

4. *The Structure of Government Expenditure*

Introduction

A proper understanding of the demands for governmental expenditure requires close examination of its components and their behavioural patterns over time. Hence, an attempt is made in this chapter to study the composition of government expenditure along with the changes in it during 1950-51 to 1977-78.

Classification

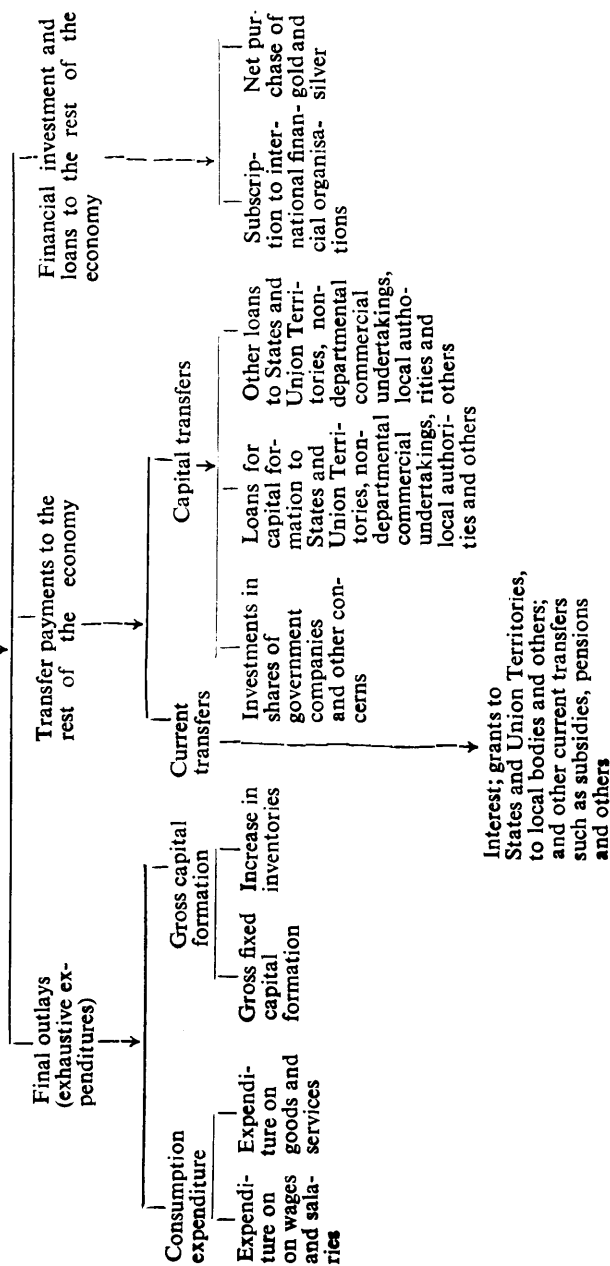
A basic requirement for the analysis of the composition of government expenditure is its classification. Classification of government expenditure may be attempted in more than one way depending upon the purpose in hand. It may be done (i) by homogeneity or in terms of common characteristics or intended purpose or effects, (ii) by nodality, i.e., in terms of geographic characteristics and (iii) by programme or policy orientation, i.e., primarily in terms of administrative or political coherence (and institutions). Bird (1970, pp. 142-3) favours classification in terms of all the three categories; Musgrave (1969, pp. 73-5) prefers economic characteristics—transfer payments, capital formation, etc.; Pryor (1965) emphasises functional categories—education, health, defence, etc.; and Peacock and Wiseman (1967, pp. 62-95) choose economic and functional classification. Much also depends upon availability of data. As far as we are concerned, we have classified government expenditure by economic and functional categories because our purpose is to examine the changing composition of expenditure in both economic and functional terms.

Economic Categories

Following the classification adopted by the Ministry of Finance, Government of India, we have classified Central government expenditure into three main categories: (i) final outlays, (ii) transfer payments to the rest of the economy and (iii) financial

CHART 4.I

Structure of Central Government Expenditure by Economic Categories



investments and loans to the rest of the economy. Each of these categories consists of sub-categories, as can be seen from Chart 4.I.

Final outlays refer to the direct demand for goods and services for consumption and capital formation. In a system of national accounts, these final outlays are on par with the consumption expenditure and capital formation by the other sectors of the economy. Transfer payments and financial investments and loans to the rest of the economy are the disbursements intended to supplement current and capital receipts of the other sectors. From the analysis point of view, distinction, therefore, has to be drawn between final outlays and the other two, although all three are expenditures out of budgetary resources. Table 4.1 shows the composition of expenditure at current prices by these categories. It can be seen that although final outlays increased from Rs. 314.80 crore in 1950-51 to Rs. 4785.40 crore in 1977-78, their percentage share in total expenditure of the Central government went down from 62.50 per cent in 1950-51 to 31.93 per cent in 1977-78. The share of transfer payments and financial investments and loans increased significantly. This may mean that the expenditure policy of the government has been towards decentralisation of spending on goods and services. Let us look, a little closely, at the growth of final outlays, transfer payments and financial investments and examine the reasons for fluctuations in their growth.

Final Outlays

As shown in Chart 4.I, final outlays consist of (i) consumption expenditure and (ii) gross capital formation. They increased only by four times in real terms as against 15 times in nominal terms. Table 4.2 shows that final outlays in real terms grew from Rs. 659.66 crore in 1950-51 to Rs. 2756.36 crore in 1977-78 as against Rs. 314.80 crore in 1950-51 to Rs. 4785.40 crore in 1977-78 in nominal terms (Table 4.1). Hence the compound growth rate in real terms was far less (6.17 per cent) than that in nominal terms (11.31 per cent). Per capita final outlays in real terms grew at a much slower pace: they increased by 2.6 times (from Rs. 18.37 in 1950-51 to Rs. 43.82 in 1977-78). What must be the reasons for this slow growth rate? The main reason

TABLE 4.1
Central Government Expenditure by Economic Categories: At Current Prices
(1950-51 to 1977-78)

Year	Final outlays		Transfer payments		Financial investments and loans to the rest of the economy		Total expenditure		Central government As per cent of total
	Absolute (Rs. crore)	As per cent of total	Absolute (Rs. crore)	As per cent of total	Absolute (Rs. crore)	As per cent of total	Absolute (Rs. crore)	As per cent of total	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	
1950-51	314.80	62.50	116.90	23.21	72.00	14.29	503.70	100.00	
1951-52	337.60	55.34	179.20	29.37	93.30	15.29	610.10	100.00	
1952-53	306.60	52.40	154.00	26.32	124.50	21.28	585.10	100.00	
1953-54	333.00	50.38	148.50	22.47	179.50	27.16	661.00	100.00	
1954-55	454.60	49.39	198.90	21.61	267.00	29.01	920.50	100.00	
1955-56	421.80	43.28	251.30	25.79	301.40	30.93	974.50	100.00	
1956-57	563.90	50.46	245.20	21.94	308.40	27.60	1117.50	100.00	
1957-58	725.90	46.80	311.40	20.08	513.70	33.12	1551.00	100.00	
1958-59	736.00	44.94	335.10	20.44	567.50	34.62	1639.20	100.00	
1959-60	639.20	37.40	429.50	25.13	640.60	37.48	1709.30	100.00	
1960-61	740.50	41.01	495.20	27.42	570.00	31.57	1805.70	100.00	
1961-62	820.90	40.26	531.10	26.04	687.20	33.70	2039.20	100.00	
1962-63	1092.30	43.13	623.60	24.62	816.00	32.24	2532.50	100.00	

