CHAPTER - 3
REVIEW OF LITERATURE

In this chapter an attempt is made to review the literature on revenue expenditure of government of India and other related subjects. The literature for review is mostly drawn from books, articles in books, articles in leading newspapers (The Economic Times, The Financial Express). Similarly, relevant journals (Economic and Political Weekly, Contemporary Issues and Ideas in Social Sciences, Journal of Economics and Finance, The Economic Weekly, Economics Bulletin, International Journal of Economics and Management Education), and discussion papers / working papers / study reports have also been consulted. This chapter covers specific sub topics such as public expenditure, capital expenditure, expenditure reforms in India, social and economic sector expenditure in India.

3.1 BOOKS:

Kaipa Narayana Reddy[1] in his book '*The Growth of Public Expenditure in India 1872-1968: A Secular and Time Pattern Analysis*', attempts a study of the behaviour of public expenditure in India over a period of approximately a hundred years. He has explained growth of public expenditure, levels of per capita income, per capita government expenditure, defence expenditure, analysis of administrative expenditure and analysis of social and developmental expenditure. It is observed that the growth of capital outlay over a period under review presents an interesting picture. During the british period expenditure on capital outlay had been fluctuating violently, while in the independence period, there had been a continuous upward trend.

Reddy K. N., J. V. H. Sarma and N. Sinha[2] have explained conceptual and statistical problems related to central government expenditure, the structure of government expenditure, income elasticities of government expenditure, consumption expenditure, impact of government expenditure on various sectors of the economy and functional classification of the government expenditure, etc. In this book, in case of income elasticities of government expenditure, the functions for which elasticities have been estimated are - education, medical and public health, agriculture, industry and civil administration. They observed, during the period 1950-51 to 1965-66 in regard to goods and services (on current account) the relative contributions of volume increase in public expenditure and price rise were almost equal (49 and 51 per cent).

Government budgeting is a dynamic subject. Significant changes have occured in India's budgetary policy in the recent past. **Sury M. M.**[3] in his book *'Government Budgeting in India'* provides descriptive and analytical information on government budgeting. The purpose of this book is to explain the concepts and processes involved in the budgetary exercise of the government of India. It contains government budgeting - an introduction, structure of central government budget, phases of budgetary cycle, financial, economic and cross classification of the budget; and budget and fiscal federalism. This book describes parliamentary procedures and controls applicable to budgetary activities of the central government in detail.

Richard Allen and Daniel Tommasi's[4] edited book provides descriptive and analytical information on management of public expenditure. They have divided this book into four parts. Part I deals with the budget and the institutional context. Part II deals with allocation of resources, part III with managing budget execution and part IV with accounting, reporting and auditng. This book covers all aspects of public expenditure management from the preparation of the budget to the execution, control and audit stages. It fill an important gap in the literature on public expenditure management both in terms of its depths and breadth of coverage.

3.2 ARTICLES IN JOURNALS / PERIODICALS / BOOKS:

I S Gulati's[5] article is an attempt to analyse the central government expenditure on revenue account for the period 1950-51 to 1960-61. According to him, government expenditure are not being wisely spent. It is, therefore, necessary that the expenditure proposed should be carefully scrutinised by the legislators and the public alike. The question that arises again and again in his article is whether we are not over-economising on defence; for, if our defences are not strong, all the gains on the social and developmental side may be wiped out in a day.

Otto Eckstein's[6] paper presents the elements of the theory of public expenditure criteria. It is a commentary on the problem of expenditure criteria and models, little further remains to be said. According to him, to assure a correct allocation of funds, capital or otherwise, marginal yields must be equated - the yield being present value, measured at the social rate of discount.

Utilising annual data drawn from the UK, Greece and Ireland, **John Loizides and George Vamvoukas**[7] examine the relationship between government size and income growth. On the basis of empirical results broad conclusions emerge. In above countries public expenditure causes growth in national income either in the short run or the long run. Greece is supportive of the Wagner hypothesis that increased output causes growth in public expenditure.

