**187675**
2015	**1466992**	136807	402444	258258	**196681**
2016	**1537761**	145937	441659	264106	**253022**
2017	**1690584**	165410	480714	234809	**284610**
CAGR	**0.119477**	0.097674	0.103582	0.145177	**0.118029**

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Year	Loans and advances	Capital outlay	of Which Defense expenditure	Total expenditure (2+6)
	7	8	9	10
2001	23008	24745	12384	**325592**
2002	34284	26558	16207	**362310**
2003	31668	29101	14953	**413248**
2004	28768	34150	16863	**471203**
2005	28910	52338	31994	**498252**
2006	11337	55025	32338	**505738**
2007	8524	60254	33828	**583387**
2008	11298	106940	37462	**712671**
2009	14107	76051	40918	**883956**
2010	15647	97031	51112	**1024487**
2011	24985	131619	62056	**1197328**
2012	20737	137843	67902	**1304365**
2013	20800	146058	70499	**1410372**
2014	19198	168478	79125	**1559447**
2015	29218	167463	81887	**1663673**
2016	26337	226685	79958	**1790783**
2017	36810	247800	86371	**1975194**
CAGR	0.029806	0.154884	0.129066	**0.119266**

Source: *Budget Documents of the Government of India*

The subsidy spending was the third biggest component in revenue expenditure. The primary grants given by the government of the Union were grain and fertilizer subsidies. While the controlled petroleum market system has been abolished, subsidies have been given for kerosene and cooking gas in the Central Budget. In the 17 years of the study period, the total grants as a percent of GDP are raised nearly nine times.

The key explanation for the Central Government's rising revenue expenditure was a review of payments and allowances for public workers. Pay and allowances growth levels largely due to the introduction of the Sixth National Pay Commission. In addition, the Government of India reported arrears payments on conditions such as 40 per cent in 2008-09 and 60 per cent in 2009-2010. The spending on capital in 2001 amounted to 47753 crores and in 2017 to 284610 crore.

3.2 Trends in Revenue Expenditure in India

The Government of India was responsible for the practical description of the budgetary system. The total expenditure was, therefore, categorized into revenue and capital expenditure. The revenue expenditure was the first one of the main elements of the framework of public expenditures. Over the course of the century, revenue spending has been rising. The Table 3.2 indicates that the average growth in Union government revenue expenditure has increased. That is why expenditure on development, in particular social and economic services expenditure, increased during the study period. On the other hand, one third of the total revenue spending over the research period applied to the non-development expenditure. The Union Government's non-developmental expenditure improved with the spending it pledged. Tax rates, insurance contributions, and municipal debt are the source of committed spending.

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Table: 1.3 Revenue Expenditure of Central Government 2001-2017

(Rs. In Crore)

Year	Revenue Expenditure
2001	287825
2002	309819
2003	330853
2004	372594
2005	402670
2006	438034
2007	505699
2008	580805
2009	681985
2010	799154
2011	932297
2012	1074571
2013	1231702
2014	1379750
2015	1637290
2016	1838270
2017	2237950
CAGR	**0.13676349**

Source:*Various Issues of Handbook of Statistics on State Government Finances and State Finances: A Study of State Budgets, Reserve Bank of India.*

Mainly because of the Union's high debt, huge interest payments were made. The committed expense has increased to modest levels, such as pension and administrative services. As of 2005-09, administrative and interest payments spending was greater than 1990-94. Higher interest payments of 2005-09 are powered by higher incomes and salaries (Economic Survey,2009).

3.3 Trends in Capital Expenditure of India

Some analysts argued that development spending such as capital expenditures resulted in the country's long-term growth. Datta (1985) reported that capital expenditure relied on per capita income in West Bengal from 1956-57 to 1973-74. To the opposite, Devarajan et al. (1996) found that the capital expenditure share's coefficients were negative and statistically relevant. In particular, in developed countries, capital spending, which was deemed the key growth pillar, was unnecessary and made unproductive. The share of capital spending on GSDP decreased even below 2 per cent, Jothi Sivagnanam and Baby Gulnaz (2006).

Capital Expenditure has seen a downhill trend since 2014. The sales/asset ratio improved slightly in 2018 as demand outpaced capacity additions. FY 2020-2021 is expected to have limited capacity addition. This should increase the asset utilization to 71 percent, compared to 65 percent in FY 2018-2019.

