

## CHAPTER- 4

### ANATOMY OF FISCAL DEFICIT- EXPENDITURE SIDE

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The declaration adopted by the Interim Committee of Board of Governors of IMF on 29 Sep. 1996 stated that one of the objectives of fiscal policy should be to improve the quality and composition of fiscal adjustment by reducing unproductive spending while ensuring adequate basic investment in infrastructure.<sup>1</sup> The issue of containing excessive fiscal deficits and defining appropriate responsibilities of the government are thus closely intertwined.<sup>2</sup> The extent to which fiscal consolidation can be achieved by limiting the Government's expenditure depends largely upon the overall size, growth as well as composition of expenditure as determined by the Government, depending on its priorities.

#### 4.1 Overall Expenditure Profile of Central Government

The total expenditure of the Central Government as percent of GDP witnessed decline in the first half of the nineties except the year 1992-93. It declined from 18.5 percent in 1990-91 to 14.7 percent in 1996-97 and then started rising again from 1997-98 (except 1999-00) onwards to reach to 16.8 percent in 2002-03 and further to 17.11 percent in 2003-04. The post FRBM period saw a decline in the expenditure of the government for the next three years but after registering a significant fall to 14.13 per cent of GDP in 2006-07, the total expenditure of the Central Government again rose to a level 17.43 per cent of GDP in 2009-10(BE).

The expenditure control between 2003-04 and 2006-07 was achieved mainly by cutting down the capital expenditure sharply. The composition of total government expenditure which has always been a matter of concern did not change much and revenue expenditure accounted for around 90 percent of

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<sup>1</sup> International Monetary Fund Survey, Washington D.C. 14 Oct., 1996, p.327.

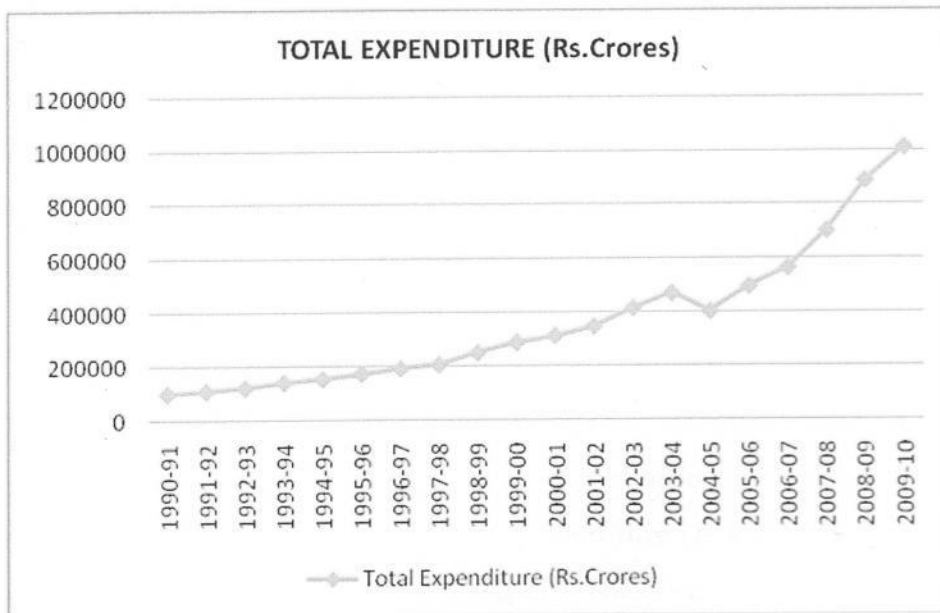
<sup>2</sup> United Nations, *World Economic and Social Survey*, New York, 1997, p.64.

total expenditure, and led to its sharp rise , particularly in 2008-09 and 2009-10. Table 4.1 reveals the trends in Central Governments' expenditure. Figures 4.1 and 4.2 give the trends in total expenditure from 1990-91 to 2009-10 (BE) (in crores ) and as percent of GDP respectively.

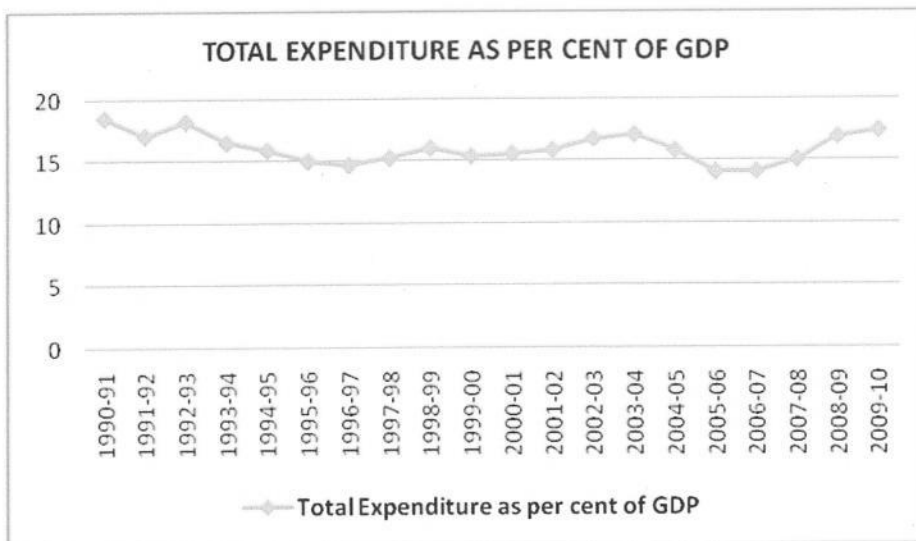
**TABLE - 4.1**  
**Central Government Expenditure**

