

Chapter IX :SUMMARY OF CONCLUSIONS

This study has traced the growth pattern of state government expenditures and the inter-state spending differentials at aggregate and disaggregate levels. It has also attempted to identify the variables which explain the variations in the percapita expenditure levels on various functions.

Measured in terms of percapita expenditure all the states have expanded all functions during the period under our review.

The percapita total revenue expenditure increased faster in Jammu & Kashmir than in other states - and at the lowest rate in Assam during the period of our analysis. The total revenue expenditure percapita was at the maximum level in Jammu & Kashmir followed by Punjab. The lowest percapita level was seen in Bihar throughout the period. Variation in the percapita level increased over the twenty-one years. The same trend was observed in percapita income levels of the states. The widening trend was obviously due

to the faster expansion in the percapita expenditure levels of the developed states.

The relative rankings of the states by the size of their percapita expenditures witnessed changes. However a few states continued to cluster around the upper end of the array. The states Jammu & Kashmir, Haryana, Maharashtra and Punjab stood at the upper end while Bihar, Orissa, Madhya Pradesh and Uttar Pradesh stayed at the lower end throughout the period under our review. In almost all the functions the weaker states stood below the all states average percapita expenditure level.

In the distribution pattern of the total revenue expenditure the developmental expenditure took greater share. The claim of developmental expenditure went up from one-half of the total revenue expenditure in 1957-58 to a little more than two-thirds of it in most of the states by 1977-78.

The corresponding percentage figure for non-developmental expenditure witnessed downtrend in all the states except Bihar and Kerala. But the growth in its absolute level was phenomenal in all the states. The reduction in the share of non-developmental expenditure was brought forth by its components such as administrative services and cost of collection of taxes.

The fall in the share of administrative services was significant in all states except in Bihar where it was marginal. The decline in the share of cost of collection of taxes was very sharp in Maharashtra, Orissa, Punjab, Rajasthan, Tamil Nadu and West Bengal. Debt services, the other component of non-developmental expenditure had increased in most of the states.

Between Social and Community services and Economic services the former dominated the latter in all but two states, Haryana and Jammu & Kashmir. However the shift infavour of social and community services has taken place only because of the relative importance given to it in Planning whose objectives govern the expenditure policy of the states. The transfer of expenditure had not occurred as a result of the fuller development in Agriculture, Industry and infra-structure.

Both at current and Constant 1960-61 prices the total revenue expenditure had grown in all the states during the period under our study.

States like Andhra Pradesh, Bihar, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh had expenditure relatives less than 100 all along the period from 1957-58 to

1977-78. Therefore they are depending on Central grants to meet sizeable part of their expenditure needs. The state Punjab is greatly relying on its own sources.

An examination of the variation in proportion of total revenue expenditure devoted to different functions discloses that similar importance was given by all the states for the functions Medical and Public Health, Administrative Services, Education and Agriculture and Allied services. The expenditure preference of the state governments for the other functions like Transport & Communication, and Water and Power Development seems to be quite diverse.

At the disaggregate level different functions have grown at different rates. The function Medical and Public Health expanded faster than all other services followed by education in all states. Among the other services Agriculture and Allied Services had greater growth in Andhra Pradesh, Assam, ^{and} Maharashtra. The function Water and Power Development services grew faster in Bihar, Gujarat, Jammu & Kashmir, Karnataka, Kerala, Madhya Pradesh, Orissa and Rajasthan. The states Haryana, Punjab, Tamil Nadu and West Bengal effected higher growth in Transport and Communication than the other two services.

(2) Marked changes in the relative standings of the functions were observed. In 1957-58 administrative services took major chunk of the total expenditure charged to revenue. Subsequently significant drop in its share pushed this function down to a rear position to fourth place in most of the states. This is a welcome change.

Education received highest priority and by receiving larger share continuously it stays as the vanguard of the state government functions. No change was observed in the relative claim of Medical and Public Health. The proportion of total revenue expenditure assigned for Agriculture and Allied services went up in all states except Bihar, Kerala and Orissa. Apart from Punjab and Haryana all the other states have given second place to this service. Interest payment held the third position though its proportion in total revenue expenditure shrunk in most of the states. The share of Water and Power development moved up. Industry got the lowest share and stands next to that of cost of collection of taxes.