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Table: 1.4 Capital Expenditure of Central Government 2001-2017

(Rs. In Crore)

Year	Capital Expenditure
2001	52010
2002	58861
2003	79396
2004	141709
2005	150758
2006	123648
2007	151582
2008	171520
2009	200347.5
2010	216176.06
2011	226433.2
2012	277041.39
2013	302552.79
2014	326394.31
2015	388490
2016	521960
2017	621320
CAGR	**0.1676879**

Source: Handbook of Statistics on State Government Finances (2010) & Various Issues of State Finances: A Study of State Budgets, Reserve Bank of India

The table above shows the total capital spending for 2000-01 to 2016-17 for the Union government. The increase of capital expenditure was intended to expand the savings of numerous services provided to the public and to build physical infrastructure. The aim was to encourage the growth of the Union Government's services and their performance. The cumulative capital spending by States and Centers at the present price was studied between 2000-01 and 2016-17. The Union government's compound annual growth rate for capital spending rose from 2000-01 to 2016-17 with 0.168 percent.

3.4 Development Expenditure in India

The Union Government's expenses are listed as development and non-development expenses. Economic and social services are the development spending. The services contribute to society's economic and social development. However, non-development expenditure covered administrative, interest and pension expenditure, as well as public debt. The non-development expenditure was adversely correlated with the government's public debt. As non-development expenditure increases, public spending declines and vice versa.

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Table: 1.5 Developmental Expenditure of India from 2001 to 2017

(Rs. In Crore)

YEAR	Development Expenditure	Total Expenditure
2001	139386	**336856**
2002	159364	**374820**
2003	184197	**426946**
2004	195428	**438726**
2005	214955	**477860**
2006	229060	**519737**
2007	255718	**596996**
2008	325670	**726398**
2009	471399	**899544**
2010	528242	**1042343**
2011	666069	**1217540**
2012	705321	**1332396**
2013	742417	**1435273**
2014	784504	**1587574**
2015	813813	**1694972**
2016	835019	**1825191**
2017	899369	**1975194**
CAGR	0.123588854	0.116889844

Source: Budget documents of the Government of India.

Notes: "1. Total Expenditure and Developmental Expenditure of 2007-08 include an amount of 35531 Crore on account of transactions relating to the transfer of Reserve Bank's stake in SBI to the Central Government.

2. Data on development and non-development expenditure is inclusive of gross expenditure of commercial and postal departments."

The above table 3.5 shows developmental expenditure and non-development expenditure to GDP atfactor and market prices from 2000-01 to 2016-17. The development expenditure ismeasured in constant prices of both factors and market prices. The development expenditure of Rs. 139386 crores in 2000-01, and Rs. 899369 crore in 2016-17 increased by Rs. 759983 crore with CAGR 0.124 during the study period.

3.5 Economic and Social Services in India

Economic services constitute a growth spending portion and are categorized as agriculture, irrigation, development of rural areas, electricity, manufacturing, transport, and general economic services.

Table: 1.6 Economic and Social Services Expenditure of India from 2001 to 2017

(Rs. In Crore)

YEAR	Economic Services	Social Services
2001	71731	17679
2002	80868	15130

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2003	103820	22007
2004	108071	23859
2005	115030	29906
2006	133053	38264
2007	142772	43762
2008	172955	61648
2009	273222	89797
2010	304440	102628
2011	404312	124990
2012	436943	113612
2013	458222	119346
2014	478376	134840
2015	459786	62038
2016	495234	91462
2017	569910	105303
CAGR	0.138298626	0.117986194

Source: Budget documents of the Government of India.

For the period 2001 to 2017, the table shows the Union Government's overall economic and social sector budget shares.Social and economic resources are calculated by factor and market values.In sum, economic services rose to 498179 crore INR in constant prices from 71731 crore INR in 2000-01 to 569910 crore INR in 2016-17 with 0.138 CAGR. The success in growth patterns during the entire study period was driven by factor and market prices.Yet the expense of economic services increased 7.95 times over the study period with respect to existing prices.This shows that owing to the modernization of other industries after the economic reforms, the allocation of agriculture to the Government of India declined.The government industry sectors' participation was also decreased, however, the contributions of the commercial, industrial and public sectors increased.