Year	Total Expenditure (Rs.Crores)	Percentage change over previous year	Total Expenditure as per cent of GDP
1990-91	100883	-	18.52
1991-92	111413	10.44	17.06
1992-93	122517	9.97	18.2
1993-94	141689	15.65	16.51
1994-95	154641	9.14	15.87
1995-96	174219	12.66	15.01
1996-97	193344	10.98	14.69
1997-98	207664	7.41	15.24
1998-99	250833	20.79	16.04
1999-00	289400	15.37	15.39
2000-01	313011	8.15	15.58
2001-02	346613	10.73	15.88
2002-03	414162	11.77	16.77
2003-04	471368	9.02	17.11
2004-05	402550	-14.60	15.82
2005-06	496613	23.37	14.1
2006-07	564934	13.76	14.13
2007-08	701985	24.26	15.09
2008-09	889147	26.66	16.93
2009-10	1012138	13.83	17.43

Source: Indian Public Finance Statistics, Ministry of finance, Government of India, New Delhi, 2003-04 & 2009-10



**Figure 4.1**



**Figure 4.2**

The progressive acceleration in the growth of public expenditure especially after 1996-97 is responsible for deterioration in fiscal deficit. Thus the strategies for resolving fiscal crisis will therefore have to focus on compressing this growth. The main problem in public expenditure management has been the poor quality outcome of such expenditures. It is not only the size of the expenditure but also the composition of expenditure,

where a lot needs to be done, the unproductive revenue expenditure has to be curtailed while capital development expenditure needs to be augmented.

## 4.2 Classification of Expenditure

### 4.2.1 Revenue Expenditure and

### 4.2.2 Capital Expenditure.

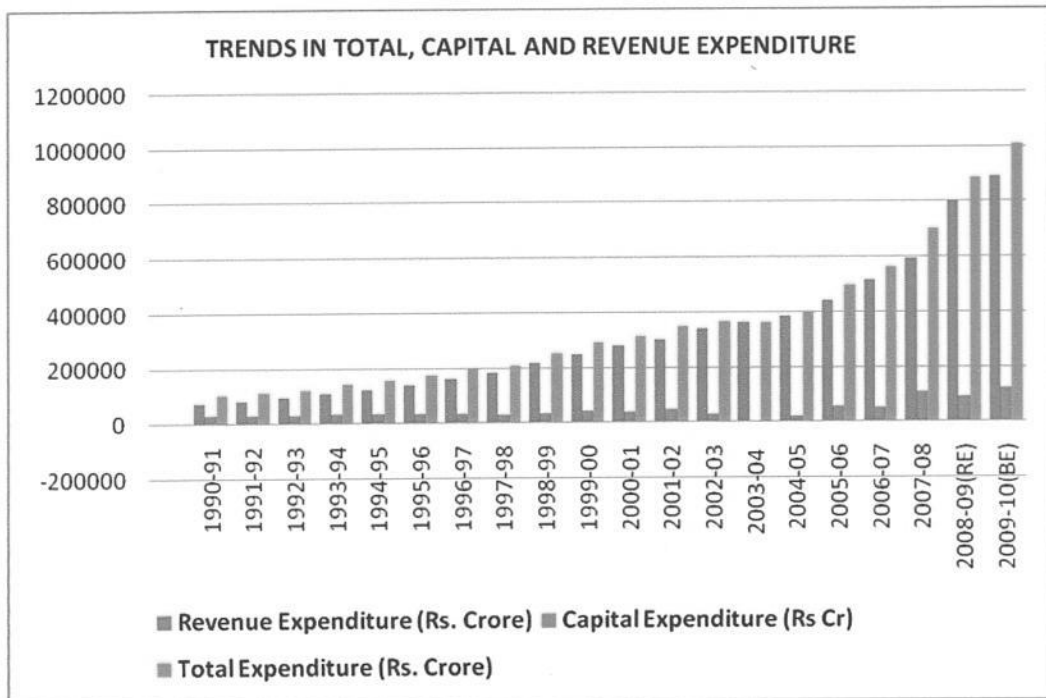
**4.2.1 Revenue Expenditure** is defined as expenditure that largely does not lead to capital formation. It is recurrent expenditure on account of public consumption and current transfers. A large proportion of Centre's revenue expenditure is in the form of committed expenditure i.e. a liability that has to be met, due to which it cannot be condensed. Therefore a fiscal consolidation programme aiming to restrain expenditure generally throws its axe on the much needed capital expenditure.

The major heads of revenue expenditure are interest payments, defence services (other than capital expenditure on defence) administrative services, pension and other retirement benefits, subsidies, social and community services like education, public health, sanitation and water supply, agriculture and allied services, and grants to states and UT's under various schemes/programmes. The revenue expenditure as percent of GDP stood at 12.9 percent in 1990-91 (Table 4.2) but decreased to 11.6 percent in 1996-97 with the exception of year 1992-93. It rose to 13.8 percent in 2002-03, subsequently hovered around 12 percent in next four years (as a result of FRBM measures) after which it started rising again 2007-08 and reached 14.6 percent of GDP in 2009-10. The revenue expenditure increased at the expense of the capital expenditure. It increased significantly in the years 1998-99 and 2008-09 on account of implementation of recommendations of 5<sup>th</sup> and 6<sup>th</sup> pay-commission respectively. As percent of total expenditure the share of revenue expenditure increased from 72 percent in 1990-91 to 86.7 percent in 1997-98 and touched around 101 percent in 2003-0. It declined to 88 percent in 2009-10 (BE).