On June 21, 1991, the central government adopted a number of stabilisation measures that were designed to restore internal and external confidence. **Seema Joshi**[8] in his article, '*Impact of Economic Reforms on Social Sector Expenditure in India*' attempts to analyse the social sector expenditure of the central and the state governments in the pre-reform and post reform period. This article assesses the impact of economic reforms on social sector expenditure in India. According to her, the educational and health status of a vast majority of the population continues to remain poor even after a decade of reforms. Moreover, the rising cases of chronic diseases in India during the reform period pose a serious challenge which demand an immediate and sustained response from the government.

D. K. Srivastava[9] in his article *'FRBM Act and Eleventh Plan Approach Paper'* argues that in order to get a better inter-year spread of resources for the plan, a pause in pursuing the targets stipulated in the Fiscal Responsibility and Budget Management (FRBM) Act and the related rules of the central government is needed. According to him, it is best to adhere to the revenue deficit target. FRBM Act makes better economic sense for the government not to use up available savings for current or consumption expenditure.

Swati Raju[10] in her article *'The Revenue- Expenditure Nexus: Evidence for India'* seeks to analyse whether a nexus exists between central government revenues and expenditures for 1950-51 to 2003-04 by studying the relationship between total receipts and an array of expenditure measures. This paper finds support for both the expenditures lead revenues and revenue lead expenditures between total receipts and different categories of expenditures at the level of the central government of India.

Harvinder Kaur and Gursimran[11] provide an insight into the various aspects of the revenue of the central government of India. They argue that the main reason of the budgetary deficit was the higher growth of current expenditure as compared to growth of current revenue. In the paper, the position of revenue of the central government for more than three decades covering 1975-76 to 2007-08 has been analysed. The paper finds out that the central government is resorting to a high level of market borrowings which are expensive in nature and thus will lead to higher interest burden in future.

Mala Lalvani[12] takes a close look at Budget 2011 in respect of finance commission road map and quality of fiscal consolidation. She explains trends of fiscal consolidation which suggest that budget 2011 appears to be just one more budget on the beaten track of backtracking on developmental expenditures when in fiscal correction mode. She concludes that budget 2011 is a revenue neutral budget but it is spending adequately on developmental welfare - enhancing schemes and yet getting back on the fiscal consolidation road map and managing deficits well.

Five year plans have stressed the role of education in economic development and progressively increased allocations for the sector. India has made progress on elementary education and in moving towards universal enrolment during the Eleventh Plan period. However, **Satadru Sikdar and Anit N. Mukherjee**[13] in his article, '*Allocations for Education during the Eleventh Plan*' suggest that to establish a knowledge society, education has to be prioritised along with increases in public spending in the Twelfth Five Year Plan.

Saeed Karimi Petankar and Somaye Sadeghi[14] investigate the causality and the long-run relationship between government expenditure and government revenue in oil exporting countries during 2000-2009. The finding of this paper reveals that one per cent increase in oil revenue induces the increase of government expenditure to 1.16 per cent. It means that the 'revenue-and-spend' hypothesis is cofirmed in oil-exporting countries.

In its annual fiscal policy, the Government of India allocates certain amounts to be spent on budgetary heads such as agriculture, education, health, social security measures, etc. These are also called developmental expenditure heads as they are expected to directly lead to the economic and social development of the country. **Vasundhara Jain's**[15] study tests the impact of these four major developmental expenditure heads of the central government and whether they have the desired effect in increasing per capita incomes and reducing poverty in the country. The paper shows a positive relationship between development expenditure and the per capita income. Also, poverty ratio go down as government expenditure increases.