TABLE 4.1 (Contd.)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
1963-64	1554.60	48.48	664.70	20.73	987.30	30.79	3206.60	100.00
1964-65	1603.80	45.97	778.70	22.32	1106.40	31.71	3488.90	100.00
1965-66	1629.50	40.80	885.70	22.18	1478.40	37.02	3993.60	100.00
1966-67	1712.30	36.70	1195.60	25.63	1757.50	37.67	4665.40	100.00
1967-68	1746.90	38.84	1249.20	27.78	1501.10	33.38	4497.20	100.00
1968-69	1661.50	36.71	1176.10	25.99	1688.20	37.30	4525.80	100.00
1969-70	1870.00	37.97	1354.70	27.51	1700.00	34.52	4924.70	100.00
1970-71	2188.70	39.25	1432.40	25.69	1955.50	35.07	5576.60	100.00
1971-72	2651.90	39.52	2006.50	29.90	2051.30	30.57	6709.70	100.00
1972-73	2939.20	37.45	2280.10	29.05	2630.00	33.51	7849.30	100.00
1973-74	3094.80	38.06	2415.80	29.71	2620.20	32.23	8130.80	100.00
1974-75	4094.20	41.84	2824.80	28.87	2865.90	29.29	9784.90	100.00
1975-76	4653.50	38.66	3553.40	29.52	3829.60	31.82	12036.50	100.00
1976-77	4717.70	35.88	4446.60	33.81	3985.80	30.31	13150.10	100.00
1977-78	4785.40	31.93	5432.50	36.25	4767.70	31.82	14985.60	100.00

Note: Totals may not tally due to rounding off.

TABLE 4.2
Composition of Final Outlays at 1970-71 Prices
(1951 to 1978)

Year	Consumption expenditure		Gross capital formation		Final outlays (3 + 6)		
	Wages and salaries	Commodities and services	Gross fixed capital formation	Increase or decrease in inventories		Total gross capital formation (4 + 5)	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1950-51	229.31	242.01	471.32	186.93	1.41	188.34	659.66
1951-52	230.62	217.29	447.91	198.41	33.95	232.36	680.27
1952-53	234.93	210.32	445.25	190.35	-37.31	153.04	598.29
1953-54	248.83	196.04	444.87	236.95	-46.90	190.04	634.91
1954-55	253.01	195.64	448.65	281.46	137.58	419.04	867.69
1955-56	255.14	194.43	449.57	380.52	-52.98	327.54	771.11
1956-57	274.43	236.95	511.38	482.87	28.48	511.35	1022.73
1957-58	300.29	342.67	642.96	553.68	121.57	675.25	1318.21
1958-59	307.28	337.46	644.74	517.55	66.97	584.52	1229.26
1959-60	311.70	311.44	623.14	478.65	-58.83	419.81	1042.95
1960-61	351.06	281.38	632.44	510.65	9.13	519.78	1152.22
1961-62	349.29	336.23	685.52	539.74	19.06	558.79	1244.31
1962-63	440.60	497.09	937.69	672.74	11.40	684.14	1621.83

(Rs. crore)

TABLE 4.2 (Contd.)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1963-64	543.89	822.22	1366.11	752.41	80.11	832.53	2198.64
1964-65	600.92	724.80	1325.72	799.91	67.32	867.24	2192.96
1965-66	622.35	747.07	1369.42	747.79	-39.08	708.70	2078.12
1966-67	667.95	724.59	1392.54	615.73	-7.66	608.07	2000.61
1967-68	692.09	690.44	1382.53	525.20	13.49	538.69	1921.22
1968-69	713.40	752.93	1466.33	506.43	-195.03	311.40	1777.73
1969-70	748.07	775.50	1523.57	460.56	-39.82	420.74	1944.31
1970-71	839.20	830.20	1669.40	485.00	34.30	519.30	2188.70
1971-72	956.91	999.91	1956.82	535.37	29.60	564.97	2521.79
1972-73	1018.01	1054.68	2072.69	581.02	10.75	591.77	2664.46
1973-74	1064.13	893.38	1957.51	548.50	54.66	603.16	2560.67
1974-75	1185.10	737.00	1922.10	502.66	247.36	750.02	2672.12
1975-76	1289.86	896.79	2186.65	538.78	144.51	683.29	2869.94
1976-77	1251.67	978.29	2229.96	607.62	12.32	619.94	2849.90
1977-78	1204.72	934.09	2138.81	623.85	-6.30	617.55	2756.36

Note: Totals and sub-totals may not tally due to rounding off.

TABLE 4.3
Growth Rates of Components of Final Outlays at Current and 1970-71 Prices

(Per cent per annum)

Period	Consumption expenditure		Gross capital formation		Final outlays	
	At current prices	At 1970-71 prices	At current prices	At 1970-71 prices	At current prices	At 1970-71 prices
	(1)	(2)	(3)	(4)	(5)	(6)
1950-51 to						
1977-78	12.17	7.44	9.50	3.61	11.31	6.17
1950-51 to						
1959-60	7.69	4.54	18.76	15.53	11.31	8.55
1960-61 to						
1969-70	14.59	9.69	0.39	(-)-4.93	10.13	4.79
1970-71 to						
1977-78	12.41	3.06	13.43	2.81	12.66	3.01

seems to be the sluggish growth in gross capital formation, an important component of final outlays, during the 1970s and negative growth rate during the 1960s; for example, gross capital formation in real terms increased at the compound growth rate of (—) 4.93 per cent and 2.81 per cent, respectively, during 1960s and 1970s as against the growth in consumption expenditure of 9.69 per cent and 3.06 per cent, respectively, during the same periods (Table 4.3).

Consumption Expenditure. It accounts for more than approximately three-fourth of final outlays. It consists of (a) wages and salaries and (b) goods and services. In real terms it increased by 4.5 times (i.e., from Rs. 471.32 crore in 1950-51 to Rs. 2138.81 crore in 1977-78) (Table 4.2) as against 15.7 times in nominal terms (i.e., from Rs. 234.70 crore in 1950-51 to Rs. 3678.20 crore in 1977-78¹). In per capita real terms, it increased only by 2.5 times (i.e., from Rs. 13.13 in 1950-51 to Rs. 34.00 in 1977-78) (Table 4.3). Even its components—wages and salaries and commodities and services—grew sluggishly in per capita real terms. For example, per capita wages and salaries (in real terms) increased from Rs. 6.39 in 1950-51 to Rs. 8.09 in 1960-61, Rs. 15.51 in 1970-71 and Rs. 19.15 in 1977-78; on the other hand, per capita expenditure on commodities and services fluctuated. It decreased from Rs. 6.74 in 1950-51 to Rs. 6.48 in 1960-61 and increased to Rs. 15.35 in 1970-71; again it decreased to Rs. 14.85 in 1977-78². The growth of per capita expenditure on commodities and services is somewhat less steep than that of expenditure on wages and salaries (in real terms). We need to determine now what proportion of GNP was consumed by each of the components of consumption expenditure and how much they have grown during the period under study.

Table 4.4 shows the ratios of wages and salaries, commodities and services and consumption expenditure to GNP at constant 1970-71 prices. What is remarkable is that during the past 14 years (i.e., from 1963-64) the ratio of consumption expenditure remained only around 4 per cent. However, the ratio of wages and salaries showed a slight increase, while that of commodities and services showed a slight decline, so that on balance the ratio of consumption expenditure to GNP remained roughly the same.

