

## Chapter 6

### REVENUE EXPENDITURE OF THE GOVERNMENT OF BANGLADESH

#### 1. Introduction

This chapter is an attempt to briefly look at the expenditure side of the revenue budget of the Government of Bangladesh over the period under study. Revenue expenditure is often called current or non-development expenditure. According to the Ministry of Finance of the GOB, the expenditure which is made for normal running of the various government departments and organs and does not create any asset and in fact reduces government saving for development purposes in the form of 'collective consumption' is treated as revenue expenditure<sup>1</sup>.

The broad categories of revenue expenditure under different heads are the following<sup>2</sup>:

- A. Wages and Salaries;
- B. Purchases of Commodities and Services; and
- C. Transfer Payments.

The bulk of the expenditure on revenue account is made for wages and salaries paid to the government employees, personal allowances, and medical and other compensations. It also includes dearness allowances and other allowances paid to the government employees<sup>3</sup>.

A considerable amount is spent on the purchases of commodities and services for the purpose of current use of the government. Travelling and daily allowances are also included in this category. Service charges, such as postal and telephone charges, rent and taxes,

etc. are included in this head. Expenditure on contribution to the international agencies, like U.N. etc. has been treated as purchase of services except for I.B.R.D., I.M.F. and A.D.B., which is in the nature of financial investment<sup>4</sup>.

Transfer payments do not involve directly a demand on goods and services. The items which are included in current transfer payments are interest payments (domestic and external), grants (paid to educational institutions, local bodies, corporations and other organisations), subsidies, pensions, scholarships, relief payments, etc<sup>5</sup>.

In an underdeveloped country like Bangladesh, where the bulk of capital expenditure is financed by foreign aid/assistance, non-development current expenditure deserves a special scrutiny. For, the excess of revenue receipts over revenue expenditure (revenue surplus) denotes the savings of the government which is made available for financing development programmes. In other words, the extent of domestic resource mobilization greatly depends on the size of revenue expenditure. The higher the revenue expenditure, the lower the revenue surplus and the more dependency on foreign aid. Here lies the importance of the analysis of the revenue expenditure of the GOB.

In this context, it should be noted here that one of the major problems for any appropriate analysis of revenue expenditure under different heads is the occasional changes in the accounting system as well as the transfer of certain items from one head to another. The more important problem is, however, the peculiar arrangement of minor heads as cited in budget estimates and other documents of the Bangladesh Budget.

Problem is also associated with the fact that it is not always possible to know the exact nature of expenditure, how the money is actually spent, the extent of real benefit derived out of it, the amount of wastage and so on. Thus though it is essential to explain revenue expenditure from the perspective of all these different angles, it will not be possible to do so due mainly to the lack of available data. Taking all these limitations into consideration let us try to give a brief account of the revenue expenditure of the GOB as far as practicable over the period under study.

## 2. Growth Pattern of Revenue Expenditure

The total revenue expenditure of the GOB has increased considerably over the years. According to the fiscal data available from the Ministry of Finance of the GOB, it is found (Table 1) that total revenue expenditure increased from Tk. 2131 million in 1972-73 to Tk. 29300 million in 1984-85. In other words, total revenue expenditure of the GOB has increased at a compound rate of about 24.4% per annum during the whole period under study. Table 1 shows that the growth rate of total revenue expenditure was very high in 1973-74 (62.45%) and 1974-75 (63.35%) and very low in 1975-76 (12.47%) and 1980-81 (10.40%). However, the overall growth trend of revenue expenditure was declining in nature.

It was quite natural for the first two years of the newly emerged Bangladesh after liberation that the growth rate of revenue expenditure was very high. After liberation, the Government had to rearrange its various unorganised departments, organs, bodies and agencies caused by war damage. Moreover, the Government had to face the unprecedented problem of giving relief and rehabilitation to the

refugees who had fled the country during the liberation period.