Several empirical studies have been conducted to examine the causal relationship between government revenues and expenditures. **Yashobanta Parida**[16] attempts to analyse it for India using annual data over the period 1970-2010. The paper reveals that there is existence of long-run relationship between the variables and unindirectional causality running from expenditure to revenue. She suggest that the government should re-examine unproductive expenditures such as interest payments, pension, subsidies, etc., and rationalize expenditures in favour of growth enhancing spending such as infrastructure, education, health, research and development.

Keynesians argue that increasing government spending and reducing tax rates are the best ways to stimulate economic growth. **Onakoya and others**[17] paper examines the impact of public capital expenditure on economic growth in Nigeria in the context of macro-econometric framework at sectoral levels. The study shows that public capital expenditure indirectly enhances economic growth by encouraging private sector investments due to the facilitating role of government in the provision of public goods. It means that the public capital expenditure contributes to economic growth.

Mala Lalvani and Ajit Karnik's[18] paper *'Growth, Welfare and Fiscal Deficit- The Problem of Incomplete Objectives in Budget 2013-14'* looks at the problem of achieving a high growth rate while enhancing social welfare and imposing fiscal discipline. According to them, public expenditure management will reduce fiscal deficit and avoid the tendency to create capital account surpluses for reducing the gross fiscal deficit.

3.3 ARTICLES IN LEADING NEWSPAPERS:

The government on February 25, 2010 presented 13th Finance Commission's report (2010-15) in the Parliament. **Mythili Bhusnurmath**[19] says that the 13th Finance Commission's innovative recommendations could act as a catalyst to ensure better outcomes from public expenditure. The report suggests ways of improving the quality of public expenditure to obtain better outputs and outcomes.

Mythili Bhusnurmath[20] in her article *'Fiscal Numbers Flatter to Deceive'* says that the outlook for Budget 2011-12 is more expenditure and less revenue, both of which mean a higher fiscal deficit, a higher revenue deficit and some broken promises. She argeed that a disaggregated picture shows there is much less to cheer on the expenditure front.

I V Subramaniam[21] brings out the significance of quality of public expenditure. He recommends a dream budget, if it just addresses the following- (i) increase the spend on education significantly, and (ii) broaden the tax base and improve the quality of the public expenditure - This should help in controlling the fiscal deficit.

3.4 WORKING PAPERS / DISCUSSION PAPERS / STUDY REPORTS:

Public expenditure management is a framework of fiscal reforms to enhance effectiveness of public policy. **K. B. L. Mathur's**[22] study report *'India: Fiscal Reforms and Public Expenditure Management'* has been divided into five chapters. Chapter I deals with Indian economy: macroeconomic trends and perspectives. Chapter II, III and IV are very important chapters for the study. He has explained main features of fiscal system in india, reforms and trends in fiscal sector and public expenditure management in detail in these chapters. Chapter V deals with decentralisation in India: developments and issues. This report covers wide range of issues on india's fiscal reforms, which has made remarkable progress in the last decade of 20th century. This report shows that continuing fiscal deficit particularly driven by the revenue deficit in the government budgets poses a real danger to macroeconomic stability. For correcting such fiscal imbalances, public expenditure management is the key instrument.

Subsidies promote growth by increasing the level of critical inputs like health, education and infrastructure. On the other hand, it can also hinder growth by drawing away resources like water and power from more productive uses. **D. K. Srivastava and C. Bhujanga Rao's**[23] paper *'Government Subsidies in India: Issues and Approach'* looks at the critical issues concerning budget subsidies in India. It is grouped into four sections, viz., rational of subsidies, measurement issues, volume of subsidies and quality of subsidies. According to them, budget subsidies in India are large, largely hidden, mainly input-based, and generally regressive. These subsidies hide and promote inefficiencies. They suggest that the primary remedy for the government to disengage itself from several sectors where its presence is not required. In the remaining sectors, reasonable user charges should be charged.

For raising the level of human development of their citizens, the basic challenge faced by most of the states of India is to break the 'vicious circle' of poverty, low human development and low income. **Tapas K. Sen and Krishanu Karmakar**[24] in his working paper *'Reprioritisation of Public Expenditure for Human Development'* indicate that there is a strong association between public expenditue and per capita incomes. Public expenditure may be reallocated to different sectors on the basis of the requirements and shortfalls of the particular sectors.