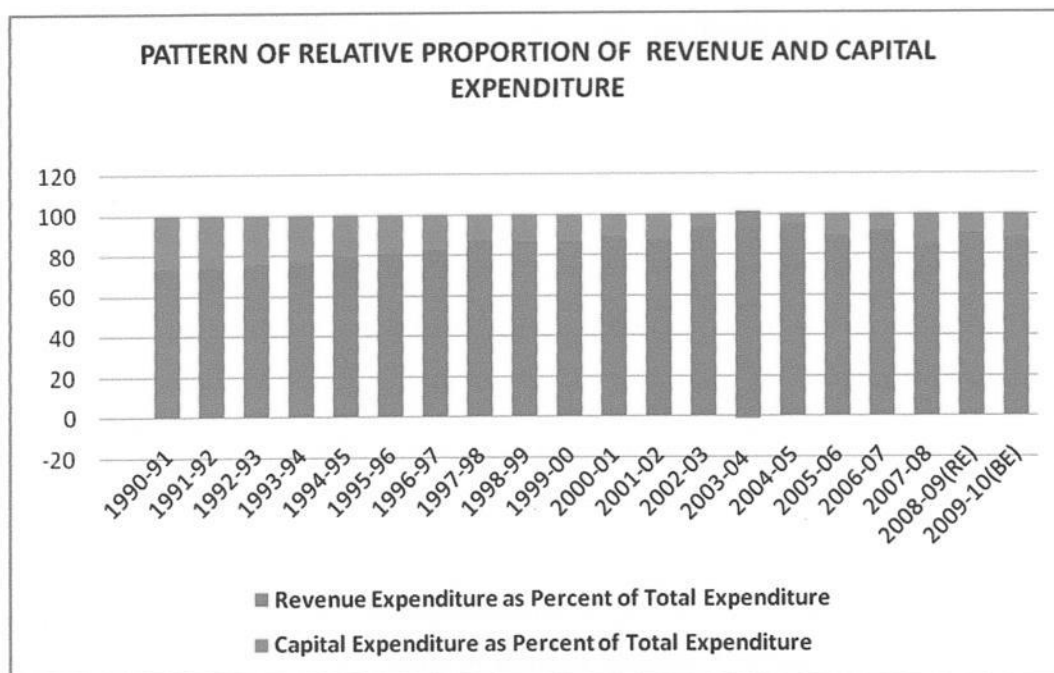
**TABLE- 4.2**  
**REVENUE, CAPITAL AND TOTAL EXPENDITURE**

YEAR	In Crores						In Percent			
	Revenue Expenditure (Rs. Crore)	% Change Over Previous Year	Capital Expenditure (Rs Cr)	% change Over Previous Year	Total Expenditure (Rs. Crore)	% change Over Previous Year	(1) as Percent of (5)	(3) as Percent of (5)	(1) as Percent of GDP	(3) as Percent of GDP
	-1	-2	-3	-4	-5					
1990-91	73556.78		27327.12	-	100883.9	-	72.91	27.09	12.9	5.6
1991-92	82292	11.88	29121	6.56	111413	10.44	73.86	26.14	12.6	4.5
1992-93	92691.85	12.64	29825.57	2.42	122517.42	9.97	75.66	24.34	13.8	4.4
1993-94	108499.83	17.05	33190.07	11.28	141689.9	15.65	76.58	23.42	12.6	3.9
1994-95	122346	12.76	32294.36	-2.70	154641.06	9.14	79.12	20.88	12.1	3.8
1995-96	139714	14.20	34504.46	6.84	174219.41	12.66	80.19	19.81	11.8	3.2
1996-97	158810	13.67	34533.77	0.08	193344.51	10.98	82.14	17.86	11.6	3.1
1997-98	179996.53	13.34	27667.92	-19.88	207664.45	7.41	86.68	13.32	11.8	3.4
1998-99	216417.41	20.23	34415.81	24.39	250833.22	20.79	86.28	13.72	12.4	3.6
1999-00	248869.34	15.00	40530.93	17.77	289400.27	15.38	85.99	14.01	12.9	2.5
2000-01	277975.49	11.70	35035.72	-13.56	313011.21	8.16	88.81	11.19	13.3	2.3
2001-02	301774.76	8.56	44838.28	27.98	346613.04	10.74	87.06	12.94	13.2	2.7
2002-03	340092.66	12.70	27134.24	-39.48	367226.9	5.95	92.61	7.39	13.8	3.0
2003-04	363044.82	6.75	-3206.28	-111.82	359838.54	-2.01	100.89	-0.89	11.9	4.0
2004-05	383030.66	5.51	19536.2	-709.31	402550.27	11.87	95.15	4.85	11.9	3.5
2005-06	440302.87	14.95	56310.75	188.24	496613.62	23.37	88.66	11.34	12.0	1.8
2006-07	514313.34	16.81	50620.96	-10.10	564934.3	13.76	91.04	8.96	12.0	1.6
2007-08	593658.67	15.43	108326.69	114.00	701985.36	24.26	84.57	15.43	12.4	2.4
2008-09(RE)	800261.41	34.80	88886.26	-17.95	889147.67	26.66	90.00	10.00	14.2	1.6
2009-10(BE)	892757.16	11.56	119380.84	34.31	1012138	13.83	88.21	11.79	14.6	2.0

Source: Indian Public Finance Statistics, Ministry of Finance Govt. of India, 2003-04 ,2006-07 and 2009-10  
Economic Survey, Govt of India, 2001-02, 2004-05, 2009-10



**Figure 4.3**



**Figure 4.4**

Figure 4.4. Shows the relative proportion of revenue expenditure and capital expenditure over the period under reference.

## Major Components of Revenue Expenditure

The largest proportion of revenue expenditure is claimed by four heads- interest payments, defence expenditure, subsidies and administrative expenses including pension and other retirement benefits. Out of the **total expenditure**, the interest payments, expenditure on subsidies, defence and administrative services (excluding pension liability), together accounted for around 44 percent in 1990-91, which rose to 57 per cent in 1998-99 and 85 percent in 2002-03 and since then has declined steadily to around 45 percent in 2009-10(BE). As a proportion of **revenue expenditure**, the expenditure on interest payments, subsidies, defence and admin expenditure together accounted for about 61 percent in the year 1990-91, which rose to about 66 percent in 1997-98 on account of implementation of 5<sup>th</sup> pay commission, increased exorbitantly to around 104 percent in 2002-03 after which it was controlled and steadily declined to 51 percent in 2009-10(BE). **Table 4.3 and Figure 4.5(b)** show the major components of Revenue Expenditure as proportion of **total expenditure** and **Table 4.4 and Figure 4.5 (c)** show the the major components of revenue expenditure as proportion of **revenue expenditure**.

