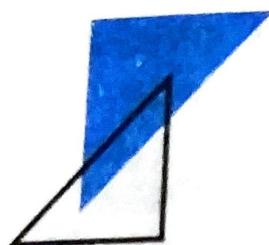


from Rs. 878 crores in 1970-71, non-tax revenue is likely to be to Rs. 1,48,118 crores in 2010-2011. Nearly 60 per cent of non-tax revenue in 1970-71 came from interest on loans granted by the Centre to the States. This trend has changed in recent years. The public enterprises make reasonable returns in the form of profits, — making up nearly 35 percent of non-tax revenue.



### 3. EXPENDITURE OF THE CENTRAL GOVERNMENT

Table 9 summarizes the revenue expenditure of the Central Government for selected years.

There has been tremendous increase in the expenditure of the Central Government, particularly in revenue expenditure financed through current taxation and other current non-tax revenues.

**TABLE 9. Expenditure of the Central Government**

(Rs. crores)

| Year        | Revenue Expenditure | Capital Expenditure | Total Expenditure |
|-------------|---------------------|---------------------|-------------------|
| 1950-51     | 350                 | 180                 | 530               |
| 1980-81     | 14,540              | 9,630               | 24,170            |
| 2001-02     | 3,01,610            | 60,840              | 3,62,450          |
| 2009-10(BE) | 897232              | 123606              | 1020838           |
| 2010-11     | 9,58,724            | 1,50,025            | 11,08,749         |

SOURCE: Government of India, Budget as a Glance, 2010-11 and earlier issues.

Before 1987-88, the revenue expenditure of the Central Government was broadly classified into three types, viz., civil expenditure (which included general services, social and community services, and economic services), defence expenditure and grants-in-aid to States and Union territories. At the same time, the Central Government also had adopted another classification of expenditure, viz., development expenditure, defence expenditure and other expenditure.

(a) Under development expenditure, the Central Government included: expenditure on social and community services, on economic services and grants-in-aid to the States and Union territories for development purposes.

(b) Defence expenditure of the Central Government was on armed forces and it included pensions given to the retired armed personnel.

(c) Other expenditure of the Central Government consists of collection of taxes and duties, administrative services, interest payments, pension and other retirement benefits, other grants to the States, etc.

If we add defence expenditure and other expenditure together, we could obtain non-development expenditure.

**New classification of expenditure**

The Central Government adopted a new classification of public expenditure from 1987-88 budget. Under this new classification, all public expenditure is classified into (a) non-Plan expenditure and (b) Plan expenditure.

**Non-Plan Expenditure.** Non-Plan expenditure of the Central Government is further divided into revenue expenditure and capital expenditure.

Revenue expenditure is financed out of revenue receipts, both tax revenue and non-tax revenue. Under revenue expenditure, we include :

(a) Interest payments, defence revenue expenditure, major subsidies (food, fertilisers and export promotion), other subsidies, debt relief to farmers, postal deficit, police, pensions, other general services (organs of state, tax collection, external affairs, etc),

(b) social services (education, health, broadcasting, etc.),

(c) economic services (agriculture, industry, power, transport, communications, science and technology, etc) and

(d) grants to states and Union territories and grants to foreign governments.

Capital non-Plan expenditure includes such items as defence capital expenditure, loans to public enterprises, loans to States and Union territories and loans to foreign Governments.

It will be seen from Table 10 expenditure, both on revenue and capital increased from Rs. 64,500 crores in 1989-90 to Rs. 6,95,689 crores in 2009-2010 (Budget) nearly 11 times in 10 years.

**Plan Expenditure.** The second Central Government expenditure is Plan expenditure. It is composed of :

(a) Central Plans, such as on development, irrigation and flood control, minerals, transport, communication, technology and environment, social services and

(b) Central assistance for Plans of States and Union Territories.

It will be clear from Table 10 that total expenditure on both revenue and capital accounts was Rs. 64,500 crores in 1989-90 but is expected to touch Rs. 6,95,689 crores in 2010-2011 (budget) — a rise by nearly 11 times.

TABLE 10 : Total Expenditure of Central Government (Revenue and Capital Accounts)

|                           | 1989-90<br>(Actual) |
|---------------------------|---------------------|
| 1. Non-Plan Expenditure   | 64,500              |
| On revenue account        | 52,100              |
| On capital account        | 12,400              |
| 2. Plan Expenditure       | 28,000              |
| On revenue account        | 12,000              |
| On capital account        | 16,000              |
| <b>Total, Expenditure</b> | <b>92,500</b>       |

SOURCE: Government of India, Budget and earlier issues.

**Capital Expenditure and Receipts**

Capital expenditure of the Central Government consists of plan expenditure and non-plan expenditure. It is financed out of capital receipts.

The capital expenditure of the Central Government consists of:

(a) loans to states and Union territories and financing Plan projects of state governments;

(b) capital expenditure on development;

(c) capital expenditure on development;

(d) capital expenditure on development;

(e) capital expenditure on development.

Before 1987-88, the revenue expenditure of the Central Government was broadly classified into three categories, viz., civil expenditure (which included general services, social and community services, and economic services), defence expenditure and grants-in-aid to States and Union territories. At the same time, the Central Government also had adopted another classification of expenditure, viz., development expenditure, defence expenditure and other expenditure.

