

CHAPTER - 6

FINDINGS, CONCLUSIONS AND POLICY SUGGESTIONS

- 6.1 Findings
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6.1 FINDINGS:

The major findings of the present study on 'Trends in Revenue Expenditure of Government of India: 1991-2011' are as follows:

1. The revenue expenditure of the central government has increased more than 17 times during the period between 1991-92 and 2013-14. It was Rs. 82290.80 crore in 1991-92 and increased to Rs. 1436169.00 crore in 2013-14 (Budget Estimates). It means that revenue expenditure of the central government since 1991-92 has been continuously growing.
2. The substantial increase in revenue expenditure is due to hike of expenditure on items like interest payments, pension and other retirement benefits, defence services and developmental expenditures on economic and social services.
3. Total expenditure of the central government since 1991-92 has been continuously growing (from Rs. 107902.96 crore to Rs. 1665297.00 crore) and revenue expenditure has grown at higher rate (compound annual growth rate was 13.9 per cent) as compared to capital expenditure (compound annual growth rate was 10.5 per cent).

4. Revenue expenditure constituted 76.3 per cent in 1991-92 and reached to 95.2 per cent of total expenditure in 2004-05. It is 86.2 per cent in 2013-14. The main aspects for sharp increase in revenue expenditure of the central government from 1991-92 to 2013-14 was the rapid increase in salary bills and pension payments, subsidies, etc. A tremendous increase in the share of expenditure on revenue account of the central government is accounted for by the decline in the share of capital expenditure in the post-reform period.
5. Looking at revenue expenditure as per cent of GDP, due to continuous attempts since 1991-92, revenue expenditure - GDP ratio of the central government could be brought down from 12.6 per cent in 1991-92 to 11.5 per cent in 1996-97. Thereafter, it again increased to the level of 12.6 per cent of GDP in 2013-14. It has serious implications for economic growth as well as fiscal discipline.
6. From table no. 4.4, it is clear that the revenue receipts as well as revenue expenditure of the central government during the period under study have increased tremendously. The compound annual growth rate of revenue expenditure of central government during the period under study was 13.9 per cent, which was higher than that of the rate of revenue receipts i.e. 13.4 per cent.
7. The revenue deficit of central government in 1991-92 was Rs. 16260.80 crore, which increased to Rs. 379838.00 crore in 2013-14, showing 23.4 times increase over the period of 23 years. This rise is due to the sustained increase in the revenue expenditure during the period under study.
8. It has been observed that expenditure on developmental and non-developmental activities has increased during the period under study and developmental revenue expenditure has grown at higher rate (CAGR was 15.1 per cent) as compared to non-developmental revenue

expenditure (CAGR was 12.8 per cent). It is good sign of revenue expenditure of central government.

9. The data shows that non-developmental expenditure is a major component of total revenue expenditure. The share of non-developmental revenue expenditure in total expenditure increased from 60.46 per cent in 1991-92 to 69.00 per cent in 1999-2000, but thereafter it has been decreasing continuously. In 2011-12, it fell to 50.97 per cent of total revenue expenditure.
10. It has been observed that developmental expenditure on social and economic services of central government has increased during the period under study and developmental expenditure on social services has grown at higher rate (CAGR was 17.2 per cent) as compared to developmental expenditure on economic services (CAGR was 13.8 per cent).
11. From table no. 5.2, it is clear that expenditure on economic services is major component of total developmental expenditure. The share of developmental expenditure on economic services declined and reached to the lowest level of 43.70 per cent during 1998-99 from 67.30 per cent during 1991-92, but thereafter it has been showing a positive trend upto 52.98 per cent in 2011-12.
12. The importance a country gives to its educational programme is reflected on the amount the government spends on this head. The expenditure on education, scientific services and research, art and culture and public health of the central government has increased more than 56 times during the period between 1991-92 and 2011-12. It was Rs. 1741.09 crore in 1991-92 and increased to Rs. 98568.74 crore in 2011-12.
13. More recently the share of social sector expenditure in expenditure of the central government has shown an increase. However, relative share