TABLE 4.4

Consumption Expenditure as percentage of GNP: at 1970-71 Prices
(1950-51 to 1977-78)

Year	As percentage of GNP		
	<i>Wages and salaries</i>	<i>Commodities and services</i>	<i>Total consumption expenditure</i>
	(1)	(2)	(3)
1950-51	1.24	1.31	2.56
1951-52	1.22	1.15	2.36
1952-53	1.20	1.08	2.28
1953-54	1.20	0.94	2.14
1954-55	1.17	0.91	2.08
1955-56	1.14	0.87	2.01
1956-57	1.17	1.01	2.18
1957-58	1.29	1.47	2.76
1958-59	1.22	1.34	2.56
1959-60	1.21	1.21	2.42
1960-61	1.29	1.04	2.33
1961-62	1.24	1.19	2.43
1962-63	1.52	1.71	3.23
1963-64	1.77	2.68	4.45
1964-65	1.82	2.20	4.02
1965-66	1.97	2.37	4.34
1966-67	2.11	2.29	4.41
1967-68	2.03	2.02	4.05
1968-69	2.02	2.13	4.14
1969-70	1.99	2.06	4.04
1970-71	2.09	2.07	4.16
1971-72	2.33	2.44	4.77
1972-73	2.50	2.59	5.10
1973-74	2.52	2.11	4.63
1974-75	2.75	1.71	4.46
1975-76	2.71	1.88	4.59
1976-77	2.61	2.04	4.65
1977-78	2.32	1.80	4.12

Note: Totals may not tally due to rounding off.

It is easy to see that there are two distinct periods in the growth of consumption expenditure:

(i) 1950-51 to 1962-63 and (ii) 1963-64 to 1977-78. Upto 1962-63, the ratio of consumption expenditure to GNP remained around 2.5 per cent and thereafter spurted to 4.50 per cent. One of the important reasons for this sharp increase seems to be the shift in the level of defence expenditure. In the early 1960s defence expenditure had been pushed up suddenly on account of wars with China and Pakistan. As defence expenditure is treated as consumption expenditure, it is not surprising that consumption expenditure had shown rapid growth after 1963-64. Further, the magnitude of defence expenditure never decreased in the later period, due to one kind of threat or another.

Gross capital formation. Let us look at the other component of final outlays, namely, gross capital formation. It consists of gross fixed capital formation and changes in inventories. Its proportion to total Central government expenditure has been the highest during the Second Five Year Plan, and the lowest during the Fourth Five Year Plan (Table 4.5). As of 1977-78, it constituted 7.39 per cent and 7.09 per cent of the Central government expenditure at current and constant 1970-71 prices, respectively. It was 18.50 per cent (average) during the Second Five Year Plan, 17.05 per cent (average) during the Third Five Year Plan, but declined to 8.89 per cent (average) during the Fourth Five Year Plan (at current prices). The decreasing trend, as percentage of the Central government expenditure, should not be construed as a decrease in absolute terms. Whether there was a decreasing trend in consumption expenditure, should be considered either in terms of per capita or in terms of ratio to GNP or in terms of both.

The real per capita gross capital formation did not undergo much change during the period under study. Nor has it changed significantly as a ratio of GNP at constant 1970-71 prices (see Statistical Appendix Tables A.5 and A.7). A glance at Table 4.5 will show that its important component—gross fixed capital formation—has stagnated during the period under study; the only exception being the latter half of the Second Five Year Plan and the whole of the Third Five Year Plan. Nor have its sub-components, namely buildings and other construction and machinery and equipment undergone change (see Table 4.6).

TABLE 4.5
 Percentage Distribution of Gross Capital Formation in Total Central Government Expenditure at Current
 and 1970-71 Prices
 (1950-51 to 1977-78)

Year	GROSS CAPITAL FORMATION						(Per cent)
	At current prices			At 1970-71 prices			
	Gross fixed capital formation	Increase in inventories	Total gross capital formation (1 + 2)	Gross fixed capital formation	Increase in inventories	Total gross capital formation (4 + 5)	
(1)	(2)	(3)	(4)	(5)	(6)		
1950-51	15.78	0.12	15.90	18.29	0.14	18.43	
1951-52	14.75	2.52	17.28	16.61	2.84	19.45	
1952-53	14.56	(-)-2.85	11.71	16.52	(-)-3.24	13.28	
1953-54	16.28	(-)-3.22	13.05	18.48	(-)-3.66	14.82	
1954-55	14.58	7.13	21.71	14.92	7.29	22.21	
1955-56	18.20	(-)-2.53	15.67	19.40	(-)-2.70	16.70	
1956-57	20.94	1.23	22.17	22.86	1.35	24.21	
1957-58	17.32	3.80	21.13	19.05	4.18	23.23	
1958-59	17.54	2.27	19.81	17.87	2.31	20.18	
1959-60	15.80	(-)-1.94	13.86	16.04	(-)-1.97	14.07	
1960-61	16.76	0.30	17.03	16.58	0.30	16.88	
1961-62	16.25	0.57	16.83	15.88	0.56	16.44	

TABLE 4.5 (Contd.)

	(1)	(2)	(3)	(4)	(5)	(6)
1962-63	16.78	0.28	17.06	16.53	0.28	16.81
1963-64	15.55	1.66	17.21	15.72	1.67	17.40
1964-65	15.80	1.33	17.13	16.30	1.37	17.67
1965-66	13.75	(-)0.72	13.03	14.39	(-)0.75	13.64
1966-67	10.86	(-)0.14	10.72	11.37	(-)0.14	11.23
1967-68	10.13	0.26	10.39	10.79	0.28	11.07
1968-69	9.91	(-)3.82	6.10	10.43	(-)4.02	6.42
1969-70	8.74	(-)0.76	7.98	9.04	(-)0.78	8.25
1970-71	8.70	0.62	9.31	8.70	0.62	9.31
1971-72	8.44	0.47	8.90	8.41	0.46	8.87
1972-73	8.47	0.16	8.63	8.48	0.16	8.64
1973-74	8.75	0.87	9.62	8.85	0.88	9.73
1974-75	8.41	4.14	12.54	8.12	4.00	12.11
1975-76	7.89	2.12	10.01	7.08	1.90	8.98
1976-77	8.29	0.17	8.45	7.66	0.16	7.82
1977-78	7.46	(-)0.08	7.39	7.66	(-)0.07	7.59

Note: Totals may not tally due to rounding off.

TABLE 4.6
Composition of Gross Capital Formation by the Central Government as Percentage of
GNP at 1970-71 Prices
(1950-51 to 1977-78)

Year	GROSS FIXED CAPITAL FORMATION						Total (3+6)
	Building and other construction		Machinery and equipment			Total (4+5)	
	New outlays (1)	Renewals and replacements (2)	Total (1+2) (3)	New outlays (4)	Renewals and replacement (5)		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1950-51	0.55	0.18	0.73	0.08	0.21	0.29	1.01
1951-52	0.46	0.15	0.61	0.13	0.31	0.44	1.05
1952-53	0.42	0.14	0.56	0.09	0.33	0.42	0.98
1953-54	0.49	0.09	0.59	0.24	0.32	0.56	1.14
1954-55	0.58	0.13	0.72	0.26	0.33	0.59	1.31
1955-56	0.74	0.19	0.93	0.50	0.28	0.78	1.71
1956-57	0.97	0.24	1.22	0.64	0.20	0.84	2.05
1957-58	0.94	0.50	1.44	0.72	0.22	0.93	2.38
1958-59	0.83	0.55	1.39	0.46	0.21	0.67	2.06
1959-60	0.82	0.49	1.32	0.36	0.18	0.55	1.86
1960-61	0.91	0.45	1.36	0.36	0.16	0.52	1.88
1961-62	1.09	0.24	1.33	0.48	0.11	0.59	1.91

(Per cent)

TABLE 4.6 (Contd.)