Besides, the Government had to spend a huge amount of money to meet many unforeseen circumstances during the first few years of the regime. In 1972-73, Bangladesh experienced a country-wide drought and a devastating flood in 1974, facing which the Government

Table 1  
Growth of Total Revenue Expenditure of the GOB  
from 1972-73 to 1984-85

Fiscal Year	Total Revenue Expenditure	(Tk. in million) Growth Rate Per Annum in Percent
1972-73	2131	...
1973-74	3462	62.4
1974-75	5655	63.3
1975-76	6360	12.5
1976-77	7693	20.9
1977-78	9406	22.3
1978-79	10876	15.6
1979-80	13419	23.4
1980-81	14816	10.4
1981-82	18497	24.8
1982-83	21477	16.1
1983-84	25030	16.5
1984-85	29300	17.0

Source: Calculated on the basis of Bangladesh Economic Survey, 1989-90, Statistical Appendix, Ministry of Finance, GOB.

had to spend a huge amount of money in the form of non-development expenditure. Mr. Tazuddin Ahmed, the first Finance Minister of Bangladesh thus pointed out in his first budget speech that the budget of 1972-73 was not at all development-oriented rather it was

relief, rehabilitation and reconstruction-oriented in nature<sup>6</sup>.

However, leaving these two higher growth rates of 1973-74 and 1974-75, the growth rates of revenue expenditure were quite moderate varying between the low of 10.41% and the high of 23.31%. Again, the growth rate was not uniform but fluctuating in nature.

Another notable feature is that the growth rate of revenue expenditure fell down from 63.31% in 1974-75 to 12.41% in 1975-76, and the trend of growth never exceed the limit of 25% upto 1984-85. This was due mainly to the fact that the Government after meeting the problems of relief, rehabilitation, reconstruction and administrative reorganisation so far, took the policy of austerity through curtailing unnecessary or lower-priority expenditure from 1975-76<sup>7</sup>. But we like to note that the absolute amounts of revenue expenditure increased considerably over the years.

The relatively higher levels of total revenue expenditure in absolute term were in general due to <sup>8</sup> —

- a) enhancement of basic salary, medical allowances, dearness and other allowances caused by the revision of pay scales after regular intervals and sanction of compensatory allowances to the government employees;
- b) filling up of the vacant posts and creation of new posts from time to time in different departments;
- c) enhancement of contingency charges like purchases of goods and services for the government offices due to price inflation;
- d) increase in the rate of grants and subsidies to the different government bodies and agencies;
- e) rise in the rate of interest, both internal and external; and

f) meeting the unexpected problems caused by natural calamities like floods, droughts, cyclones, etc.

In Bangladesh a considerable amount of GDP is spent on current revenue expenditure in each and every year. Table 2 shows that the share of revenue expenditure in GDP of Bangladesh varied between 4.5% and 7.9%. As it stands, the share of revenue expenditure seems to have a tendency to fluctuate. However, it cannot be categorically stated that the increase of non-development expenditure was all unnecessary. Again, the analysis of the total revenue expenditure is too crude to give any real idea about the nature of government expenditure. At this stage it is, therefore, pertinent to examine the different heads of revenue expenditure.

Table 2

Revenue Expenditure as Percentage of GDP of Bangladesh (1972-85)

Year	GDP at Current Factor Cost (1)	Revenue Expenditure (2)	(Tk. in million)
			Revenue Expenditure as % of GDP (3)
1972-73	42837	2131	5.0
1973-74	68977	3462	5.0
1974-75	123949	5655	4.5
1975-76	103198	6360	6.2
1976-77	99874	7693	7.7
1977-78	139204	9406	6.7
1978-79	163909	10875	6.6
1979-80	197633	13419	6.8
1980-81	219799	14815	6.7
1981-82	251320	18496	7.3
1982-83	272953	21477	7.9
1983-84	331068	25030	7.5
1984-85	395168	29300	7.4

Source: Col. (1) Statistical Year Book of Bangladesh, Various Issues, Bangladesh Bureau of Statistics, GOB; and the rest from Bangladesh Economic Survey, 1989-90, Statistical Appendix, Ministry of Finance, GOB.

### 3. Revenue Expenditure Under Different Heads

In this connection it is to be mentioned here that changes in accounting classification from time to time, as noted earlier, make very difficult or rather impossible any appropriate analysis in this regard. More seriously enough, the classification of major heads of revenue expenditure, as mentioned in Chapter 4, was not often maintained in the fiscal data supplied by the Finance Division, Ministry of Finance of Bangladesh. For analytical simplicity, however, in accordance with Bangladesh Economic Survey, 1989-90, Statistical Appendix we have rearranged the heads of revenue expenditure as under:

- a) Administration including Fiscal Services and Foreign Affairs;
- b) Debt Services;
- c) Education and Health;
- d) Civil Works;
- e) Defence;
- f) Railways; and
- g) Miscellaneous.