The role of education in economic development has been recognised for quite some time in mainstream economic literature. It is predicted that higher levels of schooling and better quality of workforce will lead to an increase in the rate of growth, further strengthening the case for public expenditure on education. According to **Anit N. Mukherjee,**[25] there is inadequate work done in India on the efficiency and effectiveness of public expenditure in different states and in India as a whole. Utilisation of resources, its efficiency and its outcome in the form of quality of service delivery is crucial for achieving higher levels of human development.

The RBI's approach to fiscal reforms is to eliminate the revenue deficit and agree on a nominal limit for fiscal deficit. Because, exclusive focus on fiscal deficit may tend to reduce the growth rate of the economy. **Y.**

V. **Reddy**[26] focuses on re-prioritisation of public expenditure, it may be achieved through reduction or elimination of subsidies and deployment of resources thus released to the more needy sector.

Pinaki Chakraborty, Anit N. Mukherjee, H. K. Amar Nath[27] divide their working paper '*Interstate Distribution of Central Expenditure and Subsidies*' into six sections, viz, introduction, conceptual framework, explicit fiscal transfers to the states, distribution of central expenditure to states, econometric investigation and policy conclusions. They note that, it should be emphasized that any design of transfers from centre to states would remain cosmetic, unless drastic redistribution takes place in the horizontal allocation of resources.

Pratap Rajan Jena's[28] study report's objective is to assess the current status of the public financial management system in India at the central government level. The assessment indicates both the strengths and weaknesses of the existing public financial management system. The report also draws from the contemporary literature on the subject relating to India. The report emphasises on taking appropriate measures to produce realistic budget estimates and removing delays in implementation projects, strengthening institutional mechanism for implementing a realistic outcome budget, removing strict plan- non- plan distinction, developing financial information system and capacity building.

Sudipto Mundle, N. R. Bhanumurthy and Surajit Das[29] strongly recommend that the government needs on measures to contain revenue expenditure growth and create space for robust capital expenditure. The strategy should be to gradually bring down the revenue deficit to zero by 2014-15. It provides the space for substantial government capital expenditure, which translates into a significant public investment programme.

Supriyo De[30] in his discussion paper '*Fiscal Policy in India: Trends and Trajectory*' examines the trajectory of India's fiscal policy with a focus on historical trends, fiscal discipline frameworks and fiscal responses to the global financial crisis. De's study appears that in the future, the government would focus on tax reforms and better targeting of social expenditures to achieve fiscal consolidation while maintaining the process of inclusive growth.

What determines the size and composition of public expenditure in any economy? **Bharatee Bhusana Dash and Anagara V. Raja**[31] examines whether the allocation of public expenditures of the Indian states are significantly influenced by government specific political characteristics. They considered forms of government, ideology of the government and the electoral cycle. The result of the study suggest that frequent formation of coalition governments and ideology of a government are the major driving factors for increasing public spending of the Indian states in the recent decades. Electoral cycle does not seem to be playing a significant role in influencing public expenditure.

Effectiveness of public spending still remains relatively an elusive empirical issue. **Lekha Chakraborty, Yadawendra Singh and Jannet Farida Jacob's**[32] working paper *'Public Expenditure Benefit Incidence on Health: Selective Evidence from India'* reveals that public health system is 'seemingly' more equitable in few states, while a regressivity in pattern of utilization of public health care services is observed in other states. The result of this paper suggest that polarization is distinctly evident in the public provisioning of health care services, especially related to the in-patient services more than the ambulatory services.

Pinaki Chakraborty and Bharatee Bhusana Dash[33] reveal the fact that the deficit targets are achieved by following the path of spending cuts, largely by reducing spending for developmental purposes. In case of total expenditure, income level of a state, not the growth rate, seems to be playing a significant role in determining the size of development expenditure. However, it needs to be emphasized that fiscal reforms have largely been revenue driven via growth.