Social benefits spending contributed to reducing income disparities and to supporting community health. The table above indicates a rise of Rs. 87624 crore over the study period in the overall share of social services at constant rates. This rose from Rs. 17679 crore in 2000-01 to Rs. 105303 crore in 2016-17. It reveals that the government has expanded its social spending because of expansion schools, hospitals and sanitation, housing, and other basic facilities for common citizens.

3.6 Non-Developmental Expenditure of India

This spending is used to broaden the Government's administration.Yet these expenditures are also used to address the deficit and public debt crisis in society. The growth in non-development spending in India has been triggered by several significant real factors. It includes population growth, financial capability, expanded policy initiatives and an effective understanding of progressive ideas that are driving spending growth in India. (State Finance RBI, 2008-09). Now, it is enough to suggest that this practice helps extend the non-developmental programs by increasing the responsibilities of the government.

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It suggests the governmental interference in everyday life is part of contemporary capitalist society and welfare state operations.There are now growing problems with trade, inflation, and depression.Consequently, only by extending the regulatory apparatus at the global level will the Government overcome the problems.The Republic of India grants human rights, democracy, and culture.Specific roles are included, such as political representation, state governments by elections and administration of public services, administrative restructuring, and job programs.Pension for the welfare and social security of the common man will be preserved by the Central Government (PijushKanti Dev, 2009). The table below indicates the share of the Union Government's non-developmental expenditure in GDP at current prices between 2001 and 2017.

Table: 1.7 Non-Developmental Expenditure of India from 2001 to 2017

(Rs. In Crore)

YEAR	Non-Dev. Exp	Total Expenditure
2001	197470	**336856**
2002	215456	**374820**
2003	242749	**426946**
2004	243298	**438726**
2005	262904	**477860**
2006	290677	**519737**
2007	341278	**596996**
2008	400728	**726398**
2009	428145	**899544**
2010	514101	**1042343**
2011	551471	**1217540**
2012	627075	**1332396**
2013	692856	**1435273**
2014	803070	**1587574**
2015	881159	**1694972**
2016	990172	**1825191**
2017	1075825	**1975194**
CAGR	0.111770207	0.116889844

Source: Budget documents of the Government of India.

The above table shows the increasing of developmental expenditure and non-development expenditure to GDP atfactor and market prices from 2000-01 to 2016-17. The development expenditure ismeasured in constant prices of both factors and market prices. The non-development expenditure rose from Rs. 197470 crores in 2000-01 to Rs. 1075825 crore in 2016-17 increased by Rs. 759983 crore with CAGR 0.111 during the study period.

According to Table 3.7, the growth of non-developmental expenditure to the GDPincreased to 4.50 percent and 4.64percent, respectively, during the 17 years; but in terms of current prices, the ND/GDPmarket price which was at 8.35 percent in 1990-94 declined to 7.93 per cent in

2005-09.Therefore, the overall average growth trend declined to -0.64 percent at factor pricesand-0.42 percent at market prices. This kind of fluctuation happened due to expenditures oninterest payments, pension, pay and allowances, administrative expenditure, and subsidies.Expenditure on pay and allowances (of the Sixth Pay Commission) may moderate howeverthis in the coming years. A number of developments, particularly the slowdown of theeconomy in 2008 and its adverse impact on revenue growth increase in commodity prices,anti-recessionary measures, farm loan waiver, and implementation of the Sixth Central PayCommission were contributory factors. From this point of view, this expenditure incurredfor the purpose of increasing administrative expenditure, salaries to government employeesand pension of the public and government sectors in India has grown.

4. Trends of Fiscal Indicators in India

The income account of the government of the Union before the 1970s had no fiscal issue. In addition, over the period of 1979-80, there were surpluses.Yet the capital spending increased against current income in the 1980s, contributing to higher budget deficits.The Government has borrowed funds from both domestic and international markets to address these problems.In other words, the government created a significant difference between public revenue and spending.The revenues and expenditure of the Government of the Union have been widening. That has been expressed in the rising balance of payments current account deficits.In the 1990s, this was the key explanation for economic disruption.Nevertheless, in the turmoil, the Union government implemented structural reforms in 1991 with the goal of strengthening the country's economic and fiscal conditions.The key goals of the fiscal reforms were to increase revenue and slash expenditures.However, expenditure was impossible to compact right away. Yet taxes became the Union Government's primary source of revenue.Consequently, the fiscal reforms had the primary purpose of raising government revenues.It also reduced the government of India's fiscal deficits (Chandra Shekhar Prasad, 2010).