(3) Variations in the percapita spending levels prevailed in all the functions.

The inter-state disparity in the percapita expenditure

increased in most of the functions over the twenty-one years from 1957-58 to 1977-78. The inter-state disparity levels in the percapita spending on Education and Medical and Public Health are almost similar. Biggest variations are found in Transport and Communications, Water and Power Development and Industries and Minerals. The richer states increased their percapita levels faster than the poor states in all the functions. Hence wider variations in the percapita spending levels persist in absolute sense.

In administrative services the states remained stable in their relative rankings. Mostly the weaker states showed smaller percapita levels while the developed states enjoyed higher percapita expenditure levels. Though the growth in the percapita expenditure was spectacular at current prices increase was too low at constant prices. The inter-state disparity in the percapita expenditure levels expanded over the twenty-one years. A tendency towards convergence occurred since 1972-73. However the disparity is still wider. The fall in the share of administrative services was effected by the drop in the share of both of its components General Administration and Maintenance of law and order. Though general administration took more of total administrative expenditure in the earlier years the function maintenance

of law and order snatched away major chunk of it by 1975-76 in all the states. This reveals the severity of the growing law and order problems in the states. The higher percapita expenditure on general administration in the developed states was due to their enhanced developmental expenditures.

The claim of the expenditure on Police in total expenditure charged to revenue decreased in all the states. The variations in the percapita expenditure on police among the states tends to narrow down. The border states Assam, Jammu & Kashmir, Punjab, Rajasthan and West Bengal had relatively higher percapita expenditure levels because of their proximity to the hostile neighbour.

The expenditure per head of population on general administration was lower in Gujarat than in Orissa and Rajasthan. However the standard^{of} administration in Gujarat is far better than the other two states. Likewise there are differences in the quality of services offered by Police also. For instance some of the low spender states like Andhra Pradesh, Karnataka, Madhya Pradesh and Tamil Nadu did well interms of investigations and convictions.

The growth of tax yield was greater than that of cost of collection of taxes in all states. Even if the cost of tax

collection shot up the ratio of collection to tax yield decreased in all the states. Huge differences exist in their relative efficiency though all states improved their efficiency in tax collection. The developed states are far more efficient than the weaker states as indicated by their respective ratios of cost of collection of taxes to tax yields.

Among the functions of the state governments Education topped the list. The state Kerala had budgeted as much as 35.29% of the total expenditure charged to revenue for this function. The proportion of total revenue expenditure devoted to this function increased in all the states except Maharashtra where it remained almost stable. Kerala had the highest percapita level while Bihar stood at the bottom. The next two positions from the bottom were held by Uttar Pradesh and Orissa. Over the twenty-one years under our review there was no significant reduction in the inter-state disparity in the levels of percapita expenditure. The variations in the percapita expenditure levels between the states was not due the disparity in the percapita income. Non-economic factors seem to have an upper hand in determining the level of percapita expenditure on education.

Between the different levels of education primary education was given more share in the aggregate expenditure on

education in most of the states. Secondary education obtained more in Haryana, Jammu & Kashmir and Punjab. Regarding the performance the states standing above all state average percapita expenditure level have literacy rate above all state average level. Literacy rate is too low in Jammu & Kashmir and Rajasthan though their percapita expenditure levels are relatively higher. In the age group 5-11 only 54% of the children had schooling in Rajasthan. The dropout rate is very heavy in all the states. Even by 1977-78 the constitutional directive of compulsory and free education for the children upto the age of 14 has not been achieved by the states.

The level of Medical and Public Health expenditure per head of population was highest in Jammu & Kashmir among all the sixteen states. In this function also Bihar occupied least position. The states allotted about 8 to 10 per cent of the total revenue expenditure to this function. Though all the states gave similar importance to this function in their expenditure preference variations are discernible in the percapita expenditure levels. Infact the disparity increased though the percapita expenditure increased phenomenally in all the states. But none of them achieved the target of one doctor for 3500 people as envisaged by the Mudaliar

Committee. The states succeeded in bringing down death rates and controlling or eradicating most of the dreaded contagious diseases. The provision of facilities under the function is not in consonance with the levels of percapita expenditure.

The additional grants provided by the Finance Commission, 1973, to raise the percapita expenditure on primary education and Medical and Public Health of a few states to the average of all states for the respective services did not achieve the desired result.