	(1)	(2)	(3)	(4)	(5)	(6)	(7)
1962-63	1.28	0.30	1.59	0.61	0.12	0.73	2.32
1963-64	1.49	0.28	1.77	0.59	0.09	0.68	2.45
1964-65	1.46	0.27	1.73	0.60	0.09	0.69	2.43
1965-66	1.39	0.25	1.64	0.62	0.11	0.73	2.37
1966-67	1.22	0.19	1.41	0.40	0.14	0.54	1.95
1967-68	0.93	0.10	1.03	0.34	0.16	0.50	1.54
1968-69	0.84	0.15	0.98	0.33	0.12	0.45	1.43
1969-70	0.71	0.11	0.83	0.30	0.10	0.40	1.22
1970-71	0.72	0.11	0.83	0.26	0.12	0.37	1.21
1971-72	0.69	0.12	0.81	0.40	0.09	0.49	1.30
1972-73	0.73	0.16	0.89	0.40	0.14	0.54	1.43
1973-74	0.67	0.15	0.82	0.35	0.13	0.48	1.30
1974-75	0.57	0.11	0.68	0.39	0.09	0.48	1.17
1975-76	0.53	0.09	0.62	0.41	0.10	0.51	1.13
1976-77	0.61	0.10	0.71	0.47	0.09	0.56	1.27
1977-78	0.61	0.09	0.70	0.42	0.08	0.50	1.20

Note: Totals may not tally due to rounding off.

Therefore, one tends to feel that the Central government has not given due importance to capital formation.

But such a feeling merely on the basis of capital formation in the Central government is not appropriate. For, substantial disbursements are made by the Central government to the rest of the economy, namely, State governments, Union Territories, and departmental and non-departmental undertakings for building up capital assets. Therefore, to assess the expenditure on the promotion of capital formation, one should examine the capital formation that has taken place out of budgetary resources.

Gross capital formation out of budgetary resources. It can be seen from Table 4.7 that gross capital formation out of budgetary resources as a percentage of GNP, at 1970-71 prices, increased significantly from 1.53 per cent in 1950-51 to 6.31 per cent in 1977-78. Here again the maximum growth of capital formation took place during the latter half of the Second Five Year Plan and during the Third Five Year Plan. During the Fourth Five Year Plan, it slightly declined. However, while gross capital formation in the Central government remained roughly constant, capital "transfers" to the rest of the economy, i.e., grants for capital formation, loans for capital formation, investments in shares of government concerns, etc., have increased significantly. The maximum increase was in loans for capital formation and investments in shares of government concerns. Therefore, any conclusion that the Central government did not pay enough attention to build up capital assets would be unwarranted.

Transfer Payments

Transfer payments are of two types: (i) current transfers and (ii) capital transfers. Current transfers relate to grants to States, Union Territories and local authorities; interest payments; subsidies; and pensions. Capital transfers refer to grants to States, Union Territories, non-departmental undertakings, local authorities and others; gratuities and commuted value of pensions; compensation paid to displaced persons; and other capital transfers. In 1977-78, both types of transfers together accounted for 36.25 per cent of the Central government expenditure (at current prices), while current transfers accounted for 31.22 per cent and capital transfers for 5.03 per cent.

By definition, transfer payments add to the income of others and do not involve direct demands for goods and services on the part of the government. Along with taxes, they are generally taken to affect the distribution of income in the country. Such a view would have been tenable here had we been considering the combined expenditure of the Centre, States and local authorities, in which case inter-governmental transfers would have been eliminated. A large part of the transfers to the lower levels of government would have been spent on goods and services and thus would reflect demand for goods and services by the government sector. Even interest payments in the Indian context go mainly to the banking system and other financial institutions. Only the rest of the transfers going to the households would have a direct impact on income distribution. Under these circumstances, we must confine ourselves to those transfers that straightaway go to individuals or groups of individuals, e.g., subsidies and pensions. Subsidies and pensions account for 25.39 per cent of transfer payments and 9.54 per cent of total Central government expenditure (at current prices).

Interest Payments. Interest payments connote interest on the national debt excluding interest charged to departmental undertakings. But for the exclusion of interest charged to departmental undertakings, they are treated on a gross basis, i.e., no deduction is made for the interest receipts of the government. Interest payments at current prices increased from Rs. 32.00 crore in 1950-51 to Rs. 125.70 crore in 1960-61, Rs. 431.60 crore in 1970-71 and Rs. 1340.10 crore in 1977-78 (Table 4.8), that is, they increased by 42 times during the study period (13 times at constant 1970-71 prices).

As a percentage of GNP at 1970-71 prices, they increased from 0.33 per cent in 1950-51 to 1.51 per cent in 1977-78. However, their share in GNP has been more than 1.00 per cent during the last 13 years of the period and the increase has been gradual. We may identify briefly those to whom interest payments have been accruing. Since a sizeable portion of the public debt is external, a good share of interest payments goes to foreign parties. As for the internal public debt, a major part of which is held by public financial institutions, the percentages of interest payments accruing to different institutions on the one

TABLE 4.7
Gross Capital Formation Out of Budgetary Resources as Per cent of GNP at 1970-71 Prices
(1950-51 to 1977-78)

Year	(Per cent)				
	Gross capital formation (1)	Grants for capital formation (2)	Loans for capital formation (3)	Investment in shares of government concerns (4)	Total (1+2+3+4) (5)
1950-51	1.02	0.03	0.43	0.05	1.53
1951-52	1.23	0.09	0.84	0.04	2.20
1952-53	0.78	0.08	1.07	0.02	1.95
1953-54	0.92	0.11	1.37	0.04	2.44
1954-55	1.94	0.30	2.56	0.06	4.86
1955-56	1.47	0.34	2.80	0.03	4.64
1956-57	2.18	0.27	2.00	0.22	4.67
1957-58	2.90	0.17	2.55	1.21	6.83
1958-59	2.32	0.23	2.65	1.31	6.51
1959-60	1.63	0.33	3.26	0.35	5.57
1960-61	1.91	0.32	2.85	0.51	5.59
1961-62	1.98	0.34	2.99	0.54	5.85
1962-63	2.36	0.36	3.10	0.83	6.65
1963-64	2.71	0.38	3.71	0.87	7.67
1964-65	2.63	0.38	3.68	0.68	7.37
1965-66	2.25	0.49	4.30	0.58	7.62

TABLE 4.7 (Contd.)

	(1)	(2)	(3)	(4)	(5)
1966-67	1.92	0.48	3.79	0.47	6.66
1967-68	1.58	0.40	2.93	0.47	5.38
1968-69	0.88	0.35	3.25	0.61	5.09
1969-70	1.12	0.49	2.04	0.83	4.48
1970-71	1.29	0.46	2.20	0.76	4.71
1971-72	1.38	0.56	2.42	0.86	5.22
1972-73	1.45	0.58	2.89	0.63	5.55
1973-74	1.43	0.54	2.18	0.51	4.66
1974-75	1.74	0.46	2.41	0.65	5.26
1975-76	1.43	0.56	2.91	1.16	6.06
1976-77	1.29	0.51	3.22	1.12	6.14
1977-78	1.19	0.73	3.21	1.18	6.31

Note: Totals may not tally due to rounding off.