3.5 A BROAD CONCLUSION AND INDICATIONS FOR FURTHER RESEARCH:

It is seen from above review that trends in revenue expenditure, composition of revenue expenditure, developmental expenditure on economic and social services, non-developmental expenditure of government of India have not been adequately examined so far. In the present study, researcher intends to cover these points in more detail. However, there are some important areas for further research in respect of public expenditure. These are central government expenditure and impact on growth structure of the economy, the growth of public expenditure in India after reform period, impact of economic reforms on public capital expenditure in India, government subsidies, causal link between central government expenditure and education, government expenditure and poverty ratio, public expenditure and public health, etc.

References:

1. Kaipa Narayana Reddy (1972): *'The Growth of Public Expenditure in India 1872-1968: A Secular and Time Pattern Analysis'*, Sterling Publishers, New Delhi.
2. Reddy K. N., J. V. H. Sarma and N. Sinha (1984): '*Central Government Expenditure, Growth, Structure, Impact, 1950-51 to 1977-78*', National Institute of Public Finance and Policy, New Delhi.
3. Sury M. M. (1990): '*Government Budgeting In India*', Commonwealth Publishers, New Delhi.
4. Richard Allen and Daniel Tommasi (2001): *'Managing Public Expenditure'*, Organisation for Economic Co-operation and Development (OECD) Publications, France.
5. Gulati I S (May 6, 1961): 'An Analysis of Central Government Expenditure', *The Economic Weekly*, Vol XIII, No. 18, pp. 711-722.

6. Otto Eckstein (1961): 'A Survey of the Theory of Public Expenditure Criteria', *Public Finances: Needs, Sources and Utilization*, NBER, pp. 439-504.
7. John Loizides and George Vamvoukas (May 2005): 'Government Expenditure and Economic Growth: Evidence from Trivariate Causality Testing', *Journal of Applied Economics*, Vol VIII, No, 01, pp. 125-152.
8. Joshi Seema (January 28, 2006): 'Impact of Economic Reforms on Social Sector Expenditure in India', *Economic and Political Weekly*, Vol XLI No. 04, pp. 358-365.
9. Srivastava D. K. (November 4, 2006): 'FRBM Act and Eleventh Plan Approach Paper', *Economic and Political Weekly*, Vol XLI, No. 43-44, pp. 4553-4559.
10. Swati Raju (August 2008): 'The Revenue- Expenditure Nexus: Evidence for India', *Contemporary Issues and Ideas in Social Sciences*, Vol 04, No. 02, pp. 1-33.
11. Harvinder Kaur and Gursimran (Dec. 30, 2010): 'Revenue of the Central Government of India: Pre and Post Reform Position', *Journal of Engineering, Science and Management Education,* Vol 03, No. 01, pp. 27-32.
12. Mala Lalvani (May 14, 2011): 'Budget 2011: Veering Off the Fiscal Consolidation Road Map', *Economic and Political Weekly*, Vol XLVI, No. 20, pp. 17-21.
13. Satadru Sikdar and Anit N. Mukherjee (May 14, 2011): 'Allocations for Education during the Eleventh Plan', *Economic and Political Weekly*, Vol XLVI, No. 20, pp. 22-25.
14. Saeed Karimi Petankar and Somaye Sadeghi (May, 2012): 'Relationship between Government Spending and Revenue: Evidence from Oil Exporting Countries', *International Journal of Economics and Management Education,* Vol 2, No. 02, pp. 95-97.
15. Jain Vasundhara (July-Aug. 2012): 'The Development Expenditure by the Central Government of India and its Impact on Poverty and Per Capita

Income in the Country', *International Journal of Economic Research*, Vol. 3, No. 04, pp. 121-133.