Table 3 shows that the total revenue expenditure has increased under all heads over the years with some exception. The notable feature is that under all heads except 'Debt Services', the growth rates were higher for the first two or three years after liberation for obvious reasons which gave the budgets of the first two or three years a non-developmental character.

#### Administration:

Under the head of 'Administration', the total revenue expenditure has increased from a meagre Tk. 8.60 million in 1972-73 to Tk. 6280 million in 1984-85. The compound rate of growth of revenue

expenditure under this head was about 18% per annum over the period. However, the annual growth rates were more or less uniform though not steady from the late seventies to the early eighties, except 1982-83. The main reasons for the growth of revenue expenditure under this head were, among others, the following<sup>9</sup>:

Table 3

Growth Rate of Revenue Expenditure in Percent  
under Different Heads from 1972-73 to 1984-85

(Tk. in million)

Year	Administration		Debt Services		Education and Health	
	Total	Growth	Total	Growth	Total	Growth
1972-73	860	...	134	...	562	...
1973-74	1254	45.8	183	36.5	792	40.9
1974-75	1462	16.6	313	71.0	996	25.7
1975-76	1557	6.5	407	30.0	1095	9.9
1976-77	1998	28.3	877	115.4	1285	17.4
1977-78	2327	16.5	686	-21.7	1687	31.3
1978-79	2703	16.1	1087	58.4	2210	31.0
1979-80	3296	21.9	1041	-4.2	2388	8.0
1980-81	3978	20.7	1163	11.7	2883	20.7
1981-82	4651	16.9	2172	86.7	3188	10.8
1982-83	4618	- .1	2254	3.7	3960	24.2
1983-84	5346	15.8	2743	21.7	4940	24.7
1984-85	6280	17.5	3183	16.0	6524	32.0

Contd..

Table 3 (Contd..)

Year	Defence		Civil Works		Railway		Miscellaneous	
	Total	Growth	Total	Growth	Total	Growth	Total	Growth
1972-73	202	..	44	..	..	..	329	..
1973-74	420	107.9	215	388.0	279	..	318	-3.4
1974-75	708	68.6	520	141.8	380	36.2	1275	301.0
1975-76	1109	56.6	346	-33.6	541	42.3	1305	2.3
1976-77	1514	36.5	73	-87.8	617	13.9	1330	2.0
1977-78	1442	-4.7	392	436.5	703	14.0	2170	63.0
1978-79	1485	3.0	476	21.3	800	13.8	2116	-2.5
1979-80	2427	63.4	519	9.2	953	19.2	2794	32.1
1980-81	2742	13.0	563	8.3	1237	29.7	2250	-19.5
1981-82	3475	29.7	617	9.6	1389	12.3	3003	33.4
1982-83	4184	20.4	701	13.6	1681	21.0	4069	35.5
1983-84	4270	2.1	774	10.4	1700	1.1	5257	29.2
1984-85	4927	15.4	862	11.3	..	..	7522	43.1

Source : Calculated on the basis of Bangladesh Economic Survey, 1989-90, Statistical Appendix, Ministry of Finance, GOB.

- a) enhancement of medical and conveyance allowances and sanction of compensatory allowances, dearness allowances, etc;
- b) filling up of the vacant posts in different offices;
- c) creation of new districts, upazilas, circles and metropolitan magistracy for Dhaka, Chittagong, Khulna and Razshahi cities;
- d) recruitment of more police personnel, raising of the Ansar Battalion and raising of the companies of Bangladesh Rifle (BDR);
- e) increase in the rate of contribution to U.N., Commonwealth Secretariat and Islamic Conference, etc;

- f) opening of new Missions abroad and purchases of building etc., for the Bangladesh Missions; and
- g) increase in the prices of fuel and other articles, etc.