TABLE 4.8
Interest, Subsidies and Pensions at Current and 1970-71 Prices
(1950-51 to 1977-78)

Year	Interest		Subsidies		Pensions	
	Current prices	1970-71 prices	Current prices	1970-71 prices	Current prices	1970-71 prices
	(1)	(2)	(3)	(4)	(5)	(6)
1950-51	32.00	60.94	26.10	49.70	17.70	33.71
1951-52	43.60	81.72	63.50	119.03	17.70	33.18
1952-53	44.00	87.15	32.10	63.58	17.70	35.06
1953-54	46.50	91.36	7.50	14.73	17.70	34.77
1954-55	49.80	109.35	7.00	15.37	18.10	39.75
1955-56	56.20	120.47	23.50	50.38	13.60	29.15
1956-57	62.20	121.77	15.20	29.76	13.00	25.45
1957-58	73.30	140.72	55.80	107.12	13.10	25.15
1958-59	83.90	155.20	23.50	43.47	12.90	23.86
1959-60	112.30	203.89	26.00	47.20	14.30	25.96
1960-61	125.70	228.46	30.70	55.80	14.20	25.81
1961-62	142.90	254.13	33.20	59.04	18.40	32.72
1962-63	167.00	285.13	70.80	120.88	18.80	32.10
1963-64	188.90	296.45	56.70	88.98	17.60	27.62
1964-65	215.00	309.49	62.30	89.68	20.10	28.93

(Rs. crore)

TABLE 4.8 (Contd.)

	(1)	(2)	(3)	(4)	(5)	(6)
1965-66	261.90	344.65	47.50	62.51	22.60	29.74
1966-67	37.90	389.69	204.90	236.30	23.30	26.87
1967-68	3363.70	387.95	154.20	164.48	26.20	27.95
1968-69	381.50	408.76	51.00	54.64	29.30	31.39
1969-70	410.30	422.47	96.00	98.85	32.30	33.26
1970-71	431.60	431.60	94.20	94.20	44.30	44.30
1971-72	507.70	481.51	140.30	133.06	49.80	47.23
1972-73	600.30	510.89	204.60	174.13	53.60	45.62
1973-74	695.60	499.86	360.90	259.34	56.80	40.82
1974-75	783.80	485.11	419.20	259.45	94.50	58.49
1975-76	962.00	623.62	469.70	304.49	114.60	74.29
1976-77	1194.80	723.42	947.00	573.38	119.60	72.41
1977-78	1340.10	784.37	1286.80	753.18	141.80	83.00

hand and to the household sector on the other hand could be worked out on the basis of surveys of the ownership of public debt carried out by the Reserve Bank of India. However, for lack of the necessary data, it is not possible to apportion the interest accruing to the institutions and that accruing directly to households among individuals or households in different income groups. This is an interesting study which, however, we will not pursue here.

Subsidies. Subsidies are the funds disbursed in support of one commodity or another through a reduction in its cost or price; their basic objectives seem to be the promotion of some form of economic activity and improvement in the distribution of income. As of 1977-78, they constituted 8.59 per cent of the Central government expenditure, and 23.69 per cent of transfer payments (current and capital transfers) at current prices. They increased from Rs. 26.10 crore in 1950-51 to Rs. 30.70 crore in 1960-61, Rs. 94.20 crore in 1970-71 and Rs. 1286.80 crore in 1977-78 — an increase of 49 times during the study period. At constant 1970-71 prices they increased by about 15 times (Table 4.8).

As a percentage of GNP at constant 1970-71 prices, they grew from 0.27 per cent in 1950-51 to 1.45 per cent in 1977-78 (Table 4.9). Broadly speaking, the growth of subsidies was rapid during the last fifteen years (i.e., from 0.42 per cent of GNP in 1962-63 to 1.45 per cent of GNP in 1977-78). The mere fact of the increasing share of subsidies in GNP is not bad in itself. What is important is the purposes for which they have been given and to whom they have accrued. If they are extended for correcting external effects, meeting "merit" wants, helping to generate increasing returns, promoting growth and redistributing incomes, it is easy to justify them. Thus it is necessary to determine if they are being utilised for the objectives for which they are intended. Moreover, the increasing magnitude of subsidies reduces the budgetary resources available for other purposes and causes concern among policy-makers. The Sixth Five Year Plan 1980-85, therefore, observes that "it is essential to ensure that these subsidies are kept within reasonable limits in order to release resources for development"³. The Committee on Controls and Subsidies points out that "all subsidies should have a well defined period

of validity, say, three years and before any subsidy is extended beyond its stipulated life, a review of the costs and the benefits of the subsidy should be placed before Parliament by the Ministry/Department administering the subsidy"⁴. To ascertain whether subsidies are really promoting the purposes for which they were distributed is a separate study by itself.

TABLE 4.9

Interest, Subsidies and Pensions as Percentage of GNP at 1970-71 Prices
(1950-51 to 1977-78)

(Per cent)

<i>Year</i>	<i>Interest</i>	<i>Subsidies</i>	<i>Pensions</i>
	(1)	(2)	(3)
1950-51	0.33	0.27	0.18
1951-52	0.43	0.63	0.18
1952-53	0.45	0.33	0.18
1953-54	0.44	0.07	0.17
1954-55	0.51	0.07	0.18
1955-56	0.54	0.23	0.13
1956-57	0.52	0.13	0.11
1957-58	0.60	0.46	0.11
1958-59	0.62	0.17	0.09
1959-60	0.79	0.18	0.10
1960-61	0.84	0.21	0.10
1961-62	0.90	0.21	0.12
1962-63	0.98	0.42	0.11
1963-64	0.97	0.29	0.09
1964-65	0.94	0.27	0.09
1965-66	1.09	0.20	0.09
1966-67	1.23	0.75	0.09
1967-68	1.14	0.48	0.08
1968-69	1.16	0.15	0.09
1969-70	1.12	0.26	0.09
1970-71	1.08	0.23	0.11
1971-72	1.17	0.32	0.12
1972-73	1.26	0.43	0.11
1973-74	1.18	0.61	0.10
1974-75	1.13	0.60	0.14
1975-76	1.31	0.64	0.16
1976-77	1.51	1.19	0.15
1977-78	1.51	1.45	0.16

TABLE 4.10
Distribution of Subsidies by Purpose at Current Prices
(1965-66 to 1977-78)

Year	Services		Social Services			Economic services				Consumption subsidies		Total subsidies
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	
	other than defence	Medi-cal and public health	Other social services	Total	Agriculture	Industry	Transport and communication	Other economic services	Total	Total	Total	
1965-66	—	—	—	—	8.42	90.11	1.47	—	100.00	—	—	100.00
1966-67	—	—	—	—	21.72	33.63	0.24	—	55.59	44.41	—	100.00
1967-68	—	—	—	—	1.23	36.58	0.58	—	38.39	61.61	—	100.00
1968-69	—	—	—	—	—	89.22	3.14	0.20	92.55	7.45	—	100.00
1969-70	—	—	—	—	0.10	64.79	2.92	0.10	67.92	32.08	—	100.00
1970-71	—	—	0.32	0.32	0.11	78.56	1.70	0.21	80.57	19.11	—	100.00
1971-72	—	—	0.64	0.64	—	60.94	2.85	0.14	63.93	35.42	—	100.00
1972-73	—	0.29	0.68	0.98	—	39.59	2.15	0.10	41.84	57.18	—	100.00
1973-74	—	—	0.03	0.03	0.22	28.84	1.16	0.06	30.29	69.69	—	100.00
1974-75	—	—	—	—	—	29.10	0.48	0.02	29.60	70.40	—	100.00
1975-76	0.02	0.13	0.02	0.15	0.09	45.90	0.57	0.02	46.58	53.25	—	100.00.5
1976-77	—	0.14	0.13	0.26	6.33	39.73	0.24	0.01	46.30	53.43	—	100.00
1977-78	—	0.08	0.14	0.22	20.71	38.74	0.02	0.01	59.47	40.31	—	100.00

Note: Tables may not tally due to rounding off.

