

Chapter 8

Summary and Conclusions

The credit for the recognition of the role of public expenditure in Economic development goes to J.M. Keynes who provides a theoretical basis for recent development in public expenditure programmes in his "General Theory". Since then there has been a phenomenal growth of public expenditure throughout the world. Adolf Wagner, a German economist of the 19th century introduced an empirical law, popularly known as Wagner's Law. According to this law government activities and thus government expenditure grows faster than the national income in a developed economy. In other words the government sector of the economy has an inherent tendency to grow in size and importance. According to Wagner, the growth of government activities has been both extensive and intensive ever since the governments started assuming new functions. The government's administrative functions and duties expand as complexities of industrial and urban society increase. Side by side activities of high income elasticity of demand lead to expansion of cultural and welfare functions of the government. Further in a free market economy, the failure of the price mechanism requires large scale direct participation of the government in a large number of directly productive services.

Peacock and Wiseman in their study of U.K concluded that the social upheavals like war and depression push up public expenditure in jerks and step-like manner. In order to finance the increase in public expenditures the government would be forced to raise taxation levels. This raising of taxation levels would, however, be regarded as acceptable to the electorate during the periods of crisis. Peacock and Wireman referred to this as the 'displacement effect'. The public expenditure is displaced upwards and for the period of crisis displaces private expenditures for public expenditures. The process represents an upward shift in the trend line of public expenditure. Following the period of crisis public expenditure does not, however, fall to its original level. Besides displacement effects, peacock and Wiseman have mentioned two other related

concepts – inspection effect and concentration effect. Inspection refers to the fact that the social crisis not only creates pressures for increased public expenditure but also expose, the vulnerable areas which might have been neglected earlier. Social crisis not only obtain general sanction for increasing state activity in general and extending it to the neglected fields, but also mobilize public opinion in favour of the centralization of many new activities. This is known as concentration effect.

Social disturbances in less developed countries may be different from those in advanced economies. And yet, less-developed countries of today vie with advanced countries in public expenditure. Further, difference in tax structure may also have some influence on the expenditure.

From our study it is found that the total government expenditure in India in money terms as well as in real terms during the period 1950-51 to 2000-01 increases faster than the national income. Government expenditure per head of population also shows the same result during the period from 1950-51 to 2000-01.

It is also evident that in terms of per capita and as percentage of national income as well as percentage of total expenditure developmental expenditure registered a growth higher than the non developmental expenditure both at current as well as at constant prices. The expenditure on social and community services was found to grow much faster than the expenditure on the economic services both at current and constant prices.

The government expenditure therefore has grown faster than the national income and government activities have shown an increasing trend during the period under study. Hence Wagner's Law of increasing state activities has been substantiated by these empirical observations. The expansion of expenditure on developmental services particularly social and community services indicates ever expanding state activities in the economic sphere.

The study also reveals an increasing trend in defence expenditure (both total and per capita) in India in money terms as well as in real terms. However,

Indian defence expenditure as a percentage of national income was more or less constant before 1961-62. Following the Chinese attack in October 1962, the expenditure on this head started an upward trend. Defence expenditure as a percentage of national income amounted to roughly 3 per cent during the whole period under review.

It is found that, non-developmental expenditure (both total & per capita) in money and in real terms has shown an increasing trend. However, the proportion of total government expenditure devoted to non-developmental services has shown a declining trend from 1950-51 to 1970-71, but thereafter, from 1975-76 to 2000-01, it shows an increasing trend. The expansion of expenditure on non-developmental services is a joint product of social, political, economic and cultural forces at work. We have also found that the expenditure on administrative services both at current as well as constant prices has shown an increasing trend during the whole period under study. The expenditure on collection of taxes and duties has been continuously increasing during the period from 1950-51 to 2000-01 both at current and constant prices.

Three important points have been emerged from the growth of cost of tax collection, viz.,

- (1) Tax collection charges as percentage of tax revenue falls continuously over the period.
- (2) The rate of increase in tax collection charges fall continuously. The rate of increase in tax revenues continuously.
- (3) The rate of increase in tax revenues is greater than the rate of increase in tax collection charges.

The expenditure on relief on account of natural calamities in money terms and in real terms has shown an increasing trend.