16. Parida Yashobanta (October 9, 2012): 'Causal Link between Central Government Revenue and Expenditure: Evidence for India', *Economics Bulletin,* Vol 32, No. 04, pp. 2808-2816.

17. Onakoya, Adegbemi Babatunde and Somoye, Russell Olukayode Christopher (February 2013): 'The Impact of Public Capital Expenditure and Economic Growth in Nigeria', *Global Journal of Economics and Finance*, Vol 02, No. 01, pp. 1-11.

18. Mala Lalvani and Ajit Karnik (March 30, 2013): 'Growth, Welfare and Fiscal Deficit- The Problem of Incomplete Objectives in Budget 2013-14', *Economic and Political Weekly*, Vol XLVIII, No. 13, pp. 1173-1181.

19. Mythili Bhusnurmath (3rd May, 2010): 'Off the Beaten Track', *The Economic Times.*

20. Mythili Bhusnurmath (7th February, 2011): 'Fiscal Numbers Flatter to Deceive', *The Economic Times.*

21. Subramaniam I. V. (25th February, 2013): 'Broaden Tax Base, Improve Quality of Public Expenditure', *The Financial Express.*

22. Mathur K. B. L. (March 2001): '*India: Fiscal Reforms and Public Expenditure Management*', Japan Bank for International Co-operation (JBIC) Research Paper No. 11, Japan.

23. Srivastava D. K. and C. Bhujanga Rao (January 2002): '*Government Subsidies in India: Issues and Approach*', paper presented at the conference on India: Fiscal Policies to Accelerate Economic Growth organised by the National Institute of Public Finance and Policy, New Delhi with collaboration with World Bank during May 21-22, 2001.

24. Tapas K. Sen and Krishanu Karmakar (2007): '*Reprioritisation of Public Expenditure for Human Development*' Working Paper No. 50, National Institute of Public Finance and Policy, New Delhi.

25. Mukherjee Anit N. (2007): *'Public Expenditure on Education: A Review of Selected Issues and Evidence'*, Working Paper No. 51, National Institute of Public Finance and Policy, New Delhi.

26. Reddy Y. V. (May, 2008): *'Fiscal Policy and Economic Reforms'*, Working Paper No. 53, National Institute of Public Finance and Policy, New Delhi.

27. Pinaki Chakraborty, Anit N. Mukherjee and H. K. Amar nath (February 2010): *'Interstate Distribution of Central Expenditure and Subsidies'*, Working Paper No. 66, National Institute of Public Finance and Policy, New Delhi.

28. Pratap Rajan Jena (March 19, 2010): *'India: Public Expenditure and Financial Accountability - Public Financial Management Performance Assessment Report'*, National Institute of Public Finance and Policy, New Delhi.

29. Sudipto Mundle, N. R. Bhanumurthy, Surajit Das (August 2010): *'Fiscal Consolidation with High Growth: A Policy Simulation Model for India'*, Working Paper No. 73, National Institute of Public Finance and Policy, New Delhi.

30. Supriyo De (January 2012): *'Fiscal Policy in India: Trends and Trajectory'*, Working paper at the Economic Division in the Department of Economic Affairs, Ministry of Finance, New Delhi.

31. Bharatee Bhusana Dash and Anagara V. Raja (March 2012): *'Political Determinants of the Allocation of Public Expenditures: A Study of the Indian States'*, Working Paper No. 101, National Institute of Public Finance and Policy, New Delhi.

32. Lekha Chakraborty, Yadawendra Singh and Jannet Farida Jacob (December 2012): *'Public Expenditure Benefit Incidence on Health: Selective Evidence from India'*, Working Paper No. 111, National Institute of Public Finance and Policy, New Delhi.

33.Pinaki Chakraborty and Bharatee Bhusana Das (April 2013): '*Fiscal Reforms, Fiscal Rule and Development Spending: How Indian States have Performed?*', Working Paper No. 122, National Institute of Public Finance and Policy, New Delhi.