The Union Government's overall fiscal deficit rose by more than 7 percent during the 1990s and grew from 3.6 percent in 1975–6 to 7.8 percent in 1985–86 owing to the higher interest payments (Economic Survey, 1995-96). The Union Government has been making attempts to address the issues through the Fiscal Responsibility Management Rules for fiscal consolidation.This legislation and initiatives have always complemented the States.The FRBM (Fiscal Responsibility Management Rules) Act provided for a strong institutional mechanism for making progress in the field of fiscal consolidation (Study of State Finance, 2005-06).The main aim of the FRBM Act is to reduce the revenue deficit gap.Through March 2008, the fiscal deficit would have fallen to 3 per cent of GDP. Nevertheless, the goal was pushed to March 2009 in 2004.More effort was made for fiscal reforms and restructuring in line with the recommendations of the Twelfth Finance Commission.

The overall condition of the fiscal metrics shows changes in the years since 2008-09 and a sharp decline has also occurred.Nevertheless, the central government said a fiscal adjustment should be made as early as possible.Nevertheless, the economic recession has a negative effect and its influence is overcoming in the Indian economy (Thirteenth Finance Commission 2010).

In rapid succession, the Center took an economic boost. This involves reducing taxes, increasing export drawback rates, expanding fiscal exemptions and making additional allowances in line with the Central Sponsored Schemes such as the NREGS (National Rural Employment Guarantee Scheme) programme.Implemented by

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the Central Pay Commission recommendations and the forgiveness of farm debt, and this tax burden has been complemented by the further allocation of funds for food and fertilizer subsidies (Economic Survey 2010-11).

The fiscal reforms were directed mainly to reduce the central and state governments' fiscal deficit.As seen in the table, the Central Government fiscal variables have been evaluated to determine the impact of the deficit reforms between 2001 and 2017.The fiscal condition of the central government then focused on a number of deficit indices that have deteriorated since the mid-1990s. The gross fiscal deficit of the Central Government reduced from 6.27 per cent in 1990-94 to 4.51 per cent in 2005-09.The major proportion of this deficit problem was due to high interest paymentsand public debt and salaries to the government employees of the Union and StateGovernments.

The tax collections have declined in the post-reform era after fiscal reform initiatives.Spending on non-developments has been limited although tax collections have risen to deal with the fiscal crisis.The primary deficit, which reduced from 2.16 per cent in 1990-94 to 1.0 per cent during 2005-9, was a substantial share of the time post-reform.However, the pattern in growth was negative, averaging 1.16 per cent. Throughout the post-reform era, it has a very high share of the revenue deficit as a percentage of the fiscal deficit.The share of the revenue deficit and fiscal deficit started to decrease in the middle of the 2000s and the gross primary deficit was negative.The Central Government has taken this picture to boost revenue, which also helped to strengthen the condition of the fiscal deficit in a positive way. The primary goal of raising revenue in the future would be non-tax revenues.The continued growth of market loans is a further problem, which could further worsen the gross primary deficit situation. Perhaps that will lead to a larger fiscal deficit.Strenuous measures are expected to give rise to both spending and revenue.

In the period from 1990 to 1994, the Center's revenue deficit has risen to 0.04 per cent, the lowest level.At 3.77 per cent of GDP in 2000-04, the figure was high. In the context of the global downturn in domestic demand, Union Budget 2009-10 was formulated.The central government's fiscal deficit reduced from 4.82 per cent of GDP in 2000-04 to 4.45 per cent in 2005-09.This not only suggests an overturning of tax rectifiers by fiscal stimulus initiatives, but also a rise in fiscal pressure, an exemption from farm debt, and increased spending on subsidies for grain and fertilizer.The decline in the fiscal indicators reported in 2008–09 is the product of increased spending agreements.