A detailed analysis of major components of revenue expenditure shows that **interest payment** is the fastest growing item of expenditure. The absolute burden of interest liability which was only Rs. 21498.25 crores in 1990-91 rose to a huge amount of Rs. 107460.24 crores by 2000-01 and 225511 crores in 2009-10(BE) (**Table4.4**). It consumed about 40 per cent of revenue receipts in 1990-91 which increased in 1998-99 to 52 percent , then declined to 36 percent in 2009-10(BE). Rising levels of fiscal deficit coupled with changing pattern of its financing in favour of market borrowings has led to the growth of interest payment liability of the Centre.



TABLE 4.3

## MAJOR COMPONENTS OF REVENUE EXPENDITURE AS PERCENT OF TOTAL EXPENDITURE

Year	Interest Payments (In Crore)	Subsidies (In Crore)	Def Expenditure (In Crore)	Admin services (In Crore)	Total Expenditure (In Crore)	1 % of 5	2 % of 5	3 % of 5	4 % of 5	Total (6+7+8+9+10)
	1	2	3	4	5	6	7	8	9	
1990-91	21498.00	9581.00	10874.12	2868.21	100883	21.31	9.50	10.78	2.84	44.43
1991-92	26596.00	12253.00	11441.00		111413	23.87	11.00	10.27	0.00	45.14
1992-93	31075.47	11995.00	12108.49	4346.58	122517	25.36	9.79	9.88	3.55	48.59
1993-94	36740.55	12682.00	14977.33	4340.83	141689	25.93	8.95	10.57	3.06	48.52
1994-95	44060.01	12932.00	16426.01	5303.46	154641	28.49	8.36	10.62	3.43	50.91
1995-96	50045.00	12430.00	18841.17	6043.93	174219	28.73	7.13	10.81	3.47	50.14
1996-97	59478.00	14041.00	20996.70	7079.47	193344	30.76	7.26	10.86	3.66	52.55
1997-98	65637.00	18238.00	26174.00	8305.23	207664	31.61	8.78	12.60	4.00	56.99
1998-99	77882.00	24786.00	29861.64	9941.78	250833	31.05	9.88	11.90	3.96	56.80
1999-00	90249.00	22678.00	35215.94	11483.46	289400	31.18	7.84	12.17	3.97	55.16
2000-01	99314.00	25860.00	37237.99	13401.40	313011	31.73	8.26	11.90	4.28	56.17
2001-02	107460.00	30447.00	38058.83	14006.55	346613	31.00	8.78	10.98	4.04	54.81
2002-03	117804.00	40716.00	40709.00	154870.00	414162	28.44	9.83	9.83	37.39	85.50
2003-04	124087.00	43455.00	43203.00	15998.00	471368	26.32	9.22	9.17	3.39	48.10
2004-05	126934.00	44753.00	43862.00	17354.00	402550	31.53	11.12	10.90	4.31	57.86
2005-06	132630.00	44480.00	48211.00	19870.00	496613	26.71	8.96	9.71	4.00	49.37
2006-07	150272.00	53495.00	51682.00	21412.00	564934	26.60	9.47	9.15	3.79	49.01
2007-08	171030.00	67498.00	54219.00	22184.00	701985	24.36	9.62	7.72	3.16	44.86
2008-09(P)	190485.00	123640.00	72836.00	31867.00	889147	21.42	13.91	8.19	3.58	47.10
2009-10(BE)	225511.00	106004.00	86879.00	38083.00	1012138	22.28	10.47	8.58	3.76	45.10

Source : Economic survey 2001-02, 2004-05 and 2009-10



TABLE 4.4

## MAJOR COMPONENTS OF REVENUE EXPENDITURE AS PERCENT OF REVENUE EXPENDITURE

Year	Interest Payments (In Crore)	Subsidies (In Crore)	Def Expenditure (In Crore)	Administrative services (In Crore)	Revenue expenditure (In Crore)	Interest Payment as % of Revenue Expenditure	Subsidies as % of Revenue Expenditure	Def Expenditure as % of Revenue Expenditure	Adm Services as % of Revenue Expenditure	Total 6+7+8+9
	1	2	3	4	5	6	7	8	9	10
1990-91	21498.00	9581.00	10874.12	2868.21	73556.78	29.23	13.03	14.78	3.90	60.93
1991-92	26596.00	12253.00	11441.00	3581.35	82292	32.32	14.89	13.90	0.00	61.11
1992-93	31075.47	11995.00	12108.49	4346.58	92691.85	33.53	12.94	13.06	4.69	64.22
1993-94	36740.55	12682.00	14977.33	4340.83	108499.83	33.86	11.69	13.80	4.00	63.36
1994-95	44060.01	12932.00	16426.01	5303.46	122346	36.01	10.57	13.43	4.33	64.34
1995-96	50045.00	12430.00	18841.17	6043.93	139714	35.82	8.90	13.49	4.33	62.53
1996-97	59478.00	14041.00	20996.70	7079.47	158810	37.45	8.84	13.22	4.46	63.97
1997-98	65637.00	18238.00	26174.00	8305.23	179996.53	36.47	10.13	14.54	4.61	65.75
1998-99	77882.00	24786.00	29861.64	9941.78	216417.41	35.99	11.45	13.80	4.59	65.83
1999-00	90249.00	22678.00	35215.94	11483.46	248869.34	36.26	9.11	14.15	4.61	64.14
2000-01	99314.00	25860.00	37237.99	13401.40	277975.49	35.73	9.30	13.40	4.82	63.25
2001-02	107460.00	30447.00	38058.83	14006.55	301774.76	35.61	10.09	12.61	4.64	62.95
2002-03	117804.00	40716.00	40709.00	154870.00	340092.66	34.64	11.97	11.97	45.54	104.12
2003-04	124087.00	43455.00	43203.00	15998.00	363044.82	34.18	11.97	11.90	4.41	62.46
2004-05	126934.00	44753.00	43862.00	17354.00	383030.66	33.14	11.68	11.45	4.53	60.81
2005-06	132630.00	44480.00	48211.00	19870.00	440302.87	30.12	10.10	10.95	4.51	55.69
2006-07	150272.00	53495.00	51682.00	21412.00	514313.34	29.22	10.40	10.05	4.16	53.83
2007-08	171030.00	67498.00	54219.00	22184.00	593658.67	28.81	11.37	9.13	3.74	53.05
2008-09(P)	190485.00	123640.00	72836.00	31867.00	800261.41	23.80	15.45	9.10	3.98	52.34
2009-10(BE)	225511.00	106004.00	86879.00	38083.00	892757.16	25.26	11.87	9.73	4.27	51.13