However, it is interesting to know for which purpose/functions they have been extended. Table 4.10 shows such distribution. It can be seen that as of 1977-78 a substantial portion (59.5 per cent) of subsidies went to economic services, namely, agriculture, industry, transport and communication and others, followed by consumption subsidies (40 per cent) and social services (negligible). Even during the period 1965-66 to 1977-78, in a number of years (1965-66, 1966-67, 1968-69, 1969-70, 1970-71, 1971-72 and 1977-78) economic services claimed the major share. Within the subsidies to economic services, the share of industry has been quite substantial in all the years. However, this includes subsidies for exports also. The share of agriculture *per se* has not been very high. Consumption subsidies also have been substantial and generally increased from 1967-68 to 1974-75. Since then they have been falling (Table 4.10).

Furthermore, in absolute terms, subsidies to industry have been phenomenal. They increased from a paltry sum of Rs. 43 crore in 1965-66 to Rs. 499 crore in 1977-78 (at current prices), while subsidies for other purposes were negligible until 1976-77 (Table 4.11).

Yet another interesting finding is that a substantial amount of subsidies has gone to export promotion. For example, subsidies for export promotion at current prices increased from Rs. 46 crore in 1966-67 to Rs. 327 crore in 1977-78. Subsidy for food is among the important subsidies. In 1977-78, its share was only about 39 per cent, but in several of the earlier years, it claimed the major share of subsidies—i.e., 62 per cent in 1967-68, 57 per cent in 1972-73, 70 per cent in 1973-74 and 1974-75 and 53 per cent in 1975-76 and 1976-77. However, a very large part of the subsidies is benefiting urban consumers. If this fact is considered along with the fairly low share of subsidies going to agriculture, it will be seen that the share of subsidies going to rural population is fairly low (Table 4.12).

Pensions. Pensions are another important category in current transfers. They accounted for 0.95 per cent of the Central government expenditures and 2.61 per cent of total transfer payments in 1977-78. They increased by 8.01 times at current prices i.e., from Rs. 17.70 in 1950-51 to Rs. 141.80 crore in 1977-78) and 2.5 times at constant 1970-71 prices (i.e., Rs. 33.71 crore

TABLE 4.11
Distribution of Subsidies by Purpose at Current Prices
(1965-66 to 1977-78)

Year	Services other than defence		Social services		Economic services			Consumption subsidies		Total subsidies	
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)		(10)
		Medical and public health services	Other social services	Total	Agriculture	Industry	Transport and communication	Other economic services	Total		
1965-66	—	—	—	—	4.0	42.8	0.7	—	47.5	—	47.5
1966-67	—	—	—	—	44.5	68.9	0.5	—	113.9	91.0	204.9
1967-68	—	—	—	—	1.9	56.4	0.9	—	59.2	95.2	154.2
1968-69	—	—	—	—	—	45.5	1.6	0.1	47.2	3.8	51.0
1969-70	—	—	—	—	0.1	62.2	2.8	0.1	65.2	30.8	96.0
1970-71	—	—	0.3	0.3	0.1	74.0	1.6	0.2	75.9	18.0	94.2
1971-72	—	—	0.9	0.9	—	85.5	4.0	0.2	89.7	49.7	140.3
1972-73	—	0.6	1.4	2.0	—	81.0	4.4	0.2	85.6	117.0	204.6
1973-74	—	—	0.1	0.1	0.8	104.1	4.2	0.2	109.3	251.5	360.9
1974-75	—	—	—	—	—	122.0	2.0	0.1	124.1	295.1	419.2
1975-76	0.1	0.6	0.1	0.7	0.4	215.6	2.7	0.1	218.8	250.1	469.7
1976-77	—	1.3	1.2	2.5	59.9	376.2	2.3	0.1	438.5	506.0	947.0
1977-78	—	1.0	1.8	2.8	266.5	498.5	0.2	0.1	765.3	518.7	1286.8

in 1950-51 to Rs. 83.00 crore in 1977-78) during the study period. But as a percentage of GNP, they declined from 0.18 per cent in 1950-51 to 0.09 per cent in 1962-63 and increased gradually to 0.16 per cent in 1977-78.

Capital transfers. Having discussed the current transfers, a word about the capital transfers may be warranted since they constitute a sizeable portion of transfer payments (14 per cent) and 5.04 per cent of the Central government expenditure in 1977-78 at current prices. They comprise grants for capital formation (to States and Union Territories, non-departmental commercial undertakings, local authorities and others), gratuities and commuted value of pensions, compensation paid to displaced persons and other capital transfers. Their growth has been very rapid. From a paltry sum of Rs. 6.00 crore in 1950-51, they increased to Rs. 68.70 crore in 1960-61, Rs. 193.30 crore in 1970-71 and Rs. 754.60 crore in 1978-79 (at current prices) —an increase of 125 times during the study period. They constituted hardly 0.06 per cent of GNP in 1950-51, but grew to 0.85 per cent in 1977-78². The main reason for this is that the grants for capital formation to the States, Union Territories, non-departmental commercial undertakings, local authorities, etc., have increased tremendously.

Financial Investments and Loans to the Rest of the Economy

As mentioned earlier, these expenditures supplement the current and capital receipts of other sectors. They consist of (a) investments in shares of government concerns, (b) loans for capital formation (to the States, local authorities and non-departmental commercial undertakings and others), (c) subscription to international financial organisations and (d) net purchase of gold and silver. In 1977-78, they constituted 31.82 per cent of the Central government expenditure (i.e., Rs. 4767.70 crore) at current prices. They were Rs. 72 crore only in 1950-51, but gradually grew to Rs. 570 crore in 1960-61, Rs. 1955 crore in 1970-71 and Rs. 4767 crore in 1977-78: an increase of 66 times during the study period, at current prices (Table 4.13). At constant 1970-71 prices they increased from Rs. 137 crore in 1950-51 to Rs. 1036 crore in 1960-61, Rs. 1956 crore in 1970-71 and

TABLE 4.12
Subsidies by Type at Current Prices
(1965-66 to 1977-78)

Year	(Rs. crore)					
	Subsidy for export promotion and marketing development	Food subsidy	Fertiliser subsidy	Subsidy for the loss on sugar export	Other Subsidies	Total subsidies
	(1)	(2)	(3)	(4)	(5)	(6)
1965-66	N.A.	N.A.	N.A.	N.A.	N.A.	N.A.
1966-67	46.0 (22.44)	91.0 (44.39)	43.0 (20.98)	—	25.0 (12.20)	205.0 (100.0)
1967-68	40.0 (25.97)	95.0 (61.69)	—	—	19.0 (12.34)	154.0 (100.0)
1968-69	34.0 (66.67)	—	—	—	17.0 (33.33)	51.0 (100.0)
1969-70	45.0 (46.88)	31.0 (32.29)	—	—	20.0 (20.83)	96.0 (100.0)
1970-71	41.0 (43.62)	18.0 (19.15)	—	—	35.0 (37.23)	94.0 (100.0)
1971-72	54.0 (38.57)	50.0 (35.71)	—	—	36.0 (25.71)	140.0 (100.0)
1972-73	62.0 (30.24)	117.0 (57.07)	—	—	26.0 (12.68)	205.0 (100.0)

TABLE 4.12 (Contd.)