#### Debt Services:

The total revenue expenditure under the head of 'Debt Services' has increased from Tk. 134 million in 1972-73 to Tk. 3183 million in 1984-85. The compound rate of growth of revenue expenditure under this head was about 30% per annum over the years. The growth rate of revenue expenditure under this head was the highest in 1976-77 (115.41%) while there were negative growth rates in the years 1977-78 (-21.7%) and 1979-80 (-4.2%). Table 3 also shows that the annual growth of revenue expenditure under this head was neither uniform nor steady — it was rather fluctuating. The growing amounts under this head from year to year were, among others, due to the following<sup>10</sup> :

- a) repayment of larger treasury bills;
- b) more demand for prize money of Prize Bonds;
- c) payment of larger amounts of interest on foreign loans; and
- d) payment of bills to Security Printing Press on account of printing of savings certificates and savings stamps, etc.

#### Education and Health:

In case of 'Education and Health' the total revenue expenditure has increased from Tk. 562 million in 1972-73 to Tk. 6524 million in 1984-85. The compound rate of growth of revenue expenditure under this head was about 23% per annum over the period. However, the annual growth rates were not uniform but fluctuating in nature

which varied between the highest 40.9% to the lowest 8.0%. The higher amounts under this head from year to year were, among others, due to the following<sup>11</sup> :

- a) enhancement of medical and conveyance allowances and sanction of compensatory allowances;
- b) additional fund to continue the supply of text books at subsidized rates by the School Text Book Board;
- c) increasing affiliation of more and more private schools and colleges caused more demand on government fund;
- d) increasing the grants (recurring and non-recurring) to different institutions and cultural organizations;
- e) taking up new schemes/programmes like adult education programme, population education programme, integrated national vaccination programme, etc. for expanding education and health facilities to the mass; and
- f) increasing allowances to the employees of private schools and colleges and nationalisation of new schools and colleges, etc.

#### Defence:

Under the head of 'Defence' the total revenue expenditure has increased from Tk. 202 million in 1972-73 to Tk. 4927 million in 1984-85. The compound growth rate under this head was about 30% per annum over the years. However, the yearly growth rates were neither steady nor uniform but fluctuating in nature with the highest growth rate of 108.0% in 1973-74 and a negative growth rate in 1977-78. Additional fund from year to year was necessary for the following<sup>12</sup> :

- a) maintenance and purchases of stores and equipments;
- b) construction of accommodation for defence personnel;
- c) new recruitment in the Army, Navy and Air Force at regular intervals; and
- d) increasing the basic salary and other allowances, etc.

#### Civil Works:

Under 'Civil Works' the total revenue expenditure registered an increase from Tk. 44 million in 1972-73 to Tk. 862 million in 1984-85. The compound rate of growth under this head was about 28% per annum for the said period. Table 3 shows that during the first two fiscal years (1972-73 and 1973-74) after liberation, the growth rate was too high (388.2% and 141.8% respectively) under this head. It was, however, not unreasonable that a damaged economy like Bangladesh, caused by the use of heavy gun-fire during the liberation war, demanded a high expenditure under this head.

The higher amounts of revenue expenditure from year to year under this head were in general mainly due to<sup>13</sup> ;

- a) maintenance and repair of government buildings and construction of new buildings;
- b) repair of roads, bridges and culverts, etc., and construction of new roads and bridges, etc;
- c) increasing the numbers of the staff, enhancement of medical and conveyance allowances and sanction of compensatory allowances, etc.

#### Railways:

Under the head of 'Railways' the total revenue expenditure has increased from Tk. 279 million in 1972-73 to Tk. 1700 million in 1984-85. The compound growth rate of revenue expenditure under

this head was about 20% per annum over the period. However, the yearly growth rates were more or less stable during the late seventies and fluctuating during the early eighties. The growth of revenue expenditure under this head from year to year was, in general, among others, due to<sup>14</sup>;

- a) reconstruction and repairing of rail roads, bridges, railway communication, etc;
- b) recruitment of new staff and technicians;
- c) purchases of new engines and bogies from abroad; and
- d) enhancement of medical, conveyance and other compensatory allowances and of basic salary caused by the revision of pay scales, etc.

Miscellaneous:

Miscellaneous i.e., other non-development expenditure registered an increase from Tk. 329 million in 1972-73 to Tk. 7522 million in 1984-85. The compound growth rate under this head was about 30% per annum over the years. Higher amounts under this head from year to year were, in general, among others, due mainly to<sup>15</sup>;

- a) increase in the number of pension and gratuity cases;
- b) larger amount of subsidy due to the sale of food items at concessional rate; and
- c) meeting unforeseen expenses caused by natural calamities like droughts, floods, cyclones, etc.