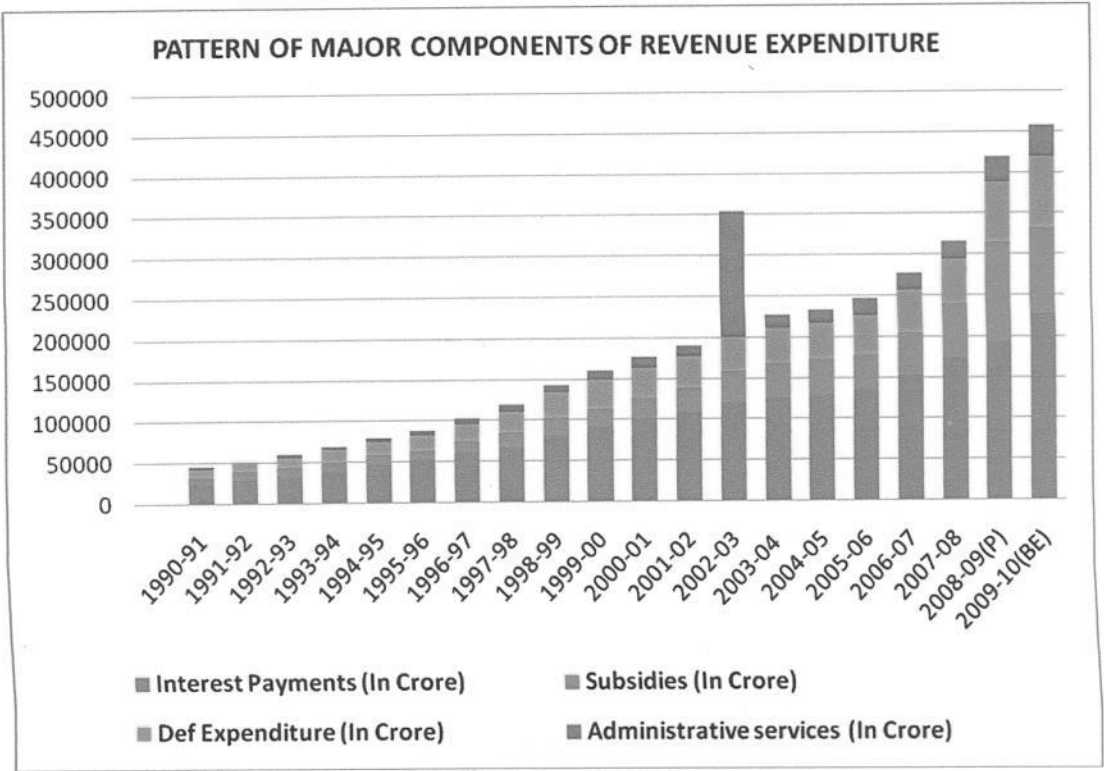
Source : Source : Economic survey 2001-02, 2004-05 and 2009-10

TABLE -4.5

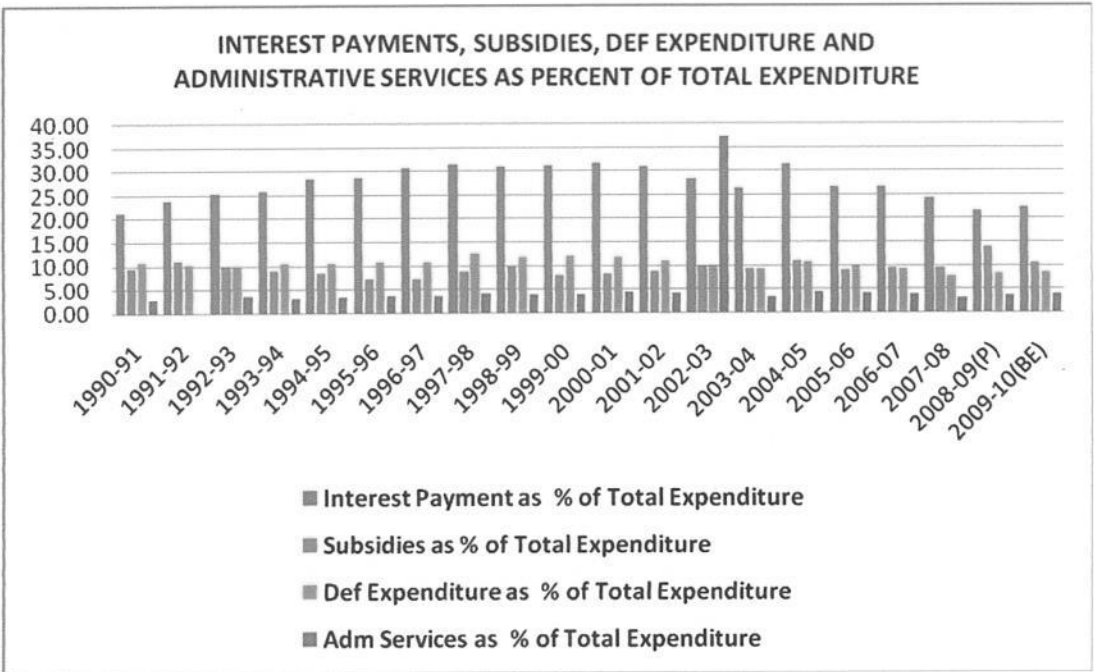
## INTEREST PAYMENT LIABILITY OF CENTRAL GOVERNMENT