Table: 1.8 Select Fiscal Indicators of the Central Government (As Percentage to GDP)

Year	Gross Fiscal Deficit	Net Fiscal Deficit	Gross Primary Deficit	Net Primary Deficit	Revenue Deficit	Primary Revenue Deficit
2001	5.46	4.95	0.90	1.90	3.91	-0.65
2002	5.98	5.22	1.42	2.17	4.25	-0.31
2003	5.72	5.28	1.08	2.12	4.25	-0.39
2004	4.34	4.07	-0.03	1.06	3.46	-0.91
2005	3.88	3.89	-0.04	0.98	2.42	-1.50
2006	3.96	3.95	0.37	0.95	2.50	-1.09
2007	3.32	3.52	-0.18	0.55	1.87	-1.63

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2008	2.54	2.42	-0.88	-0.59	1.05	-2.38
2009	5.99	5.84	2.57	2.80	4.50	1.09
2010	6.46	6.35	3.17	3.40	5.23	1.94
2011	4.80	4.64	1.79	1.89	3.24	0.23
2012	5.91	5.88	2.78	2.99	4.51	1.39
2013	4.93	4.87	1.78	1.93	3.66	0.51
2014	4.48	4.42	1.14	1.28	3.18	-0.15
2015	4.10	3.97	0.87	0.94	2.93	-0.30
2016	3.87	3.83	0.66	0.81	2.49	-0.72
2017	3.49	3.36	0.36	0.34	2.06	-1.07
CAGR	-0.03	-0.02	-0.06	-0.10	-0.04	0.03

Source: *Budget Documents of RBI Hand Book*

"Notes: 1. Net tax revenues are netted for States' share and amount assigned to NCCF.

2. Negative (-) sign indicates a surplus.

Select Fiscal Indicators of the State Governments (As Percentage to GDP)

Year	Revenue Deficit	Gross Fiscal Deficit	Primary Deficit	Primary Revenue Deficit
2001	2.54	4.04	1.70	0.20
2002	2.56	4.00	1.39	-0.05
2003	2.25	3.93	1.21	-0.47
2004	2.23	4.25	1.42	-0.60
2005	1.21	3.32	0.66	-1.46
2006	0.19	2.44	0.16	-2.09
2007	-0.58	1.80	-0.36	-2.75
2008	-0.86	1.51	-0.49	-2.86
2009	-0.23	2.39	0.56	-2.05
2010	0.48	2.91	1.17	-1.26
2011	-0.04	2.07	0.47	-1.64
2012	-0.27	1.93	0.36	-1.84
2013	-0.20	1.96	0.45	-1.72
2014	0.09	2.20	0.70	-1.40
2015	0.37	2.62	1.10	-1.16
2016	0.04	3.06	1.50	-1.52
2017	0.27	3.50	1.86	-1.38
CAGR	-0.13	-0.01	0.01	N/A

Source- Budget Documents of State Governments

Notes: " 1. negative (-) sign indicates a surplus in deficit indicators.

2. Up to 2003-04, the percentages are calculated based on the data for GDP at current market prices with the base year 1999-2000; 2004-05 to 2010-11 is based on GDP at current market prices with the base year 2004-2005, and thereafter the ratios are based on GDP at current market prices with the base year 2011-12.

5. Trends in Social Sector Expenditure of India

Throughout the growth of an economy like India, social sectors play a significant role for the human development.Social Sector expenditure in India includes a number of important areas such as health, nutrition, education, water supply, sanitation, housing, and welfare.Education and health are the key players in the economic system among the social sectors.Education is an outstanding example of a practical public good that provides a mix of private and social profit.The spending in the social sector is

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characterized by all the expenditure incurred by central and state governments for promotional and security initiatives.In addition to discretionary spending in this sector, the private sector has been a significant influence over a period of time.The efficiency of state government expenditures in this sector must therefore be measured both by the relative rates of the different facets of the country and by equivalent metrics for the different aspects of the industry.Gupta (1977) addressed the relation between expenditure and performance in the social sector in India.