In most of the states the percapita expenditure on Agriculture and Allied Services is higher than that on other services grouped under Economic Services. Only in Haryana and Punjab Transport and Communications enjoyed higher percapita expenditure than Agriculture and Allied Services. The disparity in the percapita expenditure levels increased in Agriculture and Allied Services, Transport and Communications and Water and Power Development while there is a tendency towards convergence in Industry and Minerals. However the degree of variations is higher in all the four services. Of these four services the disparity is relatively lower in Agriculture and Allied Services.

In Economic services the Weaker states like Assam, Orissa and Rajasthan had relatively higher percapita expenditure levels than a few developed states. Assam has spent more on flood control. Rajasthan spent more on the other economic services. The percapita expenditure of Maharashtra on Economic services was lower upto 1972-73 because of its neglect of Irrigation schemes and road development. During Fifth Plan period that state took efforts to double its irrigation potential and so its percapita expenditure level doubled by 1977-78 over 1972-73.

The variations in the percapita expenditure levels have been largely caused by (i) availability of resources like forests, fisheries, live stock and demand for food grains in Agriculture and Allied services, (ii) geographical conditions in Transport and Communications, (iii) irrigation and power potentials in water and Power Development services. Finally the socio-political conditions prevailing in the states also account for the inter-state variations in the percapita expenditure levels.

In the development of roads Assam, Jammu & Kashmir, Madhya Pradesh, Orissa and Rajasthan have not done enough. In percapita power consumption, number of villages electrified and pump-sets energised the performances of these states also

are not appreciable. However among the Weaker States the performance of Orissa is relatively better.

The states Bihar, Madhya Pradesh, Orissa, Rajasthan and Uttar Pradesh are rich in mineral resources and irrigation potential. Their backwardness in development may be attributed to the inadequate measures taken by those state governments for the utilization of the available resources - both human and physical.

On the Capital account the total capital outlay had grown enormously during the twenty-one years under our study. Yet basic structural change in the expenditure composition was not very much. The developmental outlay formed roughly 98% of the total capital outlay. All the states attached importance to the formation of physical capital. Major portion of the Capital Outlay was devoted for the development of infra-structure.

In the developed states like Punjab, Tamil Nadu and West Bengal the percapita capital outlay was not very high and the reason being their achievement in the power sector and road development. The weaker states had smaller percapita outlay and the development of infra-structure was also inadequate.

It is interesting to observe that in Revenue Account the expenditure shift occurred towards social and Community services while in Capital Account the movement was in favour of Economic Services.

The revenue budget aims at the improvement of human capital while the capital budget has been designed for the enhancement of infra-structural facilities. The shift in the capital expenditure in favour of social and community services has not happened as the infra-structural development is on the way.

The financial performances of the irrigation schemes, State Electricity Boards and State Road Transport undertakings are not satisfactory. This entails strain on the revenue budget. The unsatisfactory financial performance is predominantly the outcome of inefficient management and poor maintenance. However during this period substantial amount of capital formation has taken place.

The states Punjab and Jammu & Kashmir had higher per-capita levels in gross interest payment. In money terms the percapita gross interest charges increased in all the states. Its relative proportion in total revenue expenditure went down in Andhra Pradesh, Gujarat, Haryana, Orissa, Punjab and

Tamil Nadu. It almost remained stable in Maharashtra during the whole period under our review.

The less developed states like Assam, Orissa, Rajasthan faced higher percapita gross interest payment because of their higher percapita capital outlay. In the other poor states Bihar, Madhya Pradesh, Uttar Pradesh the percapita expenditure on interest payment and other services were lower. In most of the developed states the percapita gross interest payment as well as percapita expenditure on other services were higher. As such the increase in debt services was not at the cost of other services. The expenditure decisions have been made irrespective of financial constraints.

The volume of gross interest payment was pushed up by the mounting public debt and interest rates. The interest rates increased as a result of the dear money policy of the Reserve Bank of India. It is alleged that the Centre is charging interest rate over and above its own cost of borrowings.

The magnitude of public debt swelled up not only because of the states' heavy borrowings for developmental plan expenditure and non-developmental expenditure but also due to medium term loans obtained from the centre for repayment of debt.