One should, however, be very cautious to draw any conclusion merely from the trends of respective growth rates of revenue expenditure under different heads without considering the amounts of absolute change. Table 4 shows the necessary information that demands a close attention.

Table 4

Compound Growth Rates in Percent and Absolute Increase of Revenue Expenditure of the GOB under Different Heads from 1972-73 to 1984-85

(Tk. in million)

Head	Compound Growth Rates	Absolute Increase
1. Administration	18.0	5420
2. Debt Services	30.0	3047
3. Education and Health	22.6	5962
4. Defence	30.5	4725
5. Civil works	28.0	818
6. Railways	19.8	1421
7. Miscellaneous	29.7	7193

Source : Calculated on the basis of Table 3 of this chapter.

From the above table it is found that the revenue expenditure of the GOB under the head of 'Defence', 'Debt Services' and 'Miscellaneous' took the 1st, 2nd and 3rd position respectively from the point of view of compound growth rates in percent over the years. But they took the 4th, 5th and 1st position respectively from the point of view of absolute increase. Interestingly enough, the head 'Education and Health' and 'Administration' took the 5th and 7th position respectively from the compound growth rates point of view. But they took the 2nd and 3rd position respectively from the absolute increase point of view. Similarly, the position of 'Civil works' was 4th in consideration of compound growth rates but its position fell down to the bottom (7th) from the point of view of absolute increase.

Again mere growth rates and absolute increase are not sufficient to give us a clear picture about the trend of revenue expenditure of the GOB under different heads over the years. It is now necessary to have an idea about the relative importance or percentage share of different heads to the total revenue expenditure of the GOB over the years.

Table 5 shows that, with some exceptions, the relative importance of different heads under revenue expenditure remained the same since independence. Thus 'Administration' took the 1st position for all the fiscal years after liberation except 1984-85. On an average, this head constituted 26.4% of the total revenue expenditure over the years. On the basis of yearly average, 'Education and Health', 'Miscellaneous' and 'Defence' took the 2nd, 3rd and 4th position respectively.

It is striking to note that from the early seventies to the mid-seventies, the share of revenue expenditure under 'Education and Health' decreased while the share of 'Defence' increased. And in some fiscal years the share of 'Defence' exceeded the share of 'Education and Health'. However, during the eighties, an increasing share of 'Education and Health' is recorded.

In respect of 'Debt Services' it is observed that though its percentage share decreased in the early seventies, from the mid-seventies to the early eighties it registered an increased percentage share of revenue expenditure. And throughout the eighties the share of revenue expenditure under 'Debt Services' remained almost invariable.

The percentage share of 'Miscellaneous' to the total revenue expenditure was fluctuating over the years and in some fiscal years this head took the 2nd position from the 3rd superseding 'Education and Health'. And in 1984-85 this head took the 1st position. This is an indication of the fact that the GOB had to face many unforeseen and unexpected situations in each and every year, the expenditure of which could not be categorically forecasted in the budget.

The percentage share of 'Civil works' to the total revenue expenditure though registered an increase in the early seventies, from the mid-seventies its importance was gradually diminishing. And on the basis of yearly average it took the lowest position (4.1%). Similarly, the percentage share of 'Railways' to the total revenue expenditure was very poor and its share remained more or less invariable throughout the whole period under study.

From the above analysis one may ascertain some interesting features regarding the growth and pattern of revenue expenditure of the GOB during the period under study:

- 1) The total revenue expenditure of the GOB has increased over the years and constituted on an average about 7% of the GDP (Table 2) showing more and more involvement of the Government in economic activity.
- 2) The highest compound growth rates were registered under the heads of 'Defence', 'Debt Services' and 'Miscellaneous' (Table 3). But the highest absolute increases were registered under 'Miscellaneous', 'Education and Health' and 'Administration' (Table 4).
- 3) 'Administration' recorded the highest percentage share to the total revenue expenditure of the GOB throughout the whole period under study (Table 5). This reflects the fact that the GOB had to spend a huge amount of money for

