1. Introduction

Importance

IT has become common in most of the non-communist countries of the world, to worry about the growth of government expenditure. This is not without its reasons. The principal reason seems to be the "extra" rapid growth of government expenditure and deleterious effects on the rest of the economy. Government expenditure as a percentage of Gross National Product (GNP) /Gross Domestic Product (GDP) has grown much above the danger mark (25 per cent of GNP) mentioned by Colin Clark. It has grown from 21.7 per cent to 32.8 per cent in Australia, from 25.1 per cent to 39.4 per cent in Canada, from 25.5 per cent to 46.4 per cent in Denmark, from 30.2 per cent to 44 per cent in Germany, from 32.3 per cent to 44.5 per cent in the UK, and from 25.9 per cent to 35.1 per cent in the USA during 1955-57 to 1974-76[1]. During the same period, in India, it has grown from 12.16 per cent to 18.71 per cent[2].

Several studies have been made so far and many more have been called for on the growth of government expenditure in various countries. Buchanan, J.M. (1977, p. 3) commenting on the rising share of government expenditure in GNP in the USA, has observed that

> "People should be increasingly concerned about higher and higher taxes levied in support of governmental programmes that become less and less efficient in providing benefits of real value. The need to understand why government grows so rapidly seems urgent. If the explosion is to be stopped or even slowed down, we must have some understanding, some explanation of why it is occurring, we must explain the institutional and political processes that produce the results that we see, results that seem fully desirable only to the bureaucrats on the expanding public payrolls."

Bacon, R. and Eltis, W. (1976, pp. 4-5), writing on the growth of government expenditure in the UK have warned that "extra" rapid growth of government expenditure would cause difficulties in two ways: (i) it reduces the marketed output and (ii) it increases what producers must lose out of a diminished total of supply and needs of non-producers. Thus, if workers' £ 2000 million are transferred from the market sector to the unmarketed, output will fall by £ 2000 million (before tax). Another writer has felt that excessive government spending in the UK results in inflation, high taxation, high generation of black money, increases in disparities of income, fall in production, employment, income, investment and savings (Wilson, T. 1976, pp. 30-31).

In India too, serious concern has been voiced about the growth of government expenditure. During the past two decades quite a few studies have been made[3] and most of them have argued for the effective utilisation of funds. More recently, the late Professor C.N. Vakil (1978) stressed that "there have been various commissions of enquiry into other activities, but we have not known of any enquiry into government expenditure which has grown to astronomical figures." Mr. Charan Singh (1979), the then Deputy Prime Minister and Finance Minister, voiced his concern about the growing volume of government expenditure. In his budget speech (1979), he declared that "it is important to contain the growth of government expenditure and also to ensure that the funds are utilised effectively for the promotion of common good". The Government appointed an Expenditure Commission on May 29, 1979, with several terms of reference but wound it up in early 1980 without waiting for its report. Nobody knows the exact work undertaken by that Commission. All the same, enough concern has been there on the rapid growth of government expenditure. But this concern has no meaning until the facts about the growth of government expenditure are fully known. There are, therefore, several aspects to be studied. The most important of them are the growth, structure and the time pattern of government expenditure in nominal and real terms and the impact of government purchases on different sectors of the economy.

Two Approaches

Government expenditure may be studied either from the normative point of view or from the positive point of view. The normative approach concerns itself with the requirements of achieving the optimal provision of public goods and services. It corresponds to the analysis of efficient behaviour of households and firms in the private sector and calls for a type of economics which in professional jargon is referred to as welfare economics. In fact, it provides a rationale for the allocation function of budget policy. The positive approach concerns itself with economic and political analysis which attempts to understand and explain the observed pattern and level of government expenditures and changes in those expenditures over time as well as to measure the impact of (changes in) government expenditure. *Inter alia*, it encompasses the analysis of the growth of government expenditure, factors governing the growth of government expenditure, behavioural pattern of government expenditure during the secular and short period and the impact of government expenditure on economic activity in the country.

Our Approach

Ours is a positive approach. Through this, we shall analyse the growth of government expenditure in nominal and real terms from 1950-51 to 1977-78, explain the factors underlying that growth, discuss the commodity composition of government purchases and estimate their impact on different sectoral outputs.