Year	Interest Payments (Rs. Crore)	Percentage Change over previous year	Revenue Expenditure (Rs.Crore)	Total Expenditure (Rs.Crore)	Revenue Receipts crores	Fiscal Deficit (Rs. Crore)	(1) As percent of (3)	(1) As Percent of (4)	(1) As Percent of (5)	(1) As Percent of (6)	(1) As Percent of GDP
	1	2	3	4	5	6					
1990-91	21498.25	-	73556.78	100883.9	54995.42	37606	29.23	21.31	39.1	57.17	4.0
1991-92	26596	23.18	82292	111413	66031	30844	32.32	23.87	40.28	86.23	4.3
1992-93	31075.47	16.84	92691.85	122517.42	74117.32	35909	33.53	25.36	41.92	86.55	4.4
1993-94	36740.55	18.23	108499.83	141689.9	75784.25	55257	34.56	26.47	48.48	66.49	4.3
1994-95	44060.01	19.92	122346.7	154641.06	91317.89	48030	36.01	28.49	48.25	91.75	4.4
1995-96	50045.03	13.58	139714.95	174219.41	109983.41	50253	35.82	28.73	45.5	99.59	4.2
1996-97	59478.41	18.85	158810.74	193344.51	126186.74	56242	37.45	30.76	47.14	-	4.3
1997-98	65637.27	10.36	179996.53	207664.45	133547.71	73204	36.47	31.61	49.15	89.66	4.3
1998-99	77882.38	18.66	216417.41	250833.22	149441.16	89560	36	31.05	52.12	86.96	4.5
1999-00	90249.32	15.88	248869.34	289400.27	181272.75	104717	36.26	31.18	49.8	86.18	4.7
2000-01	99314.21	10.04	277975.49	313011.21	192741.63	118816	35.73	31.73	51.53	83.58	4.7
2001-02	107460.24	8.2	301774.76	346613.04	201612.37	140955	35.61	31	53.3	76.23	4.7
2002-03	115994.29	7.94	342261.26	414162	232213.26	145466	33.7	29.94	48.83	79.73	4.8
2003-04	124088	6.98	362140	471368	264783	123272	33.56	29.17	48.34	98.64	4.4
2004-05	126933	2.29	383030.66	402550	304692.41	125794	32.84	31.53	41.66	100.91	3.9
2005-06	132630	4.49	440302.87	496613	348002.98	146435	33.26	26.71	38.11	90.57	3.6
2006-07	150271	13.30	514313.34	564934	434091.61	142573	27.72	26.60	34.62	105.40	3.5
2007-08	169179	12.58	513658.67	701985	541089.67	126912	24.71	24.10	31.27	133.30	3.5
2008-09	191524	13.21	800261.41	889147	558988.59	330114	41.25	21.54	34.26	58.02	3.4
2009-10	222773	16.32	892757.16	1012138	610022.27	400996	44.92	22.01	36.52	55.55	3.7

Source: Indian Public Finance Statistics, 2003-04, 2009-10, Ministry of Finance, Government of India and and economic survey 2009-10