In modern times, the governments irrespective of whether they are capitalist or socialist, are devoting progressively large amount for the provision of social and developmental services directly or indirectly. The nature of the state is more or less determined by the proportion of government expenditure out of national income spent on social and developmental services. A state is to be said to be

welfare oriented, higher the proportion of income is spent on social and developmental services. It is, however, heartening to note that almost all the modern governments are devoting progressively larger amount of their national resources to the developmental activities.

We also found that expenditure on social and developmental services in India in money terms and real terms has shown an increasing trend. The proportion of national income, and proportion of total government expenditure devoted to social and developmental services has been continuously increasing during the period under study. But the impressive growth is depreciated to a large extent by rapid growth of population as well as by increasing price level. As a result of growth of population, in spite of the absolute growth of total expenditure on education per capita expenditure has not shown an impressive improvement due to constant rise in prices and as such when expenditures are converted into constant prices (1993-94 prices). It can be seen that the real rate of growth in total, per capita, and per pupil expenditure on education is very small. For example, as compared to a rate of growth of 13.65 per cent (compound growth rate) in current price, total expenditure on education increased at a rate of 6.84 per cent per annum only in terms of real prices during the period 1950 – 51 to 2000 – 01. The real rate of growth of per capita expenditure on education was about 4.67 per cent per annum and in per pupil terms the real growth was less than one third of the growth at current prices. Incidentally we should note that there are large number of countries which spend more than six to ten per cent of GNP. Some of the countries, which spend more than 4 per cent of GNP on education, include countries, which are economically poorer than India. India had set a long time ago a target of 6 per cent of GNP to be spent on education. This target still eludes, and may continue to elude in the near future.

It is clear from our review of educational development programmes based on various short and long term social and economic objectives during the various Five-Year Plans that, the educational system has not been able fully to gear itself to meeting the need of our growing economy. Thus in spite of several achievements in education front, we have observed that more than fifty per cent of the children between the age-group 11 to 14 years in 1988-89 and about one

fourths of children of the age-group 14 -17 years in 1984-85 went to school. Thus the State has yet to go a long way to achieve the goal of free and compulsory education for all children as set by the constitution.

The main barrier to a scheme of compulsory primary education in India is economic. At very early age the children / boys assist their family in earning small bits of money because people are poor and can not afford to pay for education of their children. Most of the boys and girls in spite of attending a school they work to supplement the income of their families. It is impossible for boy and girl to study on an empty stomach. An unhealthy or ill fed child who is made to attend school has to be paid the cost of medicines. It is heartening to note that recently an attempt has been made to assure mid-day meal. Children in the slum areas who have no clothes to wear, leave alone money and books, have to be provided with school uniforms. Thus, a very large number of children join the ranks of the illiterate every year.

Literacy is one of the broad indicators of development. But it is a matter to be worried when we observed that in 2001 about 34.6 per cent of India's population is still illiterate. Schooling was inadequate under British rule .Thus development of primary education was certainly an urgent necessity at the time of Independence. National Literacy Mission campaign had taken to fight illiteracy. But the condition had not improved a lot. Still the condition of primary schools in villages is bad. There are many schools running with out any infrastructure and adequate number of teachers. Even when teachers are there, there is no provision of classrooms. Recently, Sarba Siksha Avyan campaign has been taken to fight illiteracy. Let us see what it achieves in near future.

Although at higher level and professional education level India has made very significant progress by allowing private entrepreneur to establish private Institutions, a large number of graduates and post graduates go with out suitable employment. Those who continue their education are not sure what sort of studies it would be best for them to engage in.

In spite of all progress in the field of education, Indian education need a drastic reconstruction.

Universalisation of elementary education has been a Constitutional Directive, and the two national policy statements on education in 1968 and 1986 and the revised 1992 laid special emphasis on the fulfillment of this objective. Five-year plans repeatedly promised to take the nation towards achieving this goal. Elementary education was also included in the 'National Programme of Minimum Needs' in the five-year plans, and this inclusion has significant implications for allocation of resources, and for diversion of resources away from elementary education. This is expected to ensure favorable treatment in the allocation of resources, and to protect it from reallocation of approved outlays away from elementary education.