Table 5

Percentage Share of Revenue Expenditure under Different Heads  
to the Total Revenue Expenditure of the GOB from 1972-73 to 1984-85

Head	72-73	73-74	74-75	75-76	76-77	77-78	78-79	79-80	80-81	81-82	82-83	83-84	84-85	Yearly Average
A	40.3	36.2	25.9	24.5	26.0	24.7	24.8	24.6	26.9	25.1	21.5	21.4	21.4	26.4
B	6.3	5.3	5.5	6.4	11.4	7.3	10.0	7.8	7.8	11.8	10.5	11.0	10.8	8.6
C	26.4	22.9	17.6	17.2	16.7	17.9	20.3	17.8	19.5	17.2	18.5	19.7	22.3	19.5
D	9.5	12.1	12.5	17.4	19.7	15.3	13.7	18.0	18.5	18.8	19.5	17.1	16.8	16.1
E	2.1	6.2	9.2	5.4	.9	4.2	4.4	3.9	3.8	3.3	3.3	3.1	2.9	4.1
F	..	8.1	6.7	8.5	8.0	7.5	7.4	7.1	8.3	7.5	7.8	8.8	6.8	6.4
G	15.4	9.2	22.6	20.5	17.3	23.1	19.4	20.8	15.2	16.2	18.9	21.0	25.7	18.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note : A = Administration, B = Debt Services, C = Education and Health, D = Defence, E = Civil Works,  
F = Railways and G = Miscellaneous

Source : Calculated on the basis of Table 1 and 3 of this chapter.

the normal running of the government leaving thereby very little as government saving.

- 4) The percentage share of revenue expenditure under 'Defence' to the total revenue expenditure of the GOB has increased markedly showing the overwhelming priority of this field since the mid-seventies.

#### 4. Revenue Expenditure of the GOB during Different Plan Periods

Let us now view the revenue expenditure of the GOB taking different plan periods into consideration. Table 6 shows that the total revenue expenditure of the GOB in absolute term has increased on an average by Tk. 1455 million per annum during the FFYP and by Tk. 2006 million and Tk. 3176 million on an average per annum during the TYP and the SFYP respectively. The growth rates of revenue expenditure, however, showed a declining tendency over the plan periods.

Table 6

Growth Trend of the Total Revenue Expenditure of the GOB during Different Plan Periods

Period	Absolute Increase (Tk. in million)	Growth Rate (In Percent)
FFYP (1974-78)	1455	34.6
TYP (1978-80)	2006	19.4
SFYP (1980-85)	3176	16.9

Source : Calculated on the basis of Table 1 of this chapter.

Table 7 shows the growth rates of revenue expenditure under different heads during the plan periods. It is found that under all heads the growth rates showed a declining tendency during the plan periods except the fact that the growth rates of 'Debt Services', 'Education and Health' and 'Miscellaneous' showed an increasing tendency from the TYP to the SFYP. The notable feature is that for all heads, the growth rates were too high during the FFYP for obvious reasons.

Table 7

Growth Rates of Revenue Expenditure under  
Different Heads During Different Plan Periods

(In percent)

Head	FFYP (1973-78)	TYP (1978-80)	SFYP (1980-85)
1. Administration	22.0	19.0	13.8
2. Debt Services	38.6	23.2	25.0
3. Education and Health	24.6	29.0	22.3
4. Defence	48.1	29.7	15.2
5. Civil Works	54.9	15.1	10.7
6. Railways	25.0	16.4	15.6
7. Miscellaneous	45.8	13.5	21.9

Source : Calculated on the basis of Table 3 of this chapter.

In case of percentage share of revenue expenditure under various heads to the total revenue expenditure Table 8 shows that the highest share went to the head of 'Administration' over the plan periods. The notable feature is that while the share of 'Administration' to the total revenue expenditure started decreasing gradually, the share of 'Debt Services' and 'Defence' started

increasing sharply from the FFYP to the TYP and the SFYP respectively.