**Figure 4.5(a)**



**Figure 4.5(b)**

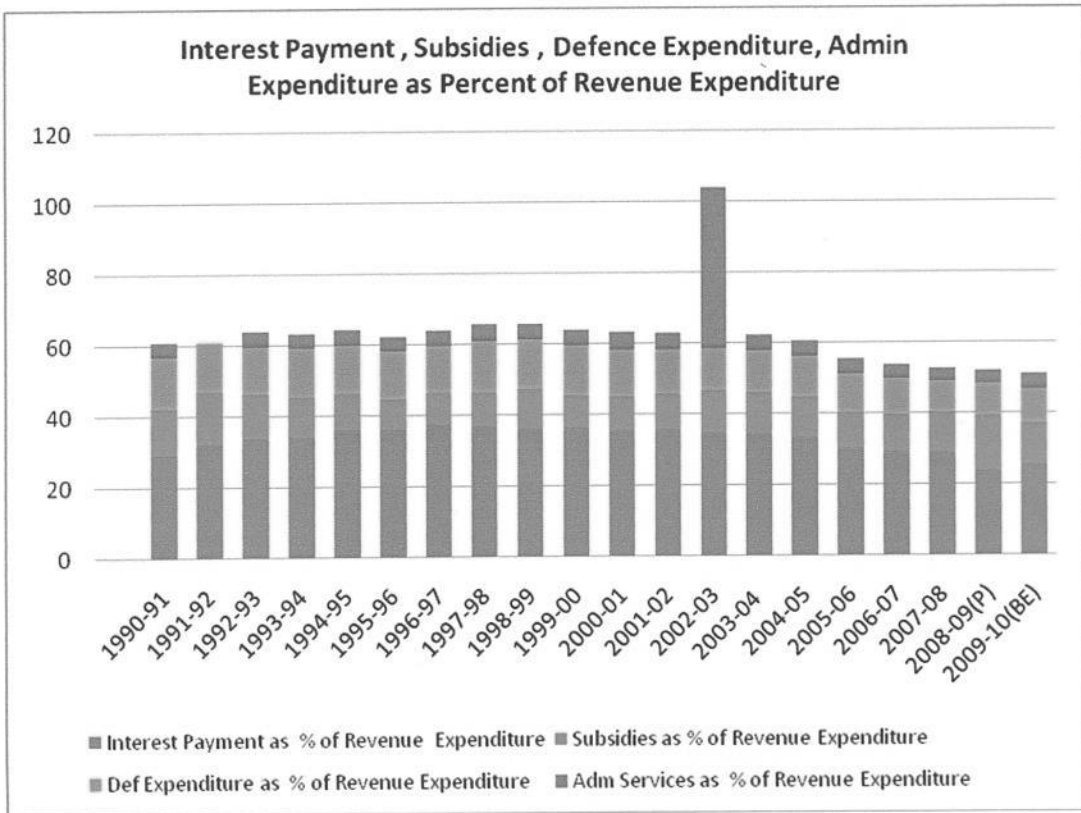


Figure 4.5(c)

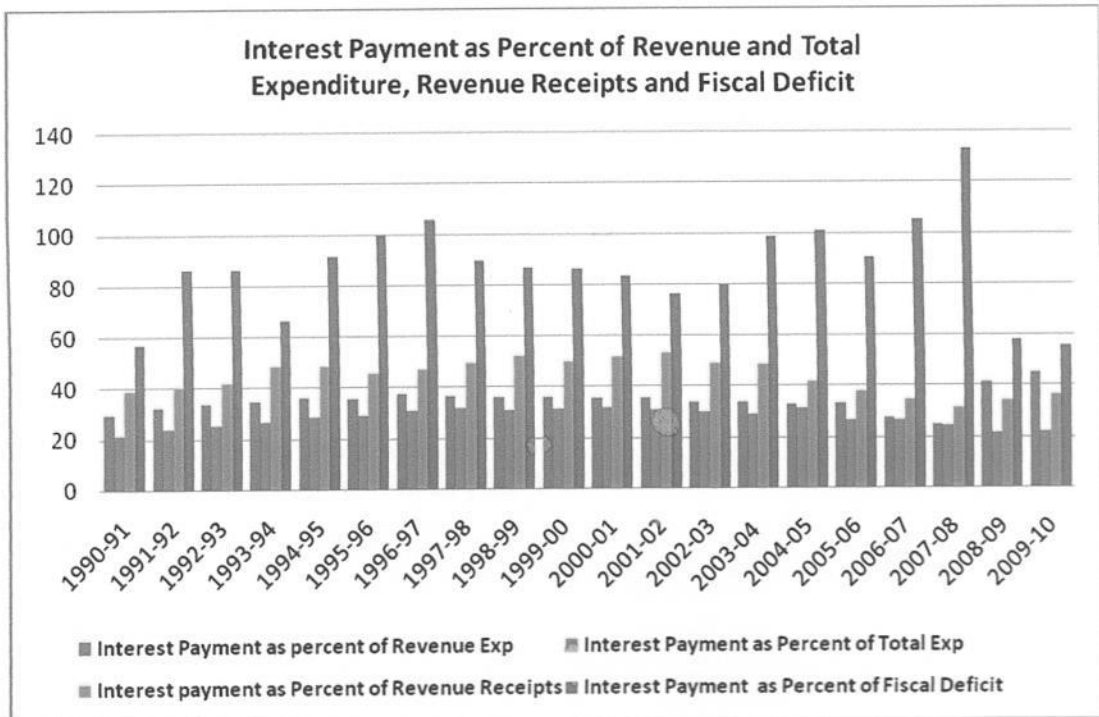
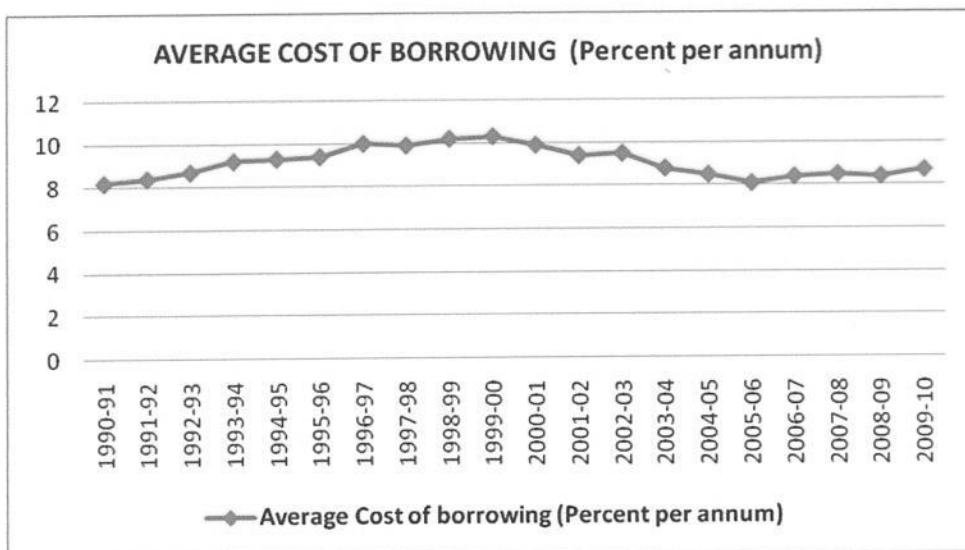


Figure 4.5 (d)

The average cost of market borrowings increased from 8.2 percent in 1990-91 to 10.3 per cent in 1999-2000. With the lowering of interest rates in recent years the average cost of market borrowings witnessed a declining trend particularly between 2000-01 to 2005-06 when it decreased to 8.1 percent but started rising again in to reach 8.7percent in 2009-10 (BE) (Table 4.6)

<b>TABLE- 4.6</b>	
<b>AVERAGE COST OF BORROWING</b>	
1991-92	8.4
1992-93	8.7
1993-94	9.2
1994-95	9.3
1995-96	9.4
1996-97	10.0
1997-98	9.9
1998-99	10.2
1999-00	10.3
2000-01	9.9
2001-02	9.4
2002-03	9.5
2003-04	8.8
2004-05	8.5
2005-06	8.1
2006-07	8.4
2007-08	8.5
2008-09	8.4
2009-10	8.7
Source: Economic Survey, 2003-2004, 2007-08 and 2009-10.	
Note: Average Cost of borrowing is the percentage of interest payment in year 't' to outstanding liabilities in year 't-1'.	