The burden of public debt in relation to their ability to pay was not heavy in most of the states. Relatively the debt burden was greater in Jammu & Kashmir, Assam, Orissa and Rajasthan. The rate of growth of public debt was higher than that of State Income in all but three states namely Orissa, Punjab and West Bengal.

The burden of debt services in terms of the ratio of total debt services to tax revenue increased in all states upto 1973-74 and decreased afterwards. The burden of debt servicing was greater in less developed states and lesser in developed states. Since about 55% of state governments own tax revenue accrued from sales tax, which is an indirect tax, the real burden of total debt servicing is very severe on the Community.

The statement that the debt services will increase faster than tax revenue is not fully valid in the context of the states in India. In most of the states the growth of debt services was lower than that of tax revenue.

The burden of total debt services in terms of the ratio of total debt services to State Income increased in all states except Punjab and Uttar Pradesh. Except in 1957-58 throughout the period under our analysis major portion of the public

debt was utilized for productive purposes, that is, for the creation of interest yielding assets. The net burden of debt services on the community in terms of the ratio of net debt services to State Income was higher in weaker states. Finally the burden of debt services on the community is found to be higher because of the slow growth in the recoveries from the productive assets.

The cross-sectional multiple-regression analysis, shows that percapita income, urbanization and federal transfers are the important factors which account for inter-state expenditure differentials more particularly in total expenditures. The variables debt services and debt services plus discharge of permanent debt do not influence the expenditure of the states. This implies that expenditure decisions are made irrespective of financial constraints. The cross-sectional determinant structures for education, Medical and Public Health and Administrative services reveal that though urbanization and federal transfers exert influence the spending decisions are primarily made on the basis of the need for the services.

In Chapter One we have enumerated the 'Environmental', 'Technological', 'Economic', 'Political' and 'Administrative'

factors which are identified by Richard M. Bird as factors potentially influencing the pattern of government expenditure. Here we briefly narrate the influence of 'those factors' on the state government expenditures.

Population and price changes are considered to be 'permanent influences'. The state government's expenditures assume upward movement even after the removal of the impact of the 'permanent influences'. Hence the state government expenditures had grown faster than population and rate of price changes.

The geographical conditions of Assam, Jammu & Kashmir, Madhya Pradesh and Punjab affect their expenditures on Roads and Bridges. Higher expenditure on fisheries in Kerala, Gujarat and Tamil Nadu is due to their environment.

The rapid increase in state government expenditures is the outcome of their efforts to meet the constitutional obligations imposed on them. The functions like Maintenance of Law and Order, Education, Medical and Public Health, Irrigation, Agriculture, Road and Bridges and Power generation are the responsibilities of the states.

The higher level of expenditure on Education in Kerala may be attributed to the historical and political condition

of that state. The literacy rate was very high in Kerala even when it was a princely state. After Independence the democratic state government spends larger amount because of the traditional and historical conditions.

Production technology has not affected to state expenditures. Modernization of administrative machinery has not taken place.

We have examined the influence of percapita state income, density of population and urbanization. Percapita state income seems to be influential since 1967-68. Urbanization shows scattered^{ed} influence on certain functions while density of population is not relevant. The inter-state disparity in the percapita expenditure is analogous to that of percapita state income.

The changes in the 'ideology' since Independence and implementation of Five Year Plans are the main causes for the rapid expansion of State government expenditures. The shift in the expenditure pattern in favour of Social and Community Services is the consequence of the emphasis given to the development of human capital.

The non-utilization of the natural resources by the weaker states and the rapid development of the richer states

even though many of them are deficient in natural resources may be the consequence of the political and social conditions of those states. The 'backward' or 'progressive' nature of the political institutions of the states seems to have influenced the expenditures of the states.

We have also seen that the weaker states are standing lower in their 'revenue effort' as well as percapita expenditure levels.

Encountering the crises like war and depression is the constitutional responsibility of the Central Government. However the border states' expenditure on maintenance of law and order has been influenced by the Chinese aggression, and Wars with Pakistan. Provision of relief measures for the havoc caused by the natural calamities like floods, famines and drought is the responsibility of the states and discharge of this function causes severe strain on the finances of the states.

Evidences show that 'propensity to empire building' caused the expansion of bureaucracy at the 'top level' of state administration and thereby induced the growth of the expenditure on administrative services.