

## CHAPTER 7

### CONCLUSIONS AND RECOMMENDATIONS FOR FUTURE WORK

In this chapter, a summary of the significant findings of the present study is presented. Also, a few suggestions and recommendations for further research in this field are outlined, so that new dimensions could be added to the analysis of public expenditure.

#### 7.1. CONCLUSIONS FROM THE PRESENT STUDY

The Central Government expenditure and national income (GNP) in India have grown tremendously since the beginning of the planning era in 1950-51. However, this increase has been mostly on account of inflation, as the increase at current prices was almost one order of a magnitude higher than that at constant prices. The growing importance of public sector in the economic activities can be seen from the fact that government expenditure, which constituted 5% of GNP in 1950-51, had increased to 21% of GNP by 1989-90, both at current and constant prices. The government expenditure, however, grew at a faster rate than the GNP. This lends support to Wagner's "law of increasing state activity", which emphasizes that the economic growth leads to the government expenditure growth, but the government expenditure grows at a faster rate than the national income. The observed increase in the proportion of Central Government expenditure in GDP is also reflective of the tendency towards centralization of economic power as the economy grows.

In addition to inflation, the other factors which have influenced expenditure growth are per capita income, tax revenue

and expenditure on non-traditional functions of the State. However, urbanization has not been of any influence in leading to higher expenditure. The provision of health care facilities, education, water supply, sanitation etc., i.e. social services as a whole, fall under States' jurisdiction in India. Hence, these factors do not lead to increased level of Central Government expenditure.

The causality testing has added a new dimension to the above study. There exists a bidirectional causality between government expenditure and GNP. This means that an increase in national income leads to an increase in government expenditure and, conversely, with increase in national income, the government spends more on public goods and services (like higher education, improved health services, space research, sophisticated technologies etc.) and the government expenditure increases causing the economy to grow further (or leading to a national income increase).

The Wiseman-Peacock 'displacement effect' hypothesis of public expenditure growth is not substantiated for India on account of three reasons. Firstly, the growth curve of expenditure is a smooth curve (see Chart 3.1 on page 64) with no sudden jumps or shifts, not even during the years of conflicts, viz., 1962, 1965 and 1971. Secondly, the proportion of government expenditure in GNP also does not show any noteworthy increase in any of the above mentioned years of conflicts. Lastly, the growth rate of expenditure during the ten-year period that includes the years of conflicts 1962, 1965 and 1971, was the

lowest. According to the assumption inherent in the Wiseman-Peacock hypothesis, the growth rate for the above ten-year period should have been the highest on account of wars.

During the forty year period from 1950-51 to 1989-90, accompanying the growth in expenditure there were also some structural changes in the government expenditure. The composition of the government expenditure shifted in favour of the transfer payments from the final outlays, which consists of mainly the consumption expenditure. This is a good sign on one hand, since it means that the government is trying to reduce its consumption expenditure, i.e. on wages & salaries and purchase of commodities and services, so that these resources could be diverted to other socially productive ends. On the other hand, a reduction in the proportion of wages and salaries means that the public sector, which is more labour-intensive, is moving towards adopting capital-intensive techniques, which can have harmful repercussions for a labour-surplus country like India from the point of view of employment reduction. The increase in transfer payments is mostly on account of increase in interest payments on national debt. It is feared that if this increase in interest payment continues, the government is likely to go into an 'internal debt trap'. Hence, this tendency is a cause for concern.

Viewed differently, during the early stages of planning, the government used to spend more on general services (like administration, law and order, etc.). As a firm administrative set up was established, the government undertook capital

formation in the area of economic services through sound infrastructural facilities (like roads, railways, post and telegraph, ports, shipping, civil aviation, etc.) and a strong industrial base (by undertaking increased investment in basic and heavy industries and also by promotion of small scale and village industries). Accordingly, industry received more weightage as compared to agriculture in the allocation of resources as the development of a firm industrial base has been the emphasizing feature of various developmental programmes.

#### 7.2. RECOMMENDATIONS FOR FURTHER WORK

The characteristics of social goods are such that they cannot be provided through the market. Hence, the public sector has to step in to provide such goods, by way of budgetary provisions.

Although social goods are available equally to everyone, their benefits are spatially limited. Thus, benefits from national defence accrue nationwide, while those of flood relief measures are of concern to flood affected areas only. This suggests that the nature of social goods has some interesting repercussions on the issue of fiscal federalism - centralization or decentralization. If the government expenditure is classified by types of goods (private, social or merit goods and so on), we can get an idea about the degree of publicness of the government expenditure. This can also have some important policy implications. Depending upon how the citizens are going to be benefited from the expenditure programmes, the issue of the provision of social goods between the centre and the states can

be resolved. For example, the expenditure on adult literacy can be entrusted with the state. That is to say, if the break-up of the expenditure on the functional category 'education' under primary and university level education and adult literacy is available, a decision can be taken as to which particular public good can be provided by the state governments. Thus, steps could be taken in the direction of decentralization.

The subsidies on private goods provided by the government, like controlled cloth, edible oils and various other commodities provided through the public distribution system (for which the individual consumer has to pay), could be increased since such commodities are mainly consumed by the low-income group section of the population. Thus, the classification of the government expenditure into various types of goods can serve as an important policy tool.

Another area in which an economically significant study can be carried out is a systematic investigation of the ways in which determinants influence the separate components of total expenditure. Since the government takes decisions on goods which have different properties and serve different purposes (education, health, defence, etc), such an analysis can bring out important findings. On the basis of the results, the decision regarding the mode of provision of such goods can be taken. For example, population is one of the important determinants of the increase in medical facilities. It is a known fact that the majority of India's population lives in the rural areas. Hence, with an increase in the rural population, the health facilities

will have to be stepped up in the rural areas.

While there may be yet other aspects of public expenditure analysis still unexplored, the above mentioned points of investigation will go a long way towards providing a better understanding of the behaviour of public expenditure growth.