	(1)	(2)	(3)	(4)	(5)	(6)
1973-74	66.0 (18.33)	251.0 (69.72)	—	—	43.0 (11.94)	360.0 (100.0)
1974-75	88.0 (21.00)	295.0 (70.41)	—	—	36.0 (8.59)	419.0 (100.0)
1975-76	161.0 (34.26)	250.0 (53.19)	—	—	59.0 (12.55)	470.0 (100.0)
1976-77	269.0 (28.41)	506.0 (53.43)	—	—	172.0 (18.16)	947.0 (100.0)
1977-78	327.0 (26.20)	480.0 (38.46)	266.0 (21.31)	—	175.0 (14.02)	1248.0 (100.0)

Note: 1. Figures in parentheses are percentages of total.

2. Tables of percentages may not tally due to rounding off.

TABLE 4.13
Financial Investments and Loans to the Rest of the Economy at Current Prices
1951 to 1978

(Rs. crore)

Year	Investment in shares of govern- ment companies	Loans for capital formation	Other loans	Subscription to international finan- cial organisations and net purchase of gold and silver	Total financial investments and loans to the rest of the economy
	(1)	(2)	(3)	(4)	(5)
1950-51	4.80	41.50	25.70	0.00	72.00
1951-52	4.20	85.00	4.10	0.00	93.30
1952-53	2.30	105.80	16.40	0.00	124.50
1953-54	4.60	144.90	30.00	0.00	179.50
1954-55	6.20	251.10	9.70	0.00	267.00
1955-56	3.40	291.80	6.20	0.00	301.40
1956-57	26.30	240.50	39.50	2.10	308.40
1957-58	146.60	309.40	57.70	0.00	513.70
1958-59	178.30	360.80	26.20	2.20	567.50
1959-60	49.70	461.90	30.90	98.10	640.60
1960-61	76.90	426.20	60.70	6.20	570.00
1961-62	85.40	474.80	120.50	6.50	687.20

TABLE 4.13 (Contd.)

	(1)	(2)	(3)	(4)	(5)
1962-63	141.40	536.90	128.70	9.60	816.60
1963-64	169.30	725.80	81.30	10.90	987.30
1964-65	154.90	843.00	118.40	—9.90	1106.40
1965-66	139.90	1031.50	227.90	79.10	1478.40
1966-67	129.90	1039.10	372.60	215.90	1757.50
1967-68	150.20	939.60	404.30	7.00	1501.10
1968-69	199.90	1073.80	398.50	16.00	1688.20
1969-70	303.40	744.40	647.20	5.00	1700.00
1970-71	304.60	881.80	610.40	158.70	1955.50
1971-72	273.20	1047.50	728.40	2.20	2051.30
1972-73	299.30	1381.20	940.40	9.10	2630.00
1973-74	300.40	1282.60	1020.60	16.60	2620.20
1974-75	448.90	1677.20	738.20	1.60	2865.90
1975-76	851.80	2137.50	611.10	229.20	3829.60
1976-77	888.90	2553.90	481.90	61.10	3985.80
1977-78	1047.00	2852.80	858.50	9.40	4767.70

TABLE 4.14
Government Expenditure by Function at Current Prices
(1957-58 to 1977-78)*

Year	(Rs. crore)					Total
	Defence services	General services other than defence	Social services	Economic services	Unallocable services	
	(1)	(2)	(3)	(4)	(5)	(6)
1957-58	127.20 (8.09)	279.40 (17.77)	68.30 (4.34)	547.10 (34.79)	550.60 (35.01)	1572.60 (100.00)
1965-66	844.60 (21.15)	296.60 (7.43)	326.70 (8.18)	2014.40 (50.44)	511.30 (12.80)	3993.60 (100.00)
1966-67	881.00 (18.88)	533.00 (11.42)	304.40 (6.52)	2086.40 (44.72)	860.60 (18.45)	4665.40 (100.00)
1967-68	940.30 (20.91)	365.00 (8.12)	271.70 (6.04)	1996.00 (44.38)	924.20 (20.55)	4497.20 (100.00)
1968-69	998.20 (22.06)	403.90 (8.91)	274.60 (6.07)	1960.20 (43.31)	888.90 (19.64)	4525.80 (100.00)
1969-70	1058.40 (21.40)	433.70 (8.81)	303.90 (6.17)	2047.80 (41.58)	1080.90 (21.95)	4924.70 (100.00)
1970-71	1551.60 (20.65)	626.30 (11.23)	364.00 (6.53)	2294.30 (41.14)	1140.30 (20.45)	5576.50 (100.00)

TABLE 4.14 (Contd.)

	(1)	(2)	(3)	(4)	(5)	(6)
1971-72	1473.70 (21.96)	543.50 (8.10)	452.00 (6.74)	2674.40 (39.86)	1566.00 (23.34)	6709.60 (100.00)
1972-73	1592.60 (20.29)	736.80 (9.39)	664.20 (8.46)	3284.70 (41.85)	1571.00 (20.01)	7849.30 (100.00)
1973-74	1616.50 (19.88)	835.30 (10.27)	601.10 (7.39)	3152.90 (38.78)	1925.00 (23.68)	8130.80 (100.00)
1974-75	2019.90 (20.64)	597.80 (6.11)	592.20 (6.05)	4383.20 (44.80)	2191.80 22.40	9784.90 (100.00)
1975-76	2359.90 (19.61)	984.00 (8.18)	783.70 (6.51)	5688.40 (47.26)	2220.50 (18.45)	12036.50 (100.000)
1976-77	2426.80 (18.45)	874.50 (6.65)	899.90 (6.84)	6274.20 (47.71)	2674.70 (20.34)	13150.1 (100.00)
1977-78	2492.50 (16.63)	778.70 (5.20)	970.20 (6.47)	7467.40 (49.83)	3276.80 (21.87)	14985.60 (100.00)

* For the years from 1958-59 to 1964-65, data are not available.

Note: 1. Figures in parentheses are percentages of total.

2. Totals of percentages may not tally due to rounding off.

Rs. 2791 crore in 1977-78: an increase of 20 times during study period.

It may be noted that much of the increase was on account of (a) grants for capital formation and (b) loans for capital formation. They together accounted for 61 per cent of the financial investments and loans to the rest of the economy in 1977-78. One can see two distinct periods in the growth of financial investments and loans to the rest of the economy: (i) 1950-51 to 1961-62 and (ii) 1962-63 to 1977-78. It was during the second period that investments in government financial concerns and loans for capital formation spurred tremendously.

Functional Classification

In order to understand the purposes to which expenditure has been devoted, classification by functions is necessary. Functional classification illuminates the priorities accorded by government. Unfortunately, data on functional classification are not available for the entire period under study. For the period prior to 1965-66, all that is available are the data on broad classification of functions relating to Revenue Account—as presented to Parliament. Neither the Ministry of Finance nor other agencies like the Reserve Bank of India and the Central Statistical Organisation, Government of India, attempted a detailed functional classification prior to 1965-66. If we had proceeded only on the basis of the economic and functional classification carried out by the Ministry of Finance, we would have studied only the period 1965-66 to 1977-78. But on account of a study made by NCAER in 1960, it was possible for us to cover 1957-58 and thereby study changes over a much longer period than otherwise would have been possible.