Table: 1.9 Social Sector Expenditure by Central Government from 2001 to 2017

(Rs. In Crore)

Years	SSE
2001	**124919**
2002	**129253**
2003	**133648**
2004	**146164**
2005	**164077**
2006	**189430**
2007	**222988**
2008	**265466**
2009	**331540**
2010	**392940**
2011	**451940**
2012	**523570**
2013	**602940**
2014	**679200**
2015	**830060**
2016	**968940**
2017	**1128190**
CAGR	**0.147452216**

Source: *Handbook of Statistics on State Government Finances-2010' and 'State Finances: A Study of Budgets', Reserve Bank of India, various issues.*

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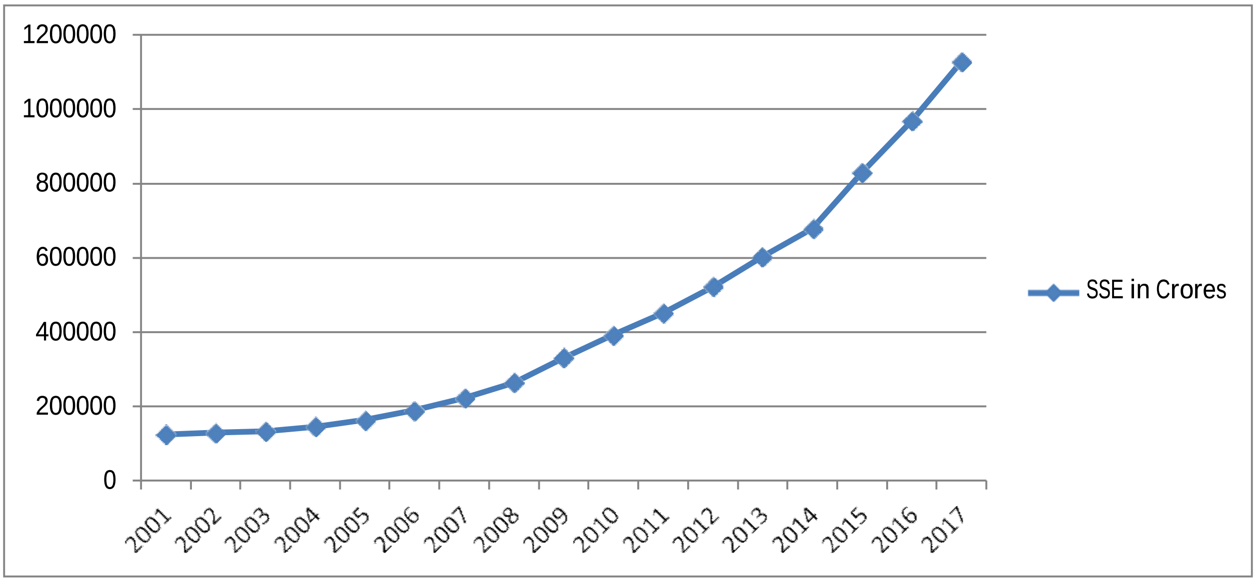
Figure: 1
Social Sector Expenditure (in Rs. Crores)



The figure above indicates the trend in Social Sector Expenditure (SSE) of the central government of India for the period 2001-2017. The figure shows that SSE has an increasing trend over the period of time.

6. Major Findings

Despite many improvements in literacy, healthcare, per capita income, energy consumption, manufacturingand agriculture, infrastructure, crime, regional inequalities and hunger, a study of growth and composition of public expenditure in India reveals that even after many decades of independence, these issues have not beenfully redressed. Thus, as predicted from the planning phase as well as from the introduction of new economicinitiatives, sustainable regional growth and improved quality of living of the people have not been entirelyaccomplished. In order to overcome these issues, the government's involvement through its well-designedcapital spending policy will undoubtedly be used as an important tool.

7. Concluding Remarks

More fiscal autonomy can usually be granted to States to fulfill their pledged expenditure commitments in most of the main development sectors such as health, education, infrastructure, agriculture, rural development, eradication of poverty, and social welfare. To ensure the efficiency of their public spending, States should concentrate on setting cautious goals in economic decisions, strong fiscal preparation and budgeting, and project assessment. In India, public spending as a whole is poor for different sectors relative to developed countries. As growth rises in public spending, including revenue expenditure in the social sectors, the amount of public expenditure in each of these important sectors should be raised by the mobilization of sufficient tax revenue by the government.

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