(a) Under development expenditure, the Central Government included: expenditure on social and community services, on economic services and grants-in-aid to the States and Union territories for development purposes. Defence expenditure of the Central Government included pensions given to the armed forces and it included pensions given to the armed personnel.

Other expenditure of the Central Government included collection of taxes and duties, administrative expenses, interest payments, pension and other retirement benefits, other grants to the States, etc.

In addition to defence expenditure and other expenditure, the Central Government could obtain non-development expenditure.

### Classification of expenditure

The Central Government adopted a new classification of public expenditure from 1987-88 budget. Under this new classification, all public expenditure is divided into (a) non-Plan expenditure and (b) Plan expenditure.

**Plan Expenditure.** Non-Plan expenditure of the Central Government is further divided into revenue expenditure and capital expenditure.

Revenue expenditure is financed out of revenue which is divided into tax revenue and non-tax revenue. Under revenue expenditure, we include :

Interest payments, defence revenue expenditure, subsidies (food, fertilisers and export promotion), grants-in-aid, debt relief to farmers, postal deficit, grants-in-aid, other general services (organs of state, external affairs, etc),

Public services (education, health, broadcasting,

economic services (agriculture, industry, power, telecommunications, science and technology, etc)

grants-in-aid to states and Union territories and grants-in-aid to governments.

Non-Plan expenditure includes such items as interest expenditure, loans to public enterprises, grants-in-aid to States and Union territories and loans to foreign

It will be seen from Table 10 that non-Plan expenditure, both on revenue and capital accounts, has increased from Rs. 64,500 crores in 1989-90 to Rs. 6,95,689 crores in 2009-2010 (Budget) — increase by nearly 11 times in 10 years.

**Plan Expenditure.** The second major item of Central Government expenditure is Plan expenditure which is composed of :

(a) Central Plans, such as on agriculture, rural development, irrigation and flood control, energy, industry and minerals, transport, communications, science and technology and environment, social services and others; and

(b) Central assistance for Plans of the States and Union Territories.

It will be clear from Table 10 that Plan expenditure on both revenue and capital accounts was Rs. 28,400 crores in 1989-90 but is expected to touch Rs. 3,63,092 crores in 2010-2011 (budget) — a rise by nearly 12.8 times in 11 years.

TABLE 10 : Total Expenditure of the Central Government  
(Revenue and Capital Accounts)

|                           | Rs. crores          |                     |
|---------------------------|---------------------|---------------------|
|                           | 1989-90<br>(Actual) | 2010-2011<br>Budget |
| 1. Non-Plan Expenditure   | 64,500              | 7,35,657            |
| On revenue account        | 52,130              | 6,43,599            |
| On capital account        | 12,370              | 92,058              |
| 2. Plan Expenditure       | 28,400              | 3,63,092            |
| On revenue account        | 12,070              | 3,15,125            |
| On capital account        | 16,330              | 57,967              |
| <b>Total, Expenditure</b> | <b>92,900</b>       | <b>11,08,749</b>    |

SOURCE: Government of India, Budget as a Glance, 2010-11 and earlier issues.

### Capital Expenditure and Capital Receipts

Capital expenditure of the Central Government consists of plan expenditure and non-plan expenditure, it is financed out of capital receipts.

The capital expenditure of the Central Government consists of:

- loans to states and Union territories for financing Plan projects, and loans to foreign governments;
- capital expenditure on economic development;
- capital expenditure on social and community development;
- capital expenditure on defence; and
- capital expenditure on general services.

The **capital receipts** of the Central Government are composed of:

- (i) net recoveries of loans and advances to State Governments and Union Territories and public sector enterprises;
- (ii) net market borrowings (i.e. gross borrowings less repayments);
- (iii) net small savings collections (gross small savings less States' share); and
- (iv) other capital receipts which include provident funds, special deposits, etc.

### **Trends in Expenditure of the Central Government**

Public expenditure in a developing economy has certain notable trends, and Indian public expenditure has shown those trends in a marked manner. Government expenditure in India has been growing very rapidly after 1950-51. Before Independence, there was no planning in India and no effort on the part of Government to establish a welfare state. Public expenditure was, therefore, comparatively small. During the Second World War, government expenditure increased because of the war effort. In the post-war period introduction of planning and the provision by the Government of welfare services in a big way caused public expenditure, both at the Centre and in the States, to increase rapidly.

Moreover, the complexion of expenditure has also been changing very conspicuously. Before Independence, the British Government in India was interested primarily in the defence and civil administration of the country. Therefore, a large part of the expenditure of the Central and State Governments was on these services. Since Independence,

so significant that development expenditure

(iii) Non-plan expenditure in recent years—in plan expenditure was 1990's the annual Interest payments, general services—non-plan expenditure is absolutely no check. For instance

(a) with even liabilities, interest bound to increase of crores in 1986-87 to 2,48,664 crores in

(b) defence growing tensions in and the use of highly —defence expenditure from Rs. 10,870 crores and 2011.

(c) subsidies promotion, have Government expenditure frequent promise to rise, year after year crores in 1985-86 to be over Rs. 1,16,624

(d) the expenditure government consists tax collection, expenditure every year with wa