Table 8

Yearly Average Percentage Share of Various Heads to the Total Revenue Expenditure of the GOB during the Plan Periods

Head	FFYP (1973-78)	TYP (1978-80)	SFYP (1980-85)
1. Administration	27.5	24.7	23.2
2. Debt Services	7.2	9.0	10.4
3. Education and Health	18.5	19.1	19.4
4. Defence	15.4	16.0	18.0
5. Civil Works	5.2	4.1	3.3
6. Railways	7.7	7.2	7.6
7. Miscellaneous	18.5	20.1	19.4

Source: Calculated on the basis of Table 5 of this chapter.

#### 5. Review of the Revenue Budget of the GOB

Revenue budget consists of revenue receipts and revenue expenditure. In Chapter 5 we have explained the receipts side of the revenue budget and in the foregoing sections of the present chapter we have explained the expenditure side of the revenue budget of the GOB. Let us now have an overall view of the budgetary position of the revenue budget of the GOB during the period under study.

As we know, the excess of revenue receipts over revenue expenditure denotes government saving which is added to the domestic resources available for financing investment activities. It is said that government receipts, especially taxation is a form of compulsory saving and is desirable. But it must be realised that taxation by itself only leads to a transfer of funds from the private to the

public coffers. Its effectiveness in promoting capital formulation is limited by the extent to which the increased revenues are used for investment purposes. If they are absorbed by an increase in administrative non-development expenditure, the capital is virtually lost to the economy. In other words, non-development expenditure shrinks government savings leading to a rise in the saving-investment gap thereby raising more dependency on foreign aid.

Table 9 shows the budgetary position of the revenue budget of the GOB from 1972-73 to 1984-85. It is found that both the revenue expenditure and the GDP of Bangladesh have increased steadily over the years. In other words, there is a direct relationship between a rise in the GDP and a rising share of revenue expenditure in the GDP. This relationship can best be expressed by what is known as the 'law of increasing state activities and expenditures' propounded by Adolph Wagner<sup>16</sup> which generalizes a gradual increase in the ratio of government revenue expenditure to the national income. In other words, income elasticity<sup>17</sup> of government revenue expenditure is positive.

Table 9 shows that the income elasticity of revenue expenditure (measured as the ratio of percentage change in government revenue expenditure with respect to percentage change in GDP) varied between 0.5 and 7.7. And on an average the income elasticity of revenue expenditure (1.8) was not only positive but greater than one for the whole period under study. This clearly reflects the fact that revenue expenditure increases faster than the GDP and confirms Wagner's hypothesis in Bangladesh.

Table 9

Budgetary Position of the Revenue Budget of the GOB from 1972-73 to 1984-85

(Tk. in million)

Fiscal year	Revenue Receipts	Revenue Expenditure	Revenue Surplus	4 as % of 2	GDP at Current Factor Cost	4 as % of 6	Income Elasticity of Revenue Expenditure
1	2	3	4	5	6	7	8
1972-73	2302	2131	171	7.4	42837	0.4	..
1973-74	3724	3462	262	7.0	68977	0.4	1.0
1974-75	6240	5655	585	9.4	123949	0.5	.8
1975-76	8841	6360	2481	28.0	103198	2.4	4.2
1976-77	9337	7693	1644	17.6	99874	1.6	7.7
1977-78	11761	9406	2355	20.0	139204	1.7	.5
1978-79	14517	10876	3641	25.1	163909	2.2	.9
1979-80	16805	13419	3386	20.1	197633	1.7	1.1
1980-81	22568	14816	3752	16.6	219799	1.7	.9
1981-82	23570	18497	5073	21.5	251320	2.0	1.7
1982-83	24845	21477	3368	13.5	272953	1.2	1.9
1983-84	28126	25030	3096	11.0	331068	0.9	.8
1984-85	35767	29300	6467	18.1	395168	1.6	.9

Source : Col. (2) from Table 1 of Chapter 5. Col. (3) from Table 1 of Chapter 6. Col. (6) Statistical Year Book of Bangladesh, Various Issues, Bangladesh Bureau of Statistics, GOB.

In Bangladesh the total revenue expenditure increases by 24.4% annually while the GDP increases by 20.3% annually during the period under study. Thus the demand for government revenue expenditure rose faster than the GDP from 1972-73 to 1984-85 thereby justifying Wagner's generalization in Bangladesh<sup>18</sup>. This finding is also supported by a World Bank report which shows that in most of the developing countries (data relate to 1960-70 and 1970-80) government consumption was increasing more rapidly than GDP<sup>19</sup>.