To be more specific, we aim at studying:

i. the growth of Central government expenditure in nominal and real terms;
ii. the sources of growth of Central government expenditure;
iii. the changes in the structure of Central government expenditure;
iv. the elasticity functions in relation to major categories of Central government expenditure;
v. the commodity composition of Central government purchases;
vi. the impact of Central government purchases on various sectors of the economy;
vii. the commodity composition of a State government's purchases; and

viii. the impact of a State government's purchases on various sectors of the economy.

Scope

A comprehensive study of government expenditure in India should cover at least the Central and the State governments because the latter account for a sizeable portion of the combined expenditure of the Centre, States and Union Territories. But this study is confined to the Central government expenditure for which two important reasons may be cited. Firstly, classified and refined budgetary data are available for a fairly long period for the Central government only. Classification on the same lines will have to be carried out for the States also. Secondly, classification of data by economic and functional categories (from 1966 onwards) is available for the Central government only. The time and resources at our disposal do not permit us to classify the State budgets. In some respects this study is intended to be exploratory.

Sources of Data

Several sources have been depended upon. The most important of them are (i) *An Economic and Functional Classification of the Central Government Budget* (annual), (ii) *Detailed Demands for Grants of the Government of India*, published by the Economic Division, Department of Economic Affairs, Ministry of Finance, Government of India, New Delhi and (iii) *The Combined Finance and Revenue Accounts of the Union and State Governments*, published by the Comptroller and Auditor General, Government of India. The first two formed the main source and the third was referred to as and when corroborative evidence was needed. Quite a few other sources also were consulted, details of which are given in Appendix C. Except where otherwise indicated, the sources of all tables in the text are the sources of data mentioned in this Appendix. In this connection, it may be noted that the data by functional categories were not available for the entire period. Whatever time series data were available for the period 1950-51 to 1977-78, were all on economic categories only. Unfortunately, the time series data by functional categories were available only from 1965-66. Thus there was a gap of data for the period 1950-51 to 1964-65. In order to bridge this gap, we used other publications, namely, NCAER (1960, 1961) and Rangnekar, S.B. (1958). But neither could help us fully; NCAER's study was useful to some extent as it could provide data for the year 1957-58 and the same were used for our purpose after making some adjustments. Adjustment of data, by way of regrouping items, was necessary to make them comparable to those of government publications.

Chapter Scheme

With the aforesaid background, the second chapter initiates a discussion on conceptual and statistical problems in the trend analysis. The third chapter traces the growth of aggregate Central government expenditure. The fourth chapter analyses changes in the structure of Central government expenditure. The fifth chapter presents the estimates of elasticities of major categories of expenditure. The sixth chapter discusses the composition of government purchases (Central government) and examines their impact on the sectoral outputs. The seventh chapter analyses the impact of the State government purchases. The concluding chapter presents the main findings.

A statistical appendix is given at the end of the report. It contains a discussion of all those conceptual and statistical problems which could not be incorporated into the text. It also includes a note on sources of data and the statistical tables that formed the basis for the textual tables.

NOTES

1. For an excellent analysis of the trends of government expenditure in different countries, see OECD, 1978.

2. The total government expenditure here includes the expenditure of the Central government, the State governments and the Union Territories. It differs from the total found in the publications of the Reserve Bank of India and in *The Combined Finance and Revenue Accounts of the Union and the State Governments*, published by the Comptroller and Auditor General, Government of India. It is adapted from *Indian Economic Statistics—Public Finance*, Vol. II, a monogragh brought out annually by the Ministry of Finance, Government of India. While classifying the data we have excluded (i) loans and advances, (ii) self-balancing items, and (iii) transfers to funds as they do not constitute the money spent by Government. This definition of government expenditure is not without

precedent. A similar definition has been adopted by Andic, S. and Veverka, J. (1964) in a study similar to ours. If we include all the items, the percentage share comes to 20.78 per cent of GNP (see Table A. I in the Statistical Appendix).

3. To mention a few : Gulati, I.S. (1961a, 1961b and 1963), Gupta, A.P. (1977,1980), Mukherjee, K. (1965), Premchand, A. (1963) and Reddy, K.N. (1972, 1976).