But even after several decades of development planning, the goal of universal elementary education is still elusive. It is strongly felt that elementary education apart from several factors suffered in India, due to, insufficient allocation of financial resources. While finances are an important constraint, they are however, not the only constraint, but one among many. Resources provide a necessary, but not a sufficient condition in achieving universal elementary education.

The Plan period can be divided into four phases depending on the pattern of allocation of resources to elementary education. Phase I (the 1st five year-plan period) witnessed a substantial part, nearly three-fifths, of the total plan educational resources, being allotted to elementary education, i.e., high priority was given to elementary education. The period favorable to elementary education ended with the end of first five-year plan. Phase II (1956-69, the period covering the second and the third five-year plans, and the annual plans), specially the second five-year plan marked the beginning of a drastic decline of resources allocated to elementary education and a doubling or trebling of resources allocated for higher education. Relative emphasis shifted from agricultural sector in favour of industrial sector during this plan period. Accordingly, expenditure on higher education was increased considerably. It reached a proportion of 24

per cent by 1967-68, while the corresponding figures for elementary education showed a decline from 56 per cent in the first five-year plan to 24 per cent in 1967-68. Phase III, i.e., period after 1969 showed a slight reversal of these trends. The proportion of elementary education showed an increasing trend and that of university and technical education showed a gradual decline. This may be attributable partly to the Education Commission's (1966)

Table 8.1
Inter-Sectoral Allocation of Plan Expenditure on Education in Five-Year Plans in India

(Rs in Crores)

Five Year Plan	Elementary Education*	Adult	Secondary	Higher	Technical	Grand Total	% of plan Outlay
First	85 (56)	5 (3)	20 (13)	14 (9)	20 (13)	153 (100)	7.86
Second	95 (35)	4 (1)	51 (19)	48 (18)	49 (18)	273 (100)	3.83
Third	201 (34)	2 (0.3)	103 (18)	87 (15)	125 (21)	589 (100)	6.87
Annual #	75 (24)	-	53 (16)	77 (24)	81 (25)	322 (100)	4.86
Fourth	239 (30)	6 (1)	140 (18)	195 (25)	106 (13)	786 (100)	5.04
Fifth	317 (35)	33 (4)	156 (17)	205 (22)	107 (12)	912 (100)	3.27
Sixth	883 (30)	156 (3)	736 (25)	530 (18)	324 (11)	2943 (100)	2.70
Seventh	2849 (34)	470 (6)	1829 (22)	1201 (14)	1083 (12)	8500 (100)	3.50
Annual\$	1734 (33)	376 (7)	1079 (20)	595 (11)	848 (16)	5318 (100)	4.20
Eighth	8936 (42)	1808 (8)	3498 (16)	1516 (7)	2786 (13)	21217 (100)	4.90
Ninth	27363 (51)	1102 (2)	9526 (18)	4350 (8)	4778 (9)	53524 (100)	6.20

Note: * Indicates pre-school education

1965-66 to 1967-68 (three years)

\$ 1990-91 and 1991-92 (two years)

Source: Five Year Plans, Annual Plans, Education Sector (various year),

and the Report of The NDC Committee on Literacy, Planning Commission, New Delhi.

concerns, and the National Policy on Education, 1986 that laid emphasis on elementary education on the one hand, and partly due, on the other hand, to the growth of educated unemployment, the mismatches in the labour market, and the resulted social unrest. The year 1986 marks the beginning of the renewed emphasis on elementary education, with the formulation of the National Policy on Education (1986), and with the 'operation blackboard' and similar other programmes launched by the Union and State governments. The allocation to elementary education was stepped up significantly during the seventh plan, and the eighth plan continued to lay the same emphasis on elementary education. In the ninth plan also elementary education was given a high priority.

However, it is to be noted that though the third phase showed marginal improvements so far as elementary education is concerned, it is yet to go a long way to reach the proportion that is obtained in the first plan. While universalisation of elementary education has been becoming an increasingly tougher and tougher task, causing repeated postponement of the goal. The relative priority given to elementary education in the total educational expenditure has gradually declined over the successive five year plans. It is only during the first plan that elementary education was allocated a sizable proportion of total educational outlay: it was 56 per cent. During the subsequent plans this proportion has been dwindling between 30 and 35 per cent, except in the seventh and later plans. On the whole, it seems plausible to argue that had the priority given to elementary education in the first five year plan continued, universalisation of elementary education would not have been so elusive as it is today, if not already accomplished.