Again, Table 9 shows that the revenue surplus which is added to the government saving constituted on an average only 16.5% of the revenue receipts over the years. In other words, on an average more than 83% of the total revenue receipts were absorbed by the government revenue expenditure during the period under study. Thus a major portion of collected revenue receipts has gone to meet the growing revenue expenditure rather than to increase the level of government savings to a higher level.

The above finding leads us to conclude that the "Pleasant Effect"<sup>20</sup> seems to be in operation in Bangladesh. According to this view governmental revenue expenditure is a direct function of the availability of revenue. In IDCs where collection of revenue is difficult, public expenditures stand at a low level. But as more and more revenues are collected with the availability of more and more sources of revenue their governmental current outlay increases. As a result, additional revenue is associated with an increase in current spending, not with an increase in budget surplus. As Stanley Please states, "The disappointing behaviour of public saving in the

less developed countries in spite of impressive records of tax performance is due to the growth of government current expenditure"<sup>21</sup>.

In Bangladesh, with time, transfer payments like old age pensions, grants to local bodies and so forth have been greatly enlarged. Public health and sanitation programmes have been expanded. Education also claimed a larger share of public expenditure. Salaries of the government employees have increased from time to time and so on. In addition, clamours of political parties for concessions and benefits, and so on have combined to increase public expenditure. As Stanely Please asks, "Is it possible to resist political pressure or popular clamour for increased defence expenditure, salary increases for public officials, and so on when it is known that the money is in the kitty?"<sup>22</sup>

Whatever may be the cause, non-development expenditure of the GOB which increased at an accelerated pace ever since 1972-73 can never be justified on any ground. For, during the FFYP, revenue expenditure increased sharply by more than 30% (Table 6) annually as against the projected target of 10%<sup>23</sup>. During the SFYP, annual rate of growth of revenue expenditure was projected to be 7.8%, but it actually increased by about 17%. More significant, however, was the fact that revenue expenditure increased at the rate of 21% per annum between 1975-76 and 1978-79, even after the policy of fiscal austerity in various Ministries, Divisions and Public Corporations was introduced in 1975-76<sup>24</sup>. This is an indication of the fact that 'whatever economy was achieved through reorganisation and other measures was more than offset by an increase in other heads of expenditure'<sup>25</sup>.

In this connection, it may be mentioned here that large amounts of subsidies to fertilizer, seeds, pesticides and irrigation water in support of agricultural development programmes were paid out of the development budget and 'if included in the revenue budget', as evaluated by the Planning Commission, 'the surplus in the revenue budget would have turned negative in many years'.<sup>26</sup>

We, therefore, conclude that while in a new country, it was not unnatural for the current expenditure of the government to increase at a high rate during the early seventies, such a high rate of increase in the late seventies as well as in the eighties, was neither warranted nor natural, practically when the principle of fiscal austerity was introduced and subsidies in many areas were almost withdrawn. This contributed not only to misuse of resources but also to diversion of development resources away from the productive sectors.

## NOTES AND REFERENCES

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6. The Budget Speech, 1972-73, Ministry of Finance, GOB, p. 1.
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9. Ibid.
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13. Ibid.
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16. A. Wagner, "Three Extracts on Public Finance" in R.A. Musgrave and Alan Peacock eds., Classics in the Theory of Public Finance, Macmillan, 1962, p. 8. Also see R.M. Bird, "Wagner's 'Law' of Expanding State Activity", Public Finance/Finances Publiques, Vol. 26, 1971, pp. 1-26.
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18. Studies that tried to test Wagner's law in developing countries are, C. Enweze, "Structure of Public Expenditures in Selected Developing Countries : A Time Series Study", Manchester School of Economics and Social Studies, Vol. 41, December, 1973, p. 445; and I.J. Goffman and D.J. Mahar, "The Growth of Public Expenditures in Selected Developing Nations : Six Caribbean Countries, 1940-65", Public Finance/Finances Publiques, Vol. 26, 1971, pp. 57-74, among others.
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21. Ibid.
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23. The Two-Year Plan (1978-80), Planning Commission, GOB, Chapter 1, p. 16.
24. The Second Five-Year Plan (1980-85), Chapter IV, p. IV-2.
25. Ibid.
26. Ibid.