We have classified expenditure as follows: (i) defence services, (ii) general services other than defence, (iii) social services, (iv) economic services and (v) unallocable services. During the period 1957-58 to 1977-78, there has been a significant shift in the priorities accorded to various purposes. Defence services which accounted for 8 per cent of the Central government expenditure in 1957-58, accounted for 17 per cent of the total in 1977-78. Similarly, economic services accounted for 50 per cent in 1977-78 as against 35 per cent in 1957-58. The shift in favour of social services is also substantial (Table 4.14).

On the basis of shifts in priorities the entire period may be divided into three sub-periods: (i) 1957-58 to 1965-66, (ii) 1966-67 to 1972-73 and (iii) 1973-74 to 1977-78. Period one is marked by shifts in favour of economic services, social services and defence services; period two is marked by status quo in priorities; and period three is marked by a mild shift in priorities towards mainly economic services.

Insofar as the period 1957-58 to 1965-56 is concerned, the shares of economic services, social services and defence services in the Central government expenditure increased from 35 per cent to 50 per cent, 4 per cent to 8 per cent, and 8 per cent to 21 per cent, respectively, while those of general services other than defence and unallocable services declined from 18 per cent to 7 per cent and 35 per cent to 13 per cent, respectively.

In the second period, that is, 1966-67 to 1972-73,, there was no marked shift in the shares of various functions in the Central government expenditure: defence services accounted for roughly 20 per cent, social services for roughly 6 per cent, economic services for roughly 44 per cent, unallocable services for roughly 21 per cent and general services other than defence for the rest.

In the third period, 1973-74 to 1977-78, there was upward shift in the share of economic services and downward shift in that of defence services, and near status quo in those of general services other than defence, social services and unallocable services. The share of economic services in the Central government expenditure increased from 39 per cent in 1973-74 to 50 per cent in 1977-78, while that of defence services declined from 20 per cent to 17 per cent. It seems that economic services gained at the expense of defence services since the shares of other services remained roughly the same from 1973-74 through 1977-78.

Looked at from the point of view of percentage shares in GNP, the priorities had undergone some change (Table 4.15). In the period 1957-58 to 1965-66, the shares of defence services, economic services and social services went up while those of the remaining went down. The maximum increase was in the case of defence services by 1.23 per cent. In the second period (1966-67 to 1972-73) the priorities did not change, except for a slight

TABLE 4.15
Expenditure by Function as Per Cent of GNP at 1970-71 Prices
(1957-58 to 1977-78)*

Year	(Per cent)					Total
	Defence services	General services other than defence	Social Services	Economic services	Unallocable services	
	(1)	(2)	(3)	(4)	(5)	(6)
1957-58	0.88	2.24	0.55	4.39	4.90	12.96
1965-66	2.11	0.74	0.82	5.04	1.28	10.00
1966-67	3.24	1.96	1.12	7.67	3.16	17.14
1967-68	2.98	1.16	0.86	6.32	2.93	14.24
1968-69	3.03	1.22	0.83	5.94	2.69	13.72
1969-70	2.91	1.19	0.84	5.63	2.97	13.53
1970-71	2.87	1.56	0.91	5.72	2.84	13.90
1971-72	3.41	1.26	1.05	6.18	3.62	15.52
1972-73	3.42	1.58	1.43	7.05	3.37	16.85
1973-74	2.91	1.51	1.08	5.68	3.47	14.65
1974-75	2.97	0.88	0.87	6.44	3.22	14.38
1975-76	3.13	1.31	1.04	7.55	2.95	15.98
1976-77	3.05	1.10	1.13	7.88	3.36	16.52
1977-78	2.79	0.88	1.08	8.33	3.66	16.75

* For the years from 1958-59 to 1964-65, data are not available.

Note : Totals may not tally due to rounding off.

decline in the share of social services, economic services and defence services. In the third period (1963-64 to 1977-78), the share of economic services alone increased by 2.65 per cent while those of defence services, social services and unallocable services remained roughly constant and services other than defence went down by 0.63 per cent.

The noticeable fact is that during the two decades 1957-58 to 1977-78, economic services claimed the major share followed by unallocable services, defence services, general services other than defence and social services. In recent years, particularly since 1973-74, expenditure on economic services has increased faster than the average on all services while the expenditure on defence services has increased at a slower rate. This indicates that development has been accorded a higher priority than defence, contrary to the impression in some quarters

What has been the pattern with regard to individual components of these services? Table 4.16 indicates the trend concerning the important components of social services and economic services and their percentage shares in GNP at 1970-71 prices. It can be seen that during the past 20 years, substantial shifts had taken place in medical and public health and other social services. The percentage share of education remained roughly constant. With respect to economic services, there has been some year to year change in the shares of agriculture and industry during the period. For example, the share of agriculture in GNP increased from 0.55 per cent in 1957-58 to 1 per cent in 1965-66, and increased in the next year itself to 1.85 per cent. But since then it continued to be around 0.8 per cent until 1970-71. However, after 1972-73, it remained at 1 per cent level. With respect to industry, its share increased from 1.45 per cent in 1957-58 to 2.68 per cent in 1966-67; remained roughly constant at 1.8 per cent level until 1973-74 and increased to 3.34 per cent in 1977-78. Transport and communications declined from 2.62 per cent in 1957-58 to 1.42 per cent in 1965-66, and continued to remain around that level since then. On the whole, it may be said that the share of expenditure on education changed little during the two decades 1957-58 to 1977-78 while those on medical and public health and other social services increased slightly. This means that expenditure on social services as a

TABLE 4.16
Important Components of Social Services and Economic Services and Their Percentage Share in GNP at 1970-71 Prices
(1957-58 to 1977-78)*

Year	(Per cent)					
	Education	Medical and public health	Other social services	Agriculture	Industry	Transport and communication
	(1)	(2)	(3)	(4)	(5)	(6)
1957-58	0.31	0.17	0.06	0.55	1.45	2.62
1965-66	0.30	0.17	0.36	1.00	1.56	1.42
1966-67	0.33	0.23	0.56	1.85	2.68	1.85
1967-68	0.28	0.20	0.38	0.79	1.89	1.53
1968-69	0.25	0.23	0.35	0.47	1.85	1.35
1969-70	0.25	0.24	0.35	0.67	1.81	1.16
1970-71	0.27	0.22	0.42	0.53	1.43	1.55
1971-72	0.25	0.31	0.48	0.76	1.81	1.48
1972-73	0.34	0.35	0.73	1.18	1.99	1.63
1973-74	0.26	0.18	0.64	0.69	1.46	1.43
1974-75	0.27	0.16	0.44	1.03	2.24	1.38
1975-76	0.29	0.30	0.45	1.08	3.03	1.44
1976-77	0.30	0.33	0.50	0.92	3.50	1.34
1977-78	0.30	0.26	0.53	1.09	3.34	1.26

* For the years 1958-59 to 1964-65, data are not available.

whole did not rise much faster than GNP. A plausible explanation is that these expenditures are undertaken in the main by the State governments.

NOTES

1. See Appendix Table A.4.
2. See Appendix Table A.5.
3. Government of India, Planning Commission, (1981), *Sixth Five Year Plan, 1980-85*, p. 67.
4. Government of India, Ministry of Finance, (1979), *Report of the Committee on Controls and Subsidies*, (May), p. 114.
5. See Appendix Table A. 6.