**Figure 4.6**

The subsidies constitute the second largest item of revenue expenditure in Central Government's budget and large element of unproductive expenditures. In our subsidy regime, substantial subsidies are administered through inputs like feedstock of fertilizer, fertilizer, electricity, petroleum products, transport etc. The provision of subsidy in areas like food, basic education, health, and environment is justified but with poor targeting and extensive leakages their objectives remain underachieved.

**Subsidies** have considerable fiscal effects because most of these emanate from the budget which has a direct effect on fiscal deficit, if large borrowings are needed to finance subsidies. Subsidies actually increase fiscal deficit considerably. Unless the subsidies are pruned and better targeted, investment in public infrastructure will suffer. The subsidies accounted for 1.7 percent of GDP, and constited 13 percent of revenue expenditure in 1990-91 which has risen to 1.9 percent of GDP and 15.45 percent in 2008-09(RE).

**Defence expenditure** is the third largest component of revenue expenditure. It has declined from 15 percent of revenue expenditure, at 1.9 percent of GDP in 1990-91 to 9 per cent of revenue expenditure and 1.4 percent of GDP in 2009-10(P). However pruning is not advisable in defence



spending in view the national security considerations. Thus the defence expenditure cannot not be pegged down to reduce fiscal deficit, but pegged up to the strategic needs particularly modernisation of the armed forces to keep them well equipped at a high level of defence capability.

The fourth largest component of revenue expenditure is what can be termed as 'Administrative Expenditure' by the Government. These are incurred to run organs of the state like judicial administration, holding of elections, audit services and others, administrative services like police, Para-Military Forces and External Affairs etc. Expenditure on pension and other retirement liabilities of the Central Government, tax collection and administration expenses, and Public works. The growing complexities of socio-political life make discharge of these responsibilities by the state increasingly expensive. Moreover, the Government needs to spend larger amounts on heads like anti-insurgency, anti dacoity and anti-poaching operations.

Administrative expenditures excluding expenditure on pension and other retirement benefits account for about 3.9 per cent of Centre's revenue expenditure in 1990-91 which has increased to 4.3 percent in 2009-10 (BE).

Despite best intentions about expenditure compression, the government has little maneuverability with respect to administrative expenditures. Expenditure on tax collection, provision and maintenance of organs of state, has grown over the period. Expenditure on holding of elections has also grown substantially on account of growing size of electorate due to rise in population and lowering of age for adult suffrage, need for a greater administrative paraphernalia now and rising incidents of frequent, mid-term polls and bye elections. The costs of administration rose further by burgeoning pension liabilities.

#### 4.2.2 Capital Expenditure

Capital expenditure is incurred on capital projects both of a developmental and non-developmental nature viz. expenditure on general services, Loans to states and Union Territories for financing plan projects, economic services, social and community development and defence, loans and advances to states and other bodies for capital expenditure and discharge of debt etc.. These items of expenditure are supposed to generate a future flow of return thereby justifying that these should be financed through borrowings. Since this expenditure is expected to generate returns, this part of total expenditure can be treated as government's investment expenditure.

The capital expenditure if properly planned and managed has positive consequences on growth and capacity building and therefore maintaining a steady and balanced composition between current and capital expenditure is extremely important for fiscal policy even if it is following the path of fiscal correction involving expenditure compression.

On yearly basis, the growth of capital expenditure has been erratic, in some years like 1994-94, 1997-98 and 2000-01 it has been negative as well. As a percentage of total expenditure the share of capital expenditure kept falling till 2001-02 due to a larger share of resources being diverted to meet current expenditure. In 2001-02 there was a reversal of this trend, but showed a cyclical trend thereafter.

As percent of GDP, the capital expenditure/GDP ratio which was 5.6 per cent in 1990-91 gradually fell to 3.1 in 1996-97 but after a spell of improvement for two years it again declined to 2.3 in 2000-01. Since then there was revival in this ratio and in 2003-04 it was 4 per cent of GDP, but thereafter showed cyclical trend. It again declined to 1.6 per cent of GDP in 2006-07, thereafter rose to 2.4 per cent of GDP in 2007-08 (Table 4.2) mainly due to an increase in the non-plan capital outlay, before it was slashed down to 2 per cent of GDP in 2008-09. Despite revival in some years, the capital expenditure never reached even the level at which it was at the beginning of the nineties.

As percent of total expenditure, the share of capital expenditure declined from 27.09 percent in 1990-91 to 13.32 in 1997-98, increased for short period and declined again to 11.19 in 2000-01, increased in 2001-02 to 12.94 ,but declined drastically till 2003-04. It showed some improvement in the FRBM period, and finally reached 11.79 percent in 2009-10 after showing wide fluctuations.

An analysis of Centre's fiscal position shows that rising fiscal deficits and the resultant rise in interest payments, subsidies and compensation of Government employees seriously undermine government's capacity for vital expenditures like Education, public health, sanitation which promote the objective of human resources development. This treatment of capital expenditure as residual item chopped at will to make room for the growth of so called committed items of revