

Chapter 5

Analysis of Non-Developmental Expenditure

In this chapter we have proposed to discuss the causes of the growth of non-developmental expenditure over time. Thereafter we shall try to study the growth of non-developmental expenditure and examine its relation to the national income and total government expenditure. In the process the growth pattern of the distribution of non-developmental expenditure will also be examined.

5.1 Determinants of Non-Developmental Expenditure:

There are some apparent and real factors which cause the growth of non-developmental expenditure. These are – population growth, money supply and the like. Apart from them, there are also some basic factors, namely, a proper appreciation of socialist ideas and democratic way of life which manifest in the concept of welfare state. The laissez-faire doctrine which regained supreme over the domain of public finance until the first quarter of the twentieth century gradually gave way to the modern ideas about the role of state in the promotion of growth and economic stability . But so-called orthodox views could not withstand the passage of time . With the passage of time , the range of administrative services grew larger as the state begin to assume new functions previously unknown . These factors contributed to a great deal for the rise of the growth of non-developmental services.

There are two sets of factors which led to the expansion of non-developmental services. These are –

1. the increasing complexity of modern life due to rising industrial civilization , and
2. the growing recognition of industrial dignity and freedom .

Needless to say, the division of labour is a key to economic prosperity of a nation . The great deal of specialization in various material pursuits gave rise to

the problem of economic interdependence. This phenomena of economic interdependence necessitating the redefinition of some of its concepts , such as political sovereignty , and also created a situation where most of the countries in the present day world stand mutually dependent so far as economic matters are concerned . In the present day context, it is sufficient to say that this phenomenon contributes towards the expansion of non-developmental services by widening its range of functions.

It has been rightly felt in a modern industrial civilization that State intervention in day-to-day life is unavoidable. The problem of adverse terms of trade, inflation, depression and the like which are increased by modern industrial civilization urgently called for government intervention to set thing right. The government can encounter these problems only through an expansion of administrative machinery i.e. an additional expenditure on non-developmental services.

Secondly, the importance of individual dignity and freedom had an important role to play in the process of expansion of non-developmental services . In the modern industrial civilization modern democracy and its strong emphasis on individual rights and security have entailed a remarkable extension of the area of State activity. In most of the nations of the world, fundamental rights have now beed guaranteed to the people for which they fought an unending battle with the State. Representation to the Parliament, State Assemblies etc. and conducting elections are debited to the account of general administration. A considerable number of welfare provisions have been made through the above institution. The motive force behind the individual dignity and freedom has provided considerable fillip to the growth process of non-developmental services through the creation of democratic institutions appropriate for the expression of common will.

Above all population growth factor made significant contribution to the growth of non-developmental services in India during the years under study. Population is rising throughout the period of study as shown in Table 1 of appendix. Increasing population growth gives rise to the problem of administration. With the growth of population, industrial civilization draws more

people to the town from the rural areas. As a result new cities will spring up. Additional police station, law courts etc. are required to be established in the new cities to ensure minimum conditions of peace and security . Therefore, the expenditure on non-developmental services such as general administration, police, justice, jails, etc. will rise at least absolute terms with the growth of population.

India has been facing a multitude of economic problems since independence. Since then national income has been exposed to the cruel caprices of nature as agriculture becomes the main source of national income . India has been facing the problem of vicious circle of poverty and low productivity. Population growth also aggravated the misery of the people by keeping down the living standards of masses. Under these conditions State had to take up the task of building social and economic overhead , such as education , health , scientific research , transport and communication , irrigation and power projects , community development projects and so on which were essential fuel of the dynamic force into the economy . To make planning a success, changes in the nature and composition of administrative were effected. Hence, expenses on non-developmental and developmental services moved upward hand in hand.

It is thus, clear from the above analysis that the expansion of non-developmental services is a joint product of the social, political, economic forces at work.

The table 5.1 shows the growth of non-developmental expenditure in money terms. During the period 1950-51 to 2000-01 the non-developmental expenditure increased from Rs. 347.99 crores to Rs. 250741.90 crores in 2000-01 showing an increase of 71954 per cent . The index of non-developmental expenditure, talking 1950-51 as base, it increased by 722 times during the same period. Non-developmental expenditure per head of population increased by about 25596 per cent from 1950-51 to 2000-01.

Table 5.1
Decadal growth of non-developmental expenditure at Current & constant prices (1950-51 TO 2000-01)

Financial Year	At Current Prices		At Constant Prices		Non-dev. Expenditure as % of total Govt. expenditure	Non-dev. Expenditure as % of national income
	Total non-developmental expenditure (Rs. In crores)	Per capita non-developmental expenditure (In Rs.)	Total non-developmental expenditure (Rs. In crores)	Per capita non-developmental expenditure (In Rs.)		
1950-51	347.99	9.69	5036.03	140.28	35.97	3.80
1955-56	363.24	9.24	5868.17	149.31	26.25	3.71
1960-61	765.55	17.63	9678.25	223.00	24.53	5.03
1965-66	1346.33	27.75	12261.65	252.81	20.90	5.66
1970-71	2493.08	45.32	17313.05	320.02	14.89	6.39
1975-76	4670.24	76.56	21228.36	349.72	25.16	6.76
1980-81	9013.41	132.74	27707.99	408.07	25.47	7.62
1985-86	22611.53	299.49	46892.43	621.09	29.59	10.21
1990-91	54319.36	647.42	74115.65	883.38	35.01	12.06
1995-96	127354.64	1373.83	106528.35	1149.17	43.45	13.52
2000-01	250741.90	2489.98	151058.44	1500.08	45.67	14.20

Source: Statistical Appendix, Table 7

It also revealed from the table 5.1 that the expenditure on non-developmental services increased gradually from 1950-51 to 1963-64 and it increased sharply thereafter. The reason of increase in non-developmental expenditure sharply after 1963-64 may be explained interms of (a) increasing activities of the government. in view of welfare and developmental needs of the country , (b) upward revision of pay scale and dearness allowances , and (c) increasing law and order problem in the country .

Non-developmental expenditure as percentage of total government. expenditure moved interestingly during the period under study. It declined from 35.97 per cent in 1950-51 to 26.25 per cent in 1955-56 , 24.53 per cent in 1960-61 , 20.90 per cent in 1965-66 , 14.89 per cent in 1970-71 , and thereafter it increased to 25.16 per cent in 1975-76 , 25.47 per cent in 1980-81 , 29.59 in

1985-86 and 45.97 per cent in 2000-01 . The table 5.1 also shows that the proportion of national income devoted to non-developmental expenditure increased from 3.80 per cent in 1950-51 to 14.20 per cent in 2000-01 .

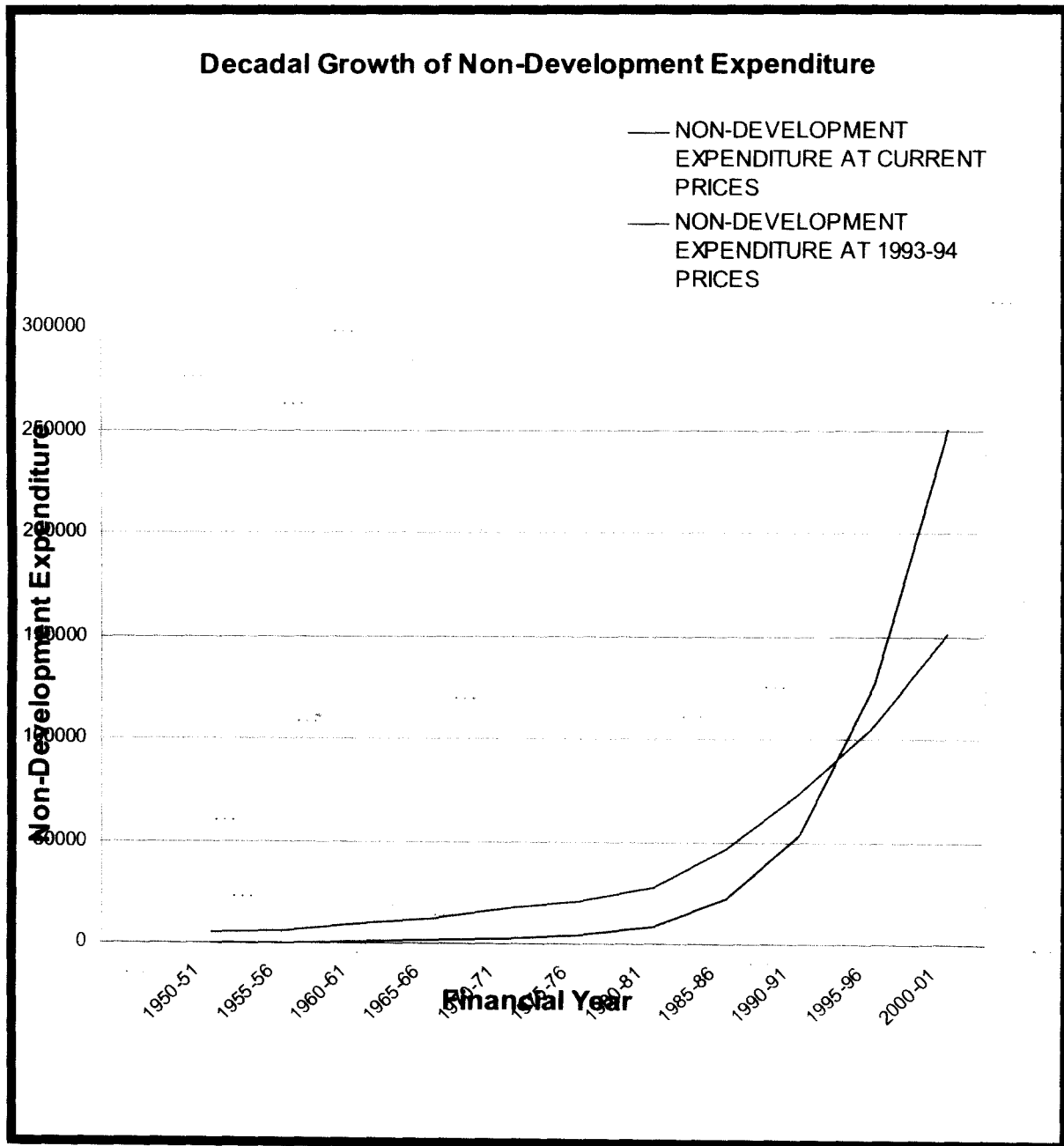


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Decadal Growth of Per Capita Non-Developmental Expenditure

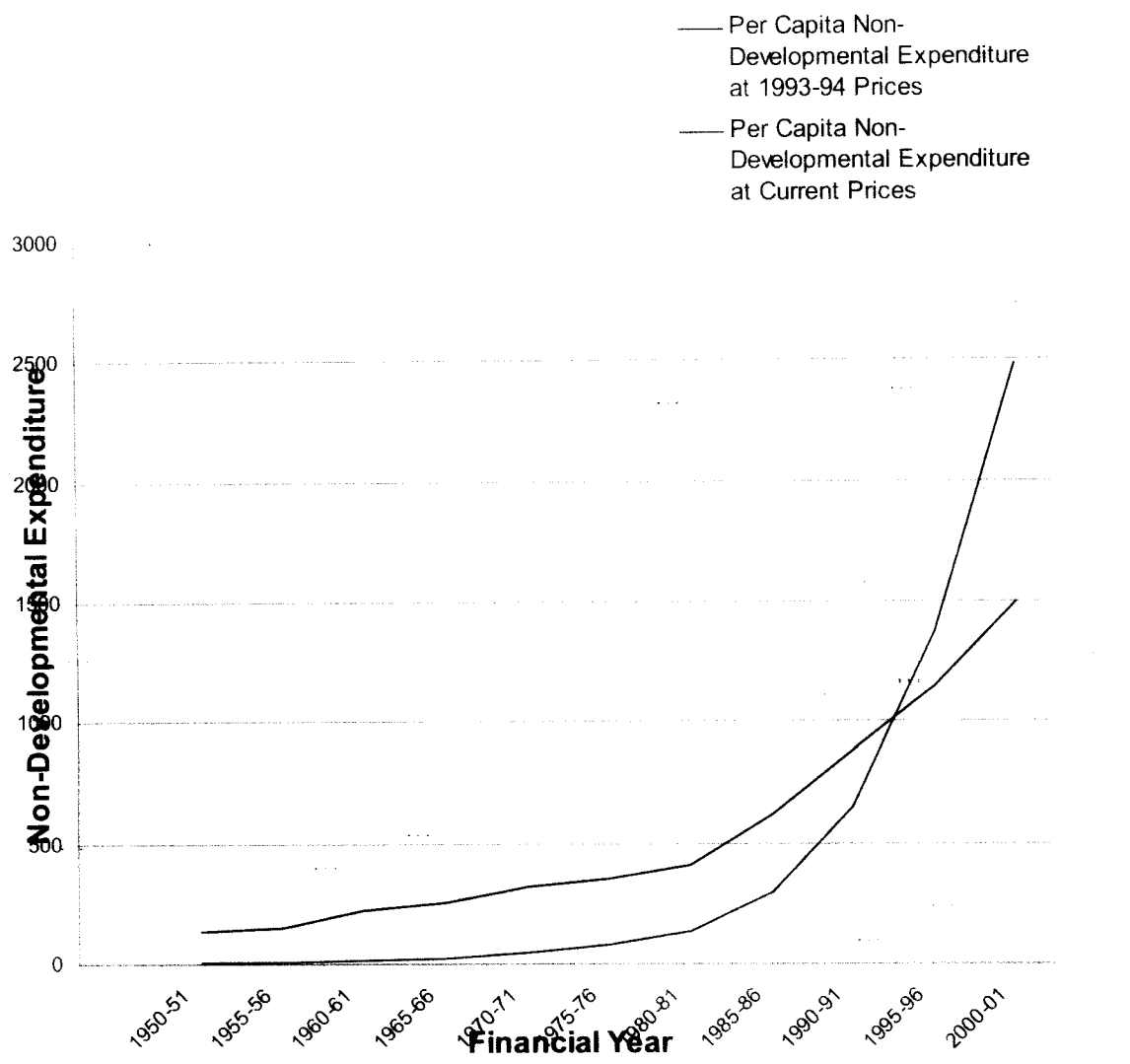


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Thus during the period (1950-51 to 2000-01), non-developmental expenditure has shown a marked increase both in terms of expenditure per head of population and as a proportion of national income.

5.2 Dis-aggregative analysis of non-developmental expenditure:

Let us now study the growth and pattern of non-developmental expenditure in a disaggregate way. Total non-dev. Expenditure have been disaggregated on the basis of functions each component performs i.e functional component of non-developmental expenditure. Here the term 'function' signifies

services such as general administration, police, tax collection charges etc. For this purpose of function wise analysis of non-developmental expenditure, non-development functions of the government are grouped under five heads:

1. Administrative services ,
2. Cost of collection of taxes
3. Debt servicing ,
4. Famine relief , and
5. Others.

Each category of expenditure is analysed separately below.

5.2.1 Administrative Services and its Dis-agregative Analysis:

Administrative services include an intricate networks of functions of the organs of state and different departments of government. Its scope of functions is very wide.

The government under takes various programmes of social and developmental activities, maintains of law and order. The people of India enjoy certain fundamental rights for which they are fighting an unending battle with the state. The judiciary system safeguards these rights if any one encroached upon these rights. The judiciary system also decides whether the law has been violated and punishes the offenders. The convicts are put in jails not only to deter them from future crimes but also to try to reform them. Therefore, the expenditure on administrative services is very important to ensure the rule of law against violence and anarchy.

Expenditure on administrative services includes expenditure on general administration, police, administration of justice, jails and convict settlements, audit, external affairs etc. of the central government and general administration and police, administration of justice and jails and convict settlements of the state governments.

The table 5.2 shows that the expenditure on administrative services increased gradually from year to year. The per capita administrative expenditure in money

terms increased almost hundred times between 1950-51 and 2000-01. If we assume that administrative expenditure of 1950-51 equals 100 then the index of total administrative expenditure increased three hundred times between the period under study. The table also shows that the proportion of administrative expenditure to the national income increased very slowly from 1.32 per cent in 1950-51 to 2.21 per cent in 2000-01. The percentage national income devoted to administrative services shows a decreasing trend throughout the period.

Table 5.2
Decadal Growth of Administrative Expenditure at
Current & Constant (1993-93) prices (1950-51 to 2000-01)

Financial Year	At Current Prices		At 1993-94 Prices		Total Administrative Expenditure as % of total Expenditure	Total Administrative Exp. as % of total non-developmental Exp.	Total Administrative Exp. as % of NI
	Total Administrative Exp. (Rs. in crores)	Per Capita (in Rs.)	Per Capita (in Rs.)	Per Capita (in Rs.)			
1950-51	120.76	3.36	1747.61	48.68	12.48	34.70	1.32
1955-56	144.64	3.68	2336.67	59.45	10.45	39.81	1.47
1960-61	221.45	5.10	2799.62	64.51	7.09	28.92	1.45
1965-66	371.30	7.65	3381.60	69.72	5.76	25.57	1.56
1970-71	681.22	11.24	4730.69	87.44	3.69	24.79	1.74
1975-76	1321.84	21.68	6008.36	98.98	7.12	28.30	1.91
1980-81	2323.06	34.21	7141.28	105.17	6.56	25.77	1.96
1985-86	4782.17	63.34	9917.39	131.36	6.25	21.14	2.15
1990-91	10463.9	124.71	14277.39	170.17	6.74	19.26	2.32
1995-96	21083.17	227.43	17635.44	190.24	7.19	16.55	2.23
2000-01	39158.12	388.86	23590.65	234.27	6.94	15.61	2.21

Source: Statistical Appendix, Table 8

Disaggregative analysis of Administrative Expenditure:

Now we are in a position to study the distribution of administrative expenditure. We will proceed by disaggregating the administrative expenditure into its component parts. A deeper insight into the nature of the administrative expenditure can be obtained by showing it separately under five sub-heads e.g., general administration, police, jails and justice, external affairs and audit.

Decadal Growth of Administrative Expenditure

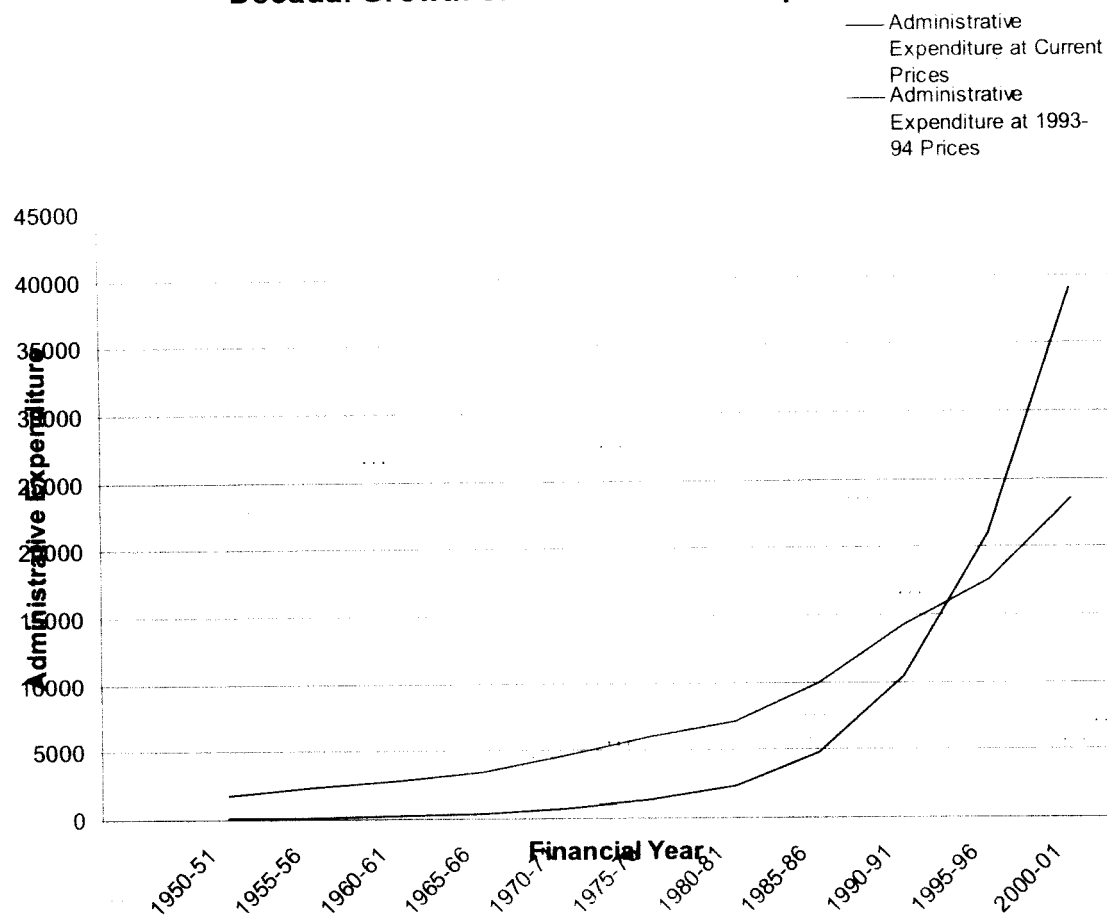


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5.2.1.1 General Administration:

The expenditure under this head relates the expenditure for headquarters administration and also to the cost of district administration. The allowances of the President, Head of the States, Cabinet Ministers, and expenditure connected with Rajya Sabha, Legislative Assemblies and the expenditure on account of Secretaries, Board of Revenue Commissioners, District officers and their establishments constitute the main items of expenditure under this head. The expenditure relating to the village establishment in several states is also account under this head.

Table 5.3 shows that the expenditure on general administration rose considerably, and this is on account of expansion of various departments and establishment and creation of new departments. The expenditure on this sub

head has also increased due to increase in dearness allowances granted to government employees and revision of their pay scales time to time. The expenditure on general administration in money terms increased more than hundred times during the period under study. During the same period the index of expenditure on general administration has increased to more than hundred times.

Table 5.3
Expenditure on General Administration at Current & Constant Prices (1950-51 to 2000-01)

Financial Year	At Current Prices		At 1993-94 Prices		Gen. adm. Exp. As % of total Adm. Exp.	Gen. adm. Exp. As % of total govt. exp.	Exp. On gen. admin. as % of NI
	Total exp. on general administration (Rs. In crores)	Per capita General Administrative exp. (in Rs.)	Total exp. on general administration (Rs. In crores)	Per capita General Administrative exp. (in Rs.)			
1950-51	39.64	1.10	573.661	15.98	32.59	4.09	0.43
1955-56	62.55	1.59	1010.50	25.71	43.29	4.52	0.63
1960-61	78.83	1.81	996.58	22.96	35.59	2.52	0.52
1965-66	117.92	2.43	1073.95	22.14	37.16	1.83	0.50
1970-71	182.50	3.37	1267.36	23.43	46.41	1.09	0.47
1975-76	160.92	2.65	731.45	12.05	12.17	0.86	0.23
1980-81	284.53	4.19	874.67	12.88	12.24	0.80	0.24
1985-86	511.60	6.77	1060.97	14.05	10.69	0.66	0.23
1990-91	1088.09	12.96	1484.64	17.70	10.39	0.70	0.24
1995-96	2646.02	28.54	2213.32	23.88	12.55	0.90	0.28
2000-01	4260.71	42.31	2566.85	25.49	10.88	0.77	0.24

Source: Expenditure on General Administration at current prices:

(i) Indian Economic Statistics, Public Finance, September 1970, September 1975, December 1980 and December-1988, GOI, Ministry Of Finance, Economic Division.

(ii) Indian Public Finance Statistics- 1990, 1996 and 2002-2003, Ministry of Finance, Department of Economic Affairs.

Figures of other columns are computed on the basis of the data given in Table 1, Table 2, Table 3, Table 4 and Table 8 of Statistical Appendix

The expenditure on general administration per head of the population in money terms also shows an upward trend. It has increased from Rs. 1.10 in 1950-51 to Rs. 1.81 in 1960-61 to Rs. 3.37 in 1970-71 to Rs. 6.19 in 80-81 to Rs. 12.96 in 90-91 to Rs. 42.31 in 2000-01. During the same period under study, the expenditure on general administration per head of the population in money terms increased by 3746.36 per cent.

The expenditure on this sub head as a proportion of total administrative expenditure and as a proportion of total government expenditure marked a reverse trend, it decreased throughout the period under study . But the expenditure on general administration as a proportion of national income remained more or less stable.

Decadal Growth of General Administrative Expenditure

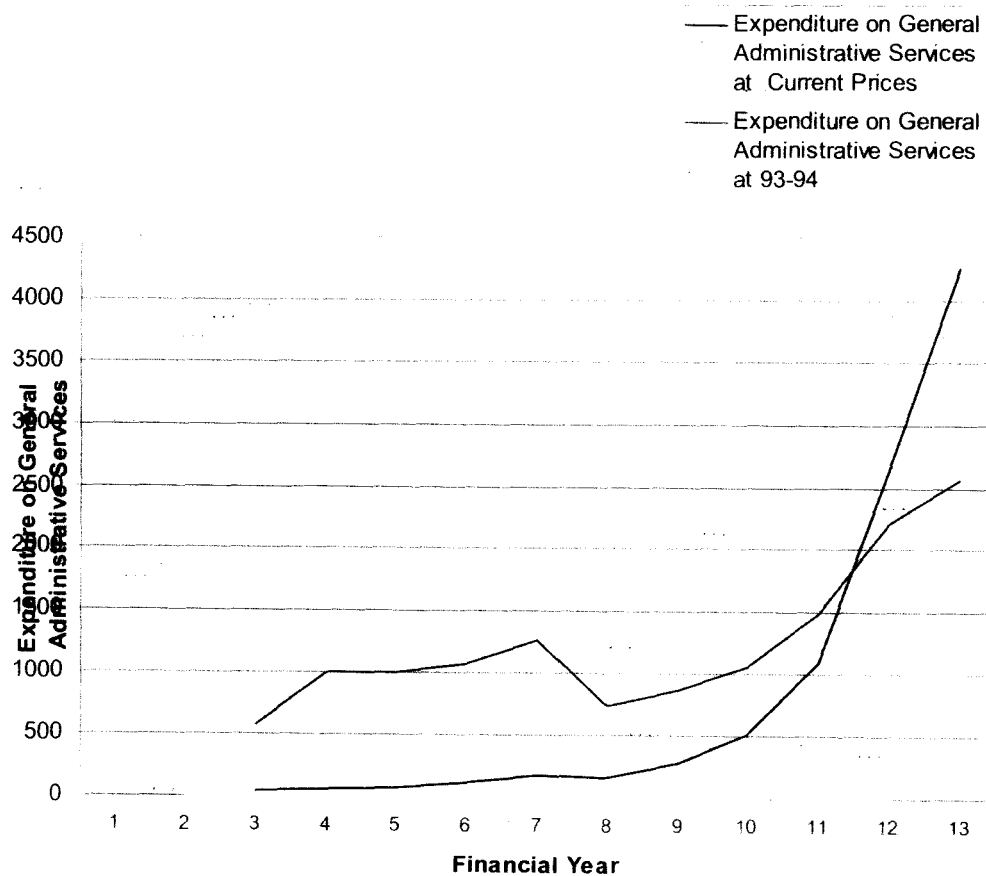


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5.2.1.2 Police:

The expenditure on police is important for maintaining law and order in the country. According to the Constitution, the maintenance of law and order is primarily a state subject. The centre is directly responsible for law and order in the union territory only. So it is incurred both by the Central and State Governments. Further more, the centre has to undertake the policing of the country's international borders.

It is clear from the above table 5.4 that the expenditure on police in money terms increased from Rs. 55.97 crores in 1950-51 to Rs. 21342.95 crores in 2000-01 showing an increased of 38032.83 per cent.

Table 5.4
Expenditure on police at current prices (1950-51 to 2000-01)

Financial Year	At Current Prices		At Constant Prices		Exp. on police as % of Total Admin. Exp.	Exp. on police as % of Total govt. exp.	Exp. on police as % of NI
	Total exp. on police. (Rs. in crores)	Per capita Exp. on police (in Rs.)	Total exp. on police. (Rs. in crores)	Per capita Exp. on police (in Rs.)			
1950-51	55.97	1.55	809.98	22.56	46.34	5.78	0.61
1955-56	62.91	1.60	1016.32	25.86	43.49	4.54	0.64
1960-61	99.08	2.28	1252.59	28.86	44.74	3.17	0.65
1965-66	189.51	3.90	1725.96	35.58	51.03	2.94	0.79
1970-71	334.51	6.18	2322.98	42.93	54.10	1.99	0.85
1975-76	653.67	10.76	2971.23	48.95	49.45	3.52	0.94
1980-81	1163.43	17.13	3576.48	52.67	50.08	3.28	0.98
1985-86	2543.91	33.69	5275.63	69.87	53.19	3.32	1.14
1990-91	5657.25	67.42	7718.99	92.00	54.06	3.64	1.25
1995-96	11240.88	121.26	9402.66	101.43	53.31	3.83	1.19
2000-01	21342.95	211.94	12857.97	127.69	54.50	3.88	1.20

Source: Expenditure on Police at current prices:

- (i) Indian Economic Statistics, Public Finance, September 1970, September 1975, December 1980 and December-1988, GOI, Ministry Of Finance, Economic Division.
- (ii) Indian Public Finance Statistics- 1990, 1996 and 2002-2003, Ministry of Finance, Department of Economic Affairs.

Figures of other column are computed on the basis of the data given in Table 1, Table 2, Table 3, Table 4 and Table 8 of Statistical Appendix

It is also clear from the table 5.4 that the expenditure on police as a proportion of total administrative expenditure shows an upward trend. The expenditure on police represented 5.78 per cent of total government. expenditure in 1950-51 , but it decreased to 3.88 per cent in 2000-01 . If we assume the expenditure on police in 1950-51 equals to 100 we get an index which also shows an upward trend showing 38132.83 per cent increase from 1950-51 to 2000-01.

The expenditure on police per head of the population in money terms increased from Rs. 1.55 in 1950-51 to Rs. 211.94 in 2000-01 which recorded an

increased of Rs. 13573.54 per cent . The expenditure on police as per cent of NI in 1950-51 was 0.61 per cent and it increased to 0.94 per cent in 1975-76 and 1.20 per cent in 2000-01.

5.2.1.3 Justice and Jails:

The expenditure on Justice and jails consist of expenditure on i) justice and ii) jails. The expenditure on justice consists of the payments made to judges, civil and criminal courts, and of magistrates and their establishments with some charges on account of administration. This also includes the general and law officers of several State Governments. On the other hand the expenditure on jails consists of the maintenance charges of the jails population and the cost of production of jail manufacturers, together with pay and allowances of the necessary establishments .It should be pointed out that before 1974-75, expenditure on administration o f justice formed the part of administration of justice and j ails. But from 1974-75 it is included under the '*organ of State*'. This reflects the awareness that the judiciary is an important organ of the government. and expenditure on this head is very essential to sustain the confidence of the public.

It can be seen from the table 5.5 that the exp. on justice and jails in money terms shows an increasing trend and an increase of 14422.83 per cent during the period under study. If we adjust the expenditure on justice jails and convict settlement assuming the expenditure on the same, of the year 1950-51 equals to 100, we shall get an index which also shows an upward trend reflecting about 145 times increase during the period . The expenditure on justice, jails and convict settlement per head of the population was Rs. 0.49 in 1950-51 and it increased to Rs. 25.82 in 2000-01 showing an increase of 5169.38 per cent. These expenditure as per cent of total administrative expenditure, total government. expenditure and national income shows a decreasing trend.

Table 5.5
Expenditure on Justice, jails and convict settlement at Current & Constant prices
(1950-51 to 2000-01)

Financial Year	At Current Prices		At Constant Prices		Total exp. on justice , jails and convict settlement as % of total Administrative exp.	Total exp. on justice , jails and convict settlement as % of Total govt. exp.	Total exp. on justice , jails and convict settlement as % of NI
	Total exp. on justice , jails & convict settlement (Rs. In crores)	Per capita exp. on justice , jails & convict settlement (in Rs.)	on justice , jails & convict settlement (Rs. in crores)	Per capita exp. on justice , jails & convict settlement (in Rs)			
1950-51	17.91	0.49	259.19	7.22	14.83	1.85	0.19
1955-56	19.18	0.48	309.85	7.88	13.26	1.38	0.19
1960-61	25.47	0.58	321.99	7.42	11.5	0.81	0.16
1965-66	35.73	0.73	325.41	6.71	9.62	0.55	0.15
1970-71	55.33	1.02	384.24	7.1	8.94	0.33	0.14
1975-76	88.75	1.49	403.41	6.65	7.78	0.58	0.13
1980-81	167.79	2.47	515.8	7.59	7.22	0.47	0.14
1985-86	336.91	4.46	698.69	9.25	7.04	0.44	0.15
1990-91	714.43	8.51	974.799	11.62	6.82	0.46	0.15
1995-96	1427.98	15.4	1194.46	12.89	6.77	0.48	0.15
2000-01	2601.04	25.82	1566.98	15.56	6.64	0.47	0.14

Source: Expenditure on Justice, jails and convict settlement general administration at Current prices:

(i) Indian Economic Statistics, Public Finance, September 1970, September 1975, December 1980 and December-1988, GOI, Ministry of Finance, Economic Division.

(ii) Indian Public Finance Statistics- 1990, 1996 and 2002-2003, Ministry of Finance, Department of Economic Affairs.

Figures of other columns are computed on the basis of the data given in Table 1, Table 2, Table 3, Table 4 and Table 8 of Statistical Appendix

5.2.1.4 External Affairs :

The expenditure on external affairs includes expenditure on Embassies and Missions abroad , High Commissioners and Agents in Commonwealth countries , Emigration (outside India) subsidies , Entertainment charges , special diplomatic expenditure , refugees and State Prisoners , Central Department (charges on account of diplomatic and consular services in India) and contribution to United Nations Organization , etc.

Table 5.6
Expenditure on External affairs at current prices
(1950-51 to 2000-01)

Financial Year	At Current Prices		At Current Prices		Total exp. on external affairs as % of total Administrative expenditure	Total exp. on external affairs as % of Total govt. exp.	Total exp. on external affairs as % of NI
	Total exp. on external affairs (Rs. in crores)	Per capita exp. on external affairs (in Rs.)	Total exp. on external affairs (Rs. in crores)	Per capita exp. on external affairs (in Rs.)			
1950-51	3.65	0.10	52.82	1.47	3.02	0.37	0.03
1955-56	5.99	0.15	96.76	2.46	4.14	0.43	0.06
1960-61	9.77	0.22	123.51	2.85	4.41	0.31	0.06
1965-66	15.48	0.31	140.98	2.91	4.16	0.24	0.07
1970-71	22.21	0.41	154.23	2.85	3.59	0.13	0.06
1975-76	49.05	0.80	222.95	3.67	3.71	0.26	0.07
1980-81	64.73	0.95	198.98	2.93	2.78	0.18	0.05
1985-86	131.52	1.74	272.75	3.61	2.75	0.17	0.05
1990-91	444.98	5.30	607.15	7.24	4.25	0.28	0.09
1995-96	851.35	9.18	712.12	7.68	4.03	0.29	0.09
2000-01	1380.54	13.70	831.70	8.26	3.52	0.25	0.07

Source: Expenditure on External affairs at Current prices:

(i) Indian Economic Statistics, Public Finance, September 1970, September 1975, December 1980 and December-1988, GOI, Ministry Of Finance, Economic Division.

(ii) Indian Public Finance Statistics- 1990, 1996 and 2002-2003, Ministry of Finance, Department of Economic Affairs.

Figures of other columns are computed on the basis of the data given in Table 1, Table 2, Table 3, Table 4 and Table 8 of Statistical Appendix

During the period under study, the expenditure on external affairs in money terms increased from Rs. 3.65 crores in 1950-51 to Rs. 1380.54 crores in

2000-01 which reflects an increase of 37723.01 per cent . There are two reasons responsible for this increase in expenditure on external affairs pointed by the Committee on the Indian Foreign Service. These are - a) increase in the number of countries having diplomatic relations with India, and b) revision of allowances and the effect of devaluation. The table 5.6 also shows that the expenditure on external affairs per head of the population increase from Rs 0.01 in 1950-51 to Rs. 13.70 in 2000-01. This shows an increase of 13600.00 per cent during the period under study. The proportion of total administrative expenditure and total government. expenditure devoted to external affairs remained more or less the same.

5.2.1.5 **Audit:**

The expenditure on audit includes the expenditure on the Comptroller and Audit General and his officers on the maintenance and audit of accountants of both the Central and State Governments.

Table 5.7
Expenditure on Audit at Current & Constant Prices (1993-94)
(1950-51 to 2000-01)

Financial Year	At Current Prices		At Constant Prices		Total exp. on Audit as % of total Administrative expenditure	Total exp. on Audit as % of Total govt. exp	Total exp. on Audit as % of NI
	Total exp. on Audit (Rs. in crores)	Per capita exp. on Audit (in Rs.)	Total exp. on Audit (Rs. in crores)	Per capita exp. on Audit (in Rs.)			
1950-51	3.50	0.09	50.65	1.41	2.89	0.36	0.03
1955-56	5.45	0.13	88.04	2.24	3.76	0.39	0.05
1960-61	8.30	0.19	104.93	2.42	3.74	0.26	0.05
1965-66	12.66	0.26	115.30	2.38	3.40	0.19	0.06
1970-71	23.67	0.43	164.38	3.04	3.82	0.14	0.06
1975-76	47.42	0.79	215.55	3.55	4.15	0.31	0.07
1980-81	63.63	0.93	195.60	2.88	2.73	0.17	0.05
1985-86	129.60	1.71	268.77	3.56	2.71	0.16	0.05
1990-91	243.81	2.90	332.66	3.96	2.33	0.15	0.05
1995-96	415.41	4.48	347.48	3.75	1.97	0.14	0.04
2000-01	819.06	8.13	493.44	4.90	2.09	0.14	0.04

Source: Expenditure on Audit at Current prices:

- (i) Indian Economic Statistics, Public Finance, September 1970, September 1975, December 1980 and December-1988, GOI, Ministry Of Finance, Economic Division.
- (ii) Indian Public Finance Statistics- 1990, 1996 and 2002-2003, Ministry of Finance, Department of Economic Affairs.

Figures of other columns are computed on the basis of the data given in Table 1, Table 2, Table 3, Table 4 and Table 8 of Statistical Appendix

It is seen from the above table 5.7 that the expenditure on audit over the period from 1950-51 to 2000-01 increased from Rs. 3.5 crores in 1950-51 to Rs. 819.06 crores in 2000-01 which shows an percentage increased of 23301.71 . The expenditure on Audit as per cent of total administrative expenditure shows that it remained almost the same during the period. If we calculate expenditure on audit as percentage of national income, we can also conclude the same. The slight increase in the Audit expenditure (as % of NI and administrative expenditure) is due to the growing tempo of economic development outlay of the central and State Governments

5.2.2 Tax Collection Charges:

The expenditure on collection of taxes represents the charges in respect of collection of the various revenue heads and the administration thereof.

The table 5.8 shows the growth and trend of expenditure on collection of taxes and duties at current and constant prices. It reveals that the expenditure on collection of taxes and duties has been continuously increasing in money terms; it increased from Rs. 33.08 crores in 1950-51 to Rs. 6569.73 crores in 2000-01, showing an increase of 19760 per cent (199 tomes). At 1993-94 prices however, it increased from Rs. 478.73 crores in 1950-51 to Rs. 3957.91 crores in 2000-01 showing an increase of only 726 per cent (8 times only). At current prices the per capita expenditure on tax collection has increased from Rs. 0.92 in 1950-51 to Rs. 65.24 in 2000-01 - an increase of 6991 per cent (70 times) where as it registered a increase of only 195 per cent (3 times) in real terms from Rs. 13.33 in 1950-51 to Rs 39.30 in 2000-01.

In absolute terms the expenditure on tax collection maintains a steady upward trend. But the share of the expenditure on tax collection in total development expenditure over the period under review has shown interesting trends. It increased from 9.51 per cent in 1950-51 to 16.10 per cent in 1955-56 and thereafter shows a decreasing trend.

Table 5.8
Decadal Growth of Expenditure on Tax Collection Charges at
Current & Constant (1993-94) prices

Financial Year	At current prices		At constant prices		Exp. on Tax collection charges as % of total non-dev. Expenditure	Exp. on Tax collection charges as % of total Govt. Expenditure	Exp. on Tax collection charges as % NI
	Total (in crores)	Per capita (in Rs)	Total (in crores)	Per Capita (in Rs)			
1950-51	33.08	0.92	478.73	13.33	9.51	3.42	0.36
1955-56	58.49	1.48	944.91	24.04	16.10	4.23	0.59
1960-61	72.56	1.67	917.32	21.14	9.48	2.33	0.48
1965-66	98.62	2.03	898.18	18.52	7.33	1.53	0.42
1970-71	184.32	3.35	1280.00	23.66	7.39	1.10	0.47
1975-76	360.53	5.91	1638.77	27.00	7.72	1.94	0.52
1980-81	504.05	7.42	1549.49	22.82	5.59	1.42	0.43
1985-86	985.60	13.05	2043.97	27.07	4.36	1.29	0.45
1990-91	1973.32	23.52	2692.48	32.09	3.63	1.27	0.44
1995-96	5223.70	56.35	4369.47	47.14	4.10	1.78	0.55
2000-01	6569.73	65.24	3957.91	39.30	2.62	1.19	0.37

Source: Expenditure on Tax Collection Charges at Current prices:

(i) Indian Economic Statistics, Public Finance, September 1970, September 1975, December 1980 and December-1988, GOI, Ministry Of Finance, Economic Division.

(ii) Indian Public Finance Statistics- 1990, 1996 and 2002-2003, Ministry of Finance, Department of Economic Affairs.

Figures of other columns are computed on the basis of the data given in Table 1, Table 2, Table 3, Table 4 and Table 7 of Statistical Appendix

It is important to note that the expenditure on collection of taxes would increase as the quantum of taxation increases. As more taxes are imposed or the tax base is widened, there would be an addition to the cost of collection of taxes. Therefore, it is prudent to analyse the change over the period in the cost of collection of taxes. For this we have to take into account the ratio of cost of collection of taxes to tax yield.

The table 5.9 shows the growth of cost of collection of taxes, tax yield, and the ratio of cost of collection in terms of revenue. It is seen from the table that in 1950-51, 5.27 per cent of tax yield was spend on the collection of taxes. It increased to 7.61 per cent in 1955-56, and thereafter, the figure shows a decreasing trend. Therefore, it is clear that a relatively higher percentage of tax revenue was spent on the collection of taxes in the earlier decades of our period

Table 5.9**Tax Collection Charges, Total Tax Revenue and Ratio of Tax Collection Charges to Tax Revenue**

Financial Year	Total Tax Collection (Rs. in Crores)	Total Tax Revenue (Rs. in Crores)	Tax Collection Charges as % of Tax Revenue
1950-51	33.08	627.00	5.27
1955-56	58.49	768.00	7.61
1960-61	72.56	1350.00	5.37
1965-66	98.62	2922.00	3.37
1970-71	184.32	4752.00	3.88
1975-76	360.53	11182.00	3.22
1980-81	504.05	19844.00	2.54
1985-86	985.60	43267.00	2.28
1990-91	1973.32	87722.00	2.25
1995-96	5223.70	175259.00	2.98
2000-01	6569.73	305320.00	2.15

Source: Computed on the basis of data provided by

(i) Indian Economic Statistics, Public Finance, September 1970, September 1975, December 1980 and December-1988, GOI, Ministry Of Finance, Economic Division.

(ii) Indian Public Finance Statistics- 1990, 1996 and 2002-2003, Ministry of Finance, Department of Economic Affairs.

under review because of higher fixed cost of tax collection. It was thus natural that when the tax revenue collection was relatively small, the cost of collection of tax would be higher. It is also seen from the table that the tax revenue increased by 48,595.37 per cent where as cost of collection of tax increased by only 19,760.12 per cent during the period from 1950-51 to 2000-01.

On the basis of above observation we can conclude that it is not necessary that cost of tax collection had increased with the tax yield and the proportionate increase in cost was lower than the proportionate increase in tax yield and hence the ratio of cost of collection to the tax yield showed a declining trend.

5.2.3 Debt Services:

After Independence, earnest efforts were made by the Central and States Governments to develop the nation economically. To strengthen the foundation of Indian economy, various irrigation projects, power projects, key and ancillary

industries and other public works were undertaken by the State. But the Governments could not finance it from the general revenue of the governments. Hence the public borrowing programme was launch by the Central and State governments.

According to the classification adopted in the government account, debt services comprise interest charges on: (i) ordinary debt, (ii) unfunded debt, (ii) other obligations, and (iv) appropriations for reduction or avoidance of debt. Interest charges on ordinary debt represent all cash payments on account of interest on permanent, temporary and floating loans of the Central and State Governments in India and abroad including in the case of State Governments in India and abroad including in the case of State Governments, payments of interest on any loans from the Central Government. Interest charges on unfunded debt include all cash payments of interest on funds deposited with the government for special purposes: (a) deposits in post offices savings bank and certificates, (b) special loans, (c) deposits of various provident funds, and (d) deposits of service funds. Interest on other obligations include payments of interest on certain special funds held with the government, e.g., the railway reserves and depreciation reserve and other reserve funds of the commercial departments and undertakings of the governments.

It is seen from the table 5.10 that expenditure on debt services in money terms increased from RS. 82 crore in 1950-51 to Rs. 119660.36 crores in 2000-01, showing an increase of 145827 per cent indicating an growth of 13.35 per cent per annum (compound growth rate). The expenditure on debt services in real terms increased by 5974 per cent during the same period indicating a growth of 8.38 per cent per annum.

Thus, expenditure on debt services exerts a heavy strain on revenue, and continues to absorb an increasing amount of total tax revenues. The expenditure on debt services as a proportion of total tax revenue was 13.07 per cent in 1950-51 whereas, in 2000-01, debt servicing accounted for 39.19 per cent of total tax revenue. The debt servicing has substantially increased primarily because of a progressively increasing amount of debt incurred.

Table 5.10
Expenditure on Debt Services At Current and Constant Prices
(1050-51 to 2000-01)

Financial Year	At Current Prices		At Constant Prices		Tax	Debt	Debt
	Total Debt Services (in crores)	Per capita (in Rs)	Total Debt Services (in crores)	Per capita (in Rs)	Revenue (in crores)	Servicing as % of Tax Revenue	Servicing as % of NNP
1950-51	82	2.28	1186.68	33.055	627	13.07	0.89
1955-56	123.92	3.15	2001.94	50.94	768	16.14	1.26
1960-61	263.91	6.08	3336.41	76.88	1350	19.55	1.73
1965-66	488.75	10.08	4451.28	91.78	2920	16.74	2.05
1970-71	926.42	17.12	6433.47	118.92	3979	23.28	2.38
1975-76	1282.56	21.13	5829.82	96.04	11182	11.47	1.86
1980-81	2956.59	43.54	9088.81	133.86	19844	14.90	2.50
1985-86	8606.18	113.99	17847.74	236.39	43267	19.89	3.89
1990-91	25006	298.05	34119.25	406.67	87722	28.51	5.56
1995-96	58944.49	635.86	49305.30	531.88	175259	33.63	6.26
2000-01	119660.36	1188.28	72088.89	715.87	305320	39.19	6.77

Source: Computed on the basis of data provided by –

- (i) Indian Economic Statistics, Public Finance, September 1970, September 1975, December 1980 and December 1988, Ministry of Finance, Economic Division, Government of India
- (ii) Indian Public Finance Statistics-1990, 1996 and 2002-2003, Ministry of Finance, Department of Economic Affairs, GOI.

The expenditure on debt services has increased not only in absolute terms but also relative to NNP. In 1950-51, the expenditure on debt services constituted 0.89 per cent and increased to 6.77 per cent in 2000-01 (table 5.10).

The ratio of total debt services to national income shows the proportion of national income redistributed through the servicing of debt, while the ratio of total debt services to tax revenue shows the extent to which revenues are spent on debt servicing in the country. From table 5.10, it can be said that the ratio of total debt servicing to national income increased gradually, while the ratio of total debt services to total tax revenue fluctuated significantly.

If the ratio of total debt services to national income and tax revenue are higher, it would mean that income transfer is taking place on a large scale from the poorer to the richer. This is because when tax revenues are collected, they

are collected not only from the richer but also from the poorer. Therefore, if higher proportion of tax revenues are devoted to the debt services it may signify the relatively lesser emphasis on other services which would redistribute in favour of poorer section. It is seen from the table 5.10 that the ratio of interest payments to national income and tax revenue have an upward bias during the period under review. This fact implies that income inequalities may have increased in course of time.

The burden of interest payments depends upon the character of public debt and the purposes for which the debt is utilized. The interest payments become burdensome when the deadweight debt increases faster than the productive debt. But in India a major portion of public debt was utilized for productive purposes, i.e., for creating interest-yielding assets. Therefore, interest payments ought to have been recovered from the assets created by debt.

However, it does not mean that the debt servicing charges would never be a burden as long as the loans are employed for productive purposes. It would be burdensome if the yields from the invested funds are comparatively low and the government blocks the funds from flowing to the public sector.

5.2.4 Relief for Natural Calamities:

India has an area of 12 lakh sq. miles constituting a little more than 2.4 per cent of world geographical area. Our mother land is characterized by desert and semi-desert conditions in quite sizeable areas, and at many places the water level is much lower in large tracts. Drought and flood are very frequent and therefore, the country is burdened with the responsibility of providing relief on account of such natural calamities. Expenditure on natural calamities includes arrangements for drinking water, fodder migration, relief works for emplotment, distribution of food, etc.

Table 5.11 shows that the expenditure on relief for natural calamities, in money terms was Rs. 1.01 crores in 1950-51. It rose to Rs. 3698.63 crores in 2000-01 showing a percentage increase of 366100 during the period under study.

Whereas in real terms it increased by only 15151 per cent as compared to that of money term during the same period. A sudden huge increase is also noticeable after 1965-66. This was because of the widespread and severe famine or near famine conditions in the different part of country. In 1966-67, 4.16 per cent, in 1970-71, 4.05 per cent of total non-development expenditure was spent under this head and in 1969-70, 1971-72 and 1973-74, the percentage was as high as 7.06, 9.17 and 10.13 respectively and thereafter reduced significantly to 1.47 per cent in 2000-01.

Table 5.11
Expenditure on Relief for Natural Calamities at Current & Constant Prices (1950-51 to 2000-01)

Financial Year	At current prices		At constant prices		Exp. on Relief for natural calamities as % of total non-dev. Expenditure	Exp. on Relief for natural calamities as % of total Govt. Expenditure	Exp. on Relief for natural calamities as % of NI
	Total (in crores)	Per capita (in Rs)	Total (in crores)	Per Capita (in Rs)			
1950-51	1.01	0.02	14.61	0.40	0.29	0.10	0.01
1955-56	16.61	0.42	268.33	6.82	4.57	1.20	0.16
1960-61	21.50	0.49	271.80	6.26	2.80	0.68	0.14
1965-66	17.23	0.35	156.92	3.23	1.27	0.26	0.07
1970-71	101.08	1.86	701.94	12.97	4.05	0.60	0.25
1975-76	118.92	1.95	540.54	8.90	2.54	0.64	0.17
1980-81	215.41	3.17	662.18	9.75	2.38	0.60	0.18
1985-86	745.23	9.87	1545.47	20.46	3.29	0.97	0.33
1990-91	867.17	10.33	1183.20	14.10	1.59	0.55	0.19
1995-96	1780.58	19.20	1489.40	16.06	1.39	0.60	0.18
2000-01	3698.63	36.72	2228.22	22.12	1.47	0.67	0.20

Source: (i) Indian Economic Statistics, Public Finance, September 1970, September 1975, December 1980 and December-1988, GOI, Ministry Of Finance, Economic Division.
(ii) Indian Public Finance Statistics- 1990, 1996 and 2002-2003, Ministry of Finance, Department of Economic Affairs.

Figures of other columns are computed on the basis of the data given in Table 1, Table 2, Table 3, Table 4 and Table 7 of Statistical Appendix

Natural calamities have become the cause of setback to the economy and also involved some loss of revenue. In fact, natural calamities have involved mostly unproductive State expenditure, unless they create community assets. Such expenditure was formerly considered as non-development expenditure. But under

the new classification adopted from 1974-75, this expenditure is classified as developmental expenditure. The budgetarian's logic behind this change is that a major portion of such expenditure is now spent on developmental activities which emphasize the creation of community assets like construction of roads. conservation – oriented earthwork minor irrigation, etc.

The natural calamities further aggravated the deteriorating budgetary position of the state governments. Although some Central loan assistance is made available for the purpose, a major portion of such expenditure is borne by the state themselves. Central assistance has acquired significance in the recent year only.