- of family welfare and social security decreased from 10.15 per cent in 1991-92 to 7.83 per cent in 2011-12.
14. The data since 1991 shows that the agriculture and allied activities services, fertiliser subsidy has remained the head on which the highest proportion of developmental revenue expenditure on economic services has been spent. However, the share of expenditure on these items in total developmental revenue expenditure on economic services has decreased from 72.54 per cent in 1991-92 to 52.26 per cent in 2011-12.
 15. The amount of fertiliser subsidy provided by the central government was Rs. 6235.00 crore in 1995-96, which has increased upto Rs. 49997.87 crore in 2011-12. It means that fertiliser subsidy has the important place (about 35 per cent share) in total developmental expenditure on agriculture and allied services.
 16. After the new economic reforms, central government has given more importance to the development of transport and communication. The data shows that the expenditure of the central government on these items has increased about 40 times during the period between 1991-92 and 2011-12. It was Rs. 1131.67 crore in 1991-92 and increased to Rs. 44828.99 crore in 2011-12.
 17. The expenditure on interest payments was Rs. 27681.36 crore in 1991-92 and increased to Rs. 267986.17 crore in 2011-12. The relative share of non-developmental expenditure on interest payments was 48.11 per cent in 2011-12. It means that the expenditure on interest payments is major component of non-developmental revenue expenditure of the central government
 18. Committed expenditure is a major component of non-developmental revenue expenditure, comprising expenditure on interest payment, administrative services and pension. The central government has failed to curb these items expenditure over the years.

19. Hypothesis of the study was 'In total expenditure of central government the share of revenue expenditure is higher and it is increasing continuously.' From table no. 4.1 and above findings, it is clear that the hypothesis is accepted.

6.2 CONCLUSIONS:

From findings recorded above one can reach following conclusions:

1. There has been phenomenal rise in the revenue expenditure of the central government mainly because of (a) increasing expenditure on interest payments, (b) pensions, (c) subsidies, etc.
2. Rise in non-developmental expenditure particularly expenditure on interest payments, administrative services and pensions is a matter of concern.
3. The revenue account deficit of central government is growing. This rise is due to the sustained increase in the revenue expenditure during the period under study.
4. Committed expenditure is rising and is crowding out developmental expenditure on revenue account.

6.3 POLICY SUGGESTIONS:

1. Despite the numerous measures initiated by the central government the total revenue expenditure continuously increased during the post-reform period which was the main contributory factor in the fiscal crisis. The percentage of revenue expenditure to total expenditure is at an alarming level and needs to be curtailed. The government needs to focus on measures to contain revenue expenditure growth and create space for robust capital expenditure.
2. Revenue deficit became a special feature of central government budgetary operations since 1991. It has reflected into central governments's inability to provide funds to the projects through

revenue account surpluses. These deficits have to be hammered down to zero. Elimination of revenue deficit by 2014-15 will entail determined action both on the revenue side as also in government expenditure.

3. It can be observed that non-developmental revenue expenditure contributes a significant proportion of total revenue expenditure of the central government. Reducing the size of non-developmental expenditure does not seem to be feasible option for a government, not at least in the short run. Central government should re-examine major components of non-developmental or unproductive expenditures such as interest payments, pension and other retirement benefits, subsidies, etc and rationalise expenditures in favour of growth enhancing spending such as education, health, infrastructure, research and development.
4. The most significant drag on the finances of the central government is rising interest payments. It is the direct outcome of past borrowings. Interest payments will fall only if budgets from now on start to generate primary surpluses.
5. The another important drag on the finances of the central government is rising subsidies. Subsidies hide and promote inefficiencies. It is the outcome of political economy considerations. Subsidies have grown because of excessive participation of government in the provision of goods and services, where there are no clear externalities and the problem with most subsidies is that they are not well-targeted. So, for reducing burden of subsidies, reasonable user charges should be charged and changes in user charges should become linked to increase in costs.
6. Some of the heads do not have the required effect in increasing incomes and reducing poverty. On the other hand, the social expenditures were not efficient. So, central government should focus

on better targeting of social expenditures to achieve fiscal consolidation while maintaining the process of inclusive growth. There is an urgent need to raise social sector spending by the central government.

7. The central government should also restructure its various organs of public administration in order to engender efficiency and effectiveness in service delivery. There is need to improve service delivery through institutional changes as has been emphasised in the World Development Report (2004).
8. The main target in the process of expenditure reforms should have been to improve the quality of expenditure. High efficiency and effectiveness of public spending are key to maximizing the potential of government outlays.

As earlier indicated in chapter no. 3, there are some important areas for further research in respect of public expenditure of central government. 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.

To conclude, all fiscal reforms including reforms in expenditure should become a systematic and a continuous process. Growth facilitating fiscal reforms in India simply cannot take place without urgent attention to raising tax revenues and to curb non-developmental expenditures at all levels of government.