The resource allocation to secondary education showed that after an initial jump from 13 per cent to 19 per cent between the first and the second plans it got relatively stabilized and remained around the proportion until the sixth plan. In the sixth plan, for the first time, the allocation was increased to 25 per cent. But this level could not be maintained; it gradually declined to 16 per cent in the eighth plan. It is feared that the proportion might decline further in the ninth plan.

During the first five year plan, higher education was not given a high priority. But probably realizing the importance of higher education soon, in the second plan the allocation to higher education was doubled from 9 per cent to 18 per cent of the total education outlay. But certainly it is during the third phase, i.e., during the post-Kothari Commission period, higher education received a better treatment, with more than 20 per cent of the total outlay allocated to education being given to higher education. But the fourth phase was the worst period for higher education. The relative share of higher education touched an all-time low level of seven per cent in the eighth plan. The economic reform policies introduced in the beginning of the 1990s contributed to inflicting steep cut on the allocations to higher education and also effected drastic changes in the perceptions on public financing of higher education. As a result, today a very few

hope that even during the tenth plan higher education would be allocated any better share of the total education outlay.

Now unit cost can provide valuable elements in analyzing the allocation of educational resources. A comparison of unit cost of elementary education with those at higher education reveals the extent of misallocation of resources or imbalanced nature of development of education. Unit costs at university level per student in India were more than 64 times than at primary level in 1983-84. Quite contrary to general opinion, cost of college education are only 11 times the

Table 8.2
Public Expenditure on Education, per student by Level of Education

(Rs. Per annum)						
Year	Primary	Middle	Secondary	University & other Inst	Colleges	Colleges (Prof.)
At Current Prices						
1950-51	19.9	37.1	72.9	1905.6	231.6	779.2
1960-61	27.6	40.5	91.7	2524.2	301.0	813.4
1970-71	57.0	84.9	168.4	4141.2	490.0	1179
1975-76	95.9	114.2	257.7	5993.6	572.5	1539
1980-81	160.9	193.4	407.8	12087.7	1270.5	
1983-84	217.1	285.1	555.6	13920.5	1250.3	
1985-86	262.7	344.3	654.0	-	1257.7	
1987-88	332.6	418.9	780.1	-	-	-
1990-91	411.4	547.6	948.7	-	-	-
Growth rate	7.9	7.0	6.6	6.2**	3.7*	2.8*
At Constant (1993-94) Prices						
1950-51	292.9	546.0	1073.0	28047.2	3408.8	11468.5
1960-61	350.7	514.6	1165.3	32075.5	3824.9	10336
1970-71	399.5	595.0	1180.3	29024.6	3434.3	8263.3
1975-76	436.2	519.4	1172.0	27259.5	2603.8	6999.5
1980-81	495.5	595.6	1255.9	37226.3	18699.6	
1983-84	515.4	676.8	1319.0	33046.3	15887.8	
1985-86	541.1	709.2	1347.1	-	8814.9	
1987-88	585.2	737.1	1372.7	-	-	-
1990-91	558.7	743.7	1288.4	-	-	-
Growth rate	2.3	0.9	0.5	0.5	-0.9	-1.5
Cost Ratios: Cost of University Education per pupil/Cost per Pupil of Given Level of Education						
1950-51	95.8	51.4	26.1	1	8.2	2.4
1960-61	91.5	62.3	27.5	1	8.4	3.1
1970-71	72.7	48.8	24.6	1	8.5	3.5
1975-76	62.5	52.5	23.3	1	10.5	3.9
1979-80	53.9	40.4	20.9	1	6.5	
1980-81	75.5	62.5	29.6	1	9.5	
1983-84	64.1	48.9	25.1	1	11.1	
1985-86 #	4.78	3.65	1.9	1	-	-

Note: * refers to 1950-51 to 1975-76;

** refers to 1950-51 to 1983-84; # in relation to college education only

-not available; growth rates are compounded at annual rates of growth.

Source: Based on Education in India (various year)

cost of primary level. These ratios, particularly at primary and middle levels, are declining over time, suggesting some progress towards 'balanced' development. Yet the current ratios are very high. The need to reduce these ratios is obvious, and this has to be done by improving levels of investment in elementary and secondary education per pupil and not only by reducing cost of higher education.

However, this apparent decline in ratio is due, not to any improvement in educational technology, but due to a more rapid increase in enrolments relative to total resources devoted to education. Only real reduction in costs that is due to better technologies of educational production can be welcomed. This fall in relative spending per student is due to economies of scale, and deterioration in quality.

It is also revealed from our study that the expenditure on medical and public health services increased during the period under study at current and constant prices, in terms of percentage of national income, total government expenditure and as percentage of total social and developmental expenditure.

This increase in expenditure on medical and health services have resulted in vast improvement in health facilities. The diseases like malaria, T.B, cholera, small pox, and plague have been eradicated in a large extent. Death rate has come down to 8.5 per thousand in 2000 as compared to 18 per thousand in 1950-51. Life expectancy at birth has increased from 41.2 years in 1950-61 to 65.3 years in 2001. Therefore, we can conclude that the increasing public expenditure on health and medical services has considerably improved the survival rate. During the period under study, infant mortality rate has shown a significant decline. This is largely the result of an improvement in health facilities as well as nutrition levels. However, still in 2001, 178 million children under five were under weight. Therefore, more is to be spent to support a programme of improving nutrition in poor families to reduce this massive number of underweight children. In India still 165 million persons are unable to make use of improved water resources and thus become victims of all kind of water born diseases. Improved sanitation facilities were also not available to 72 per cent of the

population. Even in the medium human development countries, population using adequate sanitation facilities ranged from 70 per cent to 99 per cent. But in India it is palpably low at 28 per cent in 2000. In 1999, 49 per cent of Indian population did not have access to essential drugs. This means that 527 million persons were without effective medical cover.

The above observation is true, but it should be noted it is not the mal-allocation of resources that attributed to the inadequacy of medical and health services in India . It is the lack of funds that limits access to the modern medical care and , as a result , a large number of cases escape the attention of medical services . It is also a fact that services in government hospitals are of a poor quality in terms of both treatment and lack of concern for patients. It has been emphasized by the World Bank Paper, more resources need to be devoted to staffing the lower levels of health services in areas with very few facilities or none at all. The services should focus primarily on improving environmental and public health, personal health practices and nutrition. The demand for curative care, however, should not be over looked. Thus, a more economical balance should be struck between measure to treat disease and measure to control its incidence.

On the basis of above observations it is significant to remember that the amount of money available for medical and public health services is an important determinant of the quality and quantity of such services . The State Governments have allocated their limited resources among many competing and different kinds of public health programmes. Thus, the absolute amount of public expenditure available for health services is quite low. Therefore, it would be very unrealistic to expect that a sharp increase in funds for medical and public health services would improve the entire situation.

Agriculture is the backbone of Indian economy. The expenditure on agriculture and allied services increased during the period. But the proportion of developmental expenditure, the proportion of total government expenditure and, proportion of national income devoted to agriculture and allied services increased marginally during the period.

But with the process of industrialization and economic growth, the share of agriculture indicated a decline during the period. With the extension of irrigation and application of intensive methods of cultivation, and after introduction of modern agricultural practices including the adoption of hybrid seeds, there has been a steady and continuous increase in yield per hectare of all crops. Even though there has been substantial growth in agricultural production, this has not been smooth; there have been continuous fluctuations in crop output from year to year. But this new agricultural strategy has not been very successful in increasing the over all agricultural production. It brings about dramatic change in the pattern of production in a few selected areas. The majority of Indian farmers are still using traditional inputs, like wooden ploughs inferior quality of seeds, insufficient quantity of fertilizer, etc. The most disheartening feature of the Green Revolution has been the fact that its impact has been limited to a few food grains leaving the major crops outside its purview. The effects of Green Revolution have been the most spectacular in the case of wheat. Towards food grains security, India has succeeded in terms of cereals, but has miserably failed to increase the production of pulses consistent with the needs of a growing population. The new agricultural strategy has helped the growth of the capitalist farming in India and has led to concentration of wealth in the hands of the top 10 per cent of the rural population while major portion still uses outmoded techniques resulting in low productivity per hectare. The lack of assured and dependable water and power supply throughout the year makes impossible for the full exploitation of intensive agriculture.

The expenditure on water and power development has shown an increasing trend both at current prices as well as at constant prices. But the proportion of social and developmental expenditure and total government expenditure devoted to water and power development has decreased during the period. Despite the enormous importance given to water and power development during the five year plans, the progress of irrigation has been quite slow. However, there has been chronic power shortage for the last 50 years. The commissioning of new capacity has considerably fallen short of targets. Power cuts and load-shedding have been frequent and have adverse effect on production and employment. So far we have failed hopelessly in getting the

maximum benefit out of our investment in irrigation and power development. Even after the 50 years of independence only 39 per cent of the sown area was irrigated in 1999-2000. Power development during the last 50 years has been significant inspite of many weaknesses and failures.

Industrialization is key to the economic development of underdeveloped country like us. The government of India initiated the process of industrialization right from the fifties. The total expenditure on industry and minerals in money terms and in real terms increased during the period. The industry and mineral has made a significant progress in India during the last fifty years of planned development. The average growth rate of the industrial sector during this period was about 9.5 per cent, with the growth rate touching a high of 12.1 per cent in 1995-96. Within overall industrial production, the average growth rate of manufacturing was 10.6 per cent. This strong growth rate was reflected in all segments. During the planning era significant progress has been made in the field of science and technology. This sector contributed about 26.6 per cent to GDP in 2001-02. Thus in terms of contribution to GDP, the share of industrial sector continues to be low. It should be pointed out in this connection that this share in most of the developed nations is between 29 and 49 per cent. The process of industrialization has not been able to solve the problem of unemployment in India. The process of industrialization has resulted in the rapid expansion of the large scale industrial sector in comparative neglect of the small and the medium sectors.

If we think of agriculture and industry as the body and bones of the economy, then transport and communication can be regarded as the nerves of the economy. Because the system of transport and communications makes trade possible. Therefore the system of transport and communications are equally important like agriculture and industry and minerals for the prosperity of the country. Accordingly the government of India has incurred an increasing amount of public expenditure for the development of transport and communication during the planning period.

As a result there has been continued expansion in the transport and communication facilities in India during the period. However, transport and communication facilities are not as yet adequate and quick to meet the growing needs of development. In India only 50 per cent of the road length is provided with proper surface. Even in the case of national highways, 30 per cent of the road length has a single lane road pavement. About 36 per cent of the villages in the country do not have road connection and over 65 per cent of our villages are without an all weather road. Out of total length of 58, 110 km of National Highway network, about 25,000 km is under severe strain due to high volume of traffic.

The distinction between economic growth and economic development has been rediscovered in recent years. C.P. Kindleberger writes, "economic growth means more output and economic development implies both more output and changes in the technical and institutional arrangement by which it is produced" (C.P. Kindleberger, Economic Development).

The main objective of economic policy in India is to accelerate economic development of the country with social justice. The Directive principles of Indian Constitution envisage a society in which all have equal opportunity, all have right to be provided with work, and live in a social order where there is no exploitation of the economically weak by the strong and where disparities in income and wealth are reduced to the minimum. However there is a difference in the role of public expenditure in a developed country and in a developing country like ours. The role of public expenditure in a developing economy in three fold:

- (a) Promoting economic growth
- (b) Redistribution of income, wealth and economic power, and
- (c) Balanced regional development.

Keeping in mind the above role of public expenditure the impact of public expenditure in economic development has been analyzed in our study by classifying public expenditure into three heads. These are –

- (I) Expenditure on development services which have substantial redistributive effect. The expenditure on this head includes expenditure on agriculture

and allied services, water and power, industry and minerals, transport and communications, etc. These expenditures in our country have resulted in an increase in national income.

- (II) Expenditure on social and community services which have redistributive effect as well. The expenditure on this head includes expenditure on education, health and medical services, housing and social welfare, etc.
- (III) Expenditure on non-developmental services which includes defence, general administration, etc of which the developmental and redistributive effect can not be identified.

During the period from 1950-51 to 2000-01, the share of government expenditure in national income rose by about three times. It rose from 10.58 per cent in 1950-51 to 31.10 per cent in 2000-01. This indicates that government expenditure increased rapidly during this period of five decades.

The impact of public expenditure on economic growth depends upon its income generating effects. If the rate of growth of the economy is satisfactory, the impact of public expenditure is positive. In these respects, the overall performance of Indian economy has not become adequately satisfactory. During the period 1950-51 to 2000-01, national income at constant prices (1993-94 prices) rose by 703.43 per cent, but the per capita income at constant prices increased by only 186.43 per cent during the same period. The annual rate of growth of income at constant prices was of the order 4.17 per cent and that of per capita income was nearly 2.08 per cent. To judge the performance of Indian economy, these rates of growth in the post – independence period should be compared with the rates recorded earlier under the British rule and the rate of growth achieved by other countries in similar circumstances. J.R. Hicks, M. Mukherjee and S.K. Ghosh have calculated the rate of growth of per capita income for the period 1860 to 1945 at 1970-71 prices. According to them India economy during British rule presents a picture of near stagnation over a long period with a growth rate of 0.5 per cent for 1860 to 1945. According to other estimates during 1860 and 1950, the growth rate of national income was 1.15 per cent per annum. According to some other estimate, India's national income grew at 0.7 per cent per annum during the first half of the twentieth century and

according to still another estimate in the period 1888–1929 per capita income declined by 30 per cent (Source: V. Kumar, Government expenditure and economic development, Criterion Publication, New Delhi P. 328). The rate of growth of national income in Japan was slightly less than 3 per cent per annum in the period 1893 – 1912 and did not go up to more than 4 per cent per annum even in the following decades. In comparison of all these, we can conclude that the growth rate achieved in India in the last five decades is certainly a matter of some satisfaction. In this respect it can be said that it is on the whole quite respectable. We can also judge our economic achievements by assessing the extent to which the country's economy has been strengthened in terms of creation of potential for economic growth. This however remained a qualitative exercise. But it can not be gainsaid that we have over the years built up the infrastructure and can, other things being equal, show a higher rate of overall achievement.

The various estimates point to the basic fact that distribution of income in India is unequal. However, among the developing countries the Indian economy shows a relatively less unequal distribution of income. Ojha and V.V. Bhatt in their study showed that distribution of personal income is more uneven in other countries than in India. The share of the top 5 per cent in these countries ranges between 20 per cent and 37.0 per cent, while the share of top 10 per cent is between 28 and 46.7 per cent. Therefore, it signifies that in India the share of top 5 per cent and top 10 per cent are lowest among these countries. The recent study conducted jointly by the World Bank and Institute of Development studies at Sussex University (England) also support the above finding. They came to the conclusion that income inequalities (during 1991 to 98) were moderate in U.K, USA and China, but were low in Pakistan, India and Sri Lanka. In another estimate by N.S. Iyengar and P.R. Brahmananda in other estimate have concluded that the inequalities in the distribution of consumption expenditure have declined over time during 50s. During 60s and onwards inequalities in rural areas have not increased. From mid 60s to mid 80s in cities, inequalities have increased. The Gini co-efficient calculated by Amartya Sen and Jean Dreze revealed the fact that there is a decreasing trend of income inequality during the period 1950-51 to 1999-2000 and the rural income is more equitably distributed

than that of urban income. However the studies of Department of Agriculture and Co-operation, Government of India suggests that there is a gradual but positive shift in favour of small and marginal holding and the concentration of land with very large land owners is coming down. In India wealth and power concentrations have been intensified during the last 50 years of development planning. In 1991, 1.6 per cent of companies with assets more than Rs. 700 crores accounted for about 27 per cent of the total assets. In this group 0.8 per cent companies accounted for 18.4 per cent of total assets. As against this 83.7 per cent companies with assets less than Rs. 100 crores accounted for only 30 per cent of total assets. In 1989-90, among the top 20 business houses, the top 5 accounted for 60 per cent of the total assets of 20 big business houses. A deeper analysis further reveals the fact that 49.6 per cent of total assets of 20 big business houses are concentrated in top three business houses.

Therefore, in spite of working of planned development during the last 50 years, there has emerged a very clear trend towards a few big houses and monopolies holding entire industries at the cost of small entrepreneurs.

There is no conclusive proof that income inequalities in Indian have been reduced during the period of planned development. Some studies shows, these appeared to have been accentuated and some studies shows, these appeared to have been reduced. On the contrary these appear to have been accentuated. Therefore, the planned development in India did not achieve the objective of equal redistribution of income, wealth and economic power. The absolute income levels of the rich have increased, disparities in income and wealth have widened at the end of 50 year of planned development. Apart from the problem of inequalities of income, the baffling problem of the masses in the prevalence of widespread poverty where our efforts so far have been feeble and halting in narrowing the inequalities in incomes and property ownership.

By incurring expenditure on items which generally direct income towards the lower income groups, public expenditure influences the ability of the people to work, save and invest and willingness to work as well. The expenditures on items like education, medical and public health, etc, directly affect income distribution.

In 1950-51, 11.82 per cent of total government expenditure was devoted to education. It rose to 14.25 per cent of total government expenditure. As a result of which there has been a considerable increase in the number of educational institutions, pupils and teachers. But the review of educational development programmes based on various short and long term socio-economic objectives during the five year plans reveals that the educational system has not been able to gear itself to meeting the need of our growing economy. Even after the 50 years of planned development, primary education is not universal. There are many schools running with out any infrastructure and adequate number of teachers. If teachers are there, at many places still there is no provision of class rooms. Still university education is the privilege of the relatively rich sections of the urban society.

Another redistributive expenditure in India is the expenditure on medical and public health. The main objective of health and family planning programmes in India is to bring about a progressive improvement in the health of the people, in general, and particularly, the poor or lower income people whose income can be supplemented in this way. The expenditure on medical and public health as per cent of total government expenditure has increased from 2.91 per cent in 1950-51 to 4.43 per cent in 2000-01. As a result of which life expectancy at birth has shown a continuous improvement from 41.2 years for the decade 1951-61 to 50.3 years during 1970-71 and further to 63.3 in 2001. In India 16 per cent of the population (165 million persons) population are not using improved water sources. Similarly improved sanitation facilities were not available to 72per cent of the population in 2000. Even in the medium human development countries this figure ranged from 70per cent to 99per cent. Therefore, India has a long way to go in this area of access to health services.

The survival rate has considerably improved in India. In 1950-51, infant mortality rate per 1000 live births was 180; it brought down to 110 in 1980-81, 80 in 1990-91 and 67 in 2001. Likewise, maternal mortality rate per 1,00,000 live births have been brought down to 540 during 1985-2001. These are of course healthy development. However, public health amenities are utterly inadequate in

rural areas and in urban areas hospitals are excessively crowded. Medical assistance is a luxury in India and only middle and rich classes can afford it.

The reorientation of public expenditure policy in our country is necessary to achieve higher rate of economic growth and progressive reduction of inequalities of incomes. Since the expenditure on social services is small, its redistributive effect is negligible. It is necessary, therefore, to take effective actions to bring about a thorough and integrated regulation of public expenditure so as to achieve the desired redistribution of income and wealth.

The distribution of income is greatly changed by the spiral inflation since the launching of second Five year plan. The objective of more equitable distribution of income and wealth has been hindered by inflationary tendencies which have made serious inroads on the real income of the masses. The continuous spiral inflation since second plan had led to economic recession in many sectors of the Indian economy. This has led prices of certain important articles of mass consumption to a very high level forcing demand for such goods to decline. This in turns led to decline in the demand for other goods. Production had also been adversely affected by frequent labour troubles. Over and above all these, the rise in the prices level had eroded the volume of investment in real terms. The decline in real investment worsened the economic recession still further till recently. On the other hand, people living on past savings, fixed interest and rental incomes and old age pensioners have been literally ruined due to continuous depreciation in the purchasing power of the rupee. The rich have become richer and the poor have become poorer.

Balanced regional development is necessary for the harmonious development of a federal state like India. It is clear from our study that India presents a picture of extreme regional variations. There also exist disparities in all respects across the different sections of the society. Therefore, future governmental policy in respect of public expenditure should be designed towards reducing inequalities both at regional and individual levels. Our analysis has suggested appropriate policy measures in achieving the real goal of economic development of our country. Of late globalization has presented a challenge

before us. Every effort should be made to accept the global challenge. The increased public expenditure would help our economy in facing the future challenge of globalization and direct the economy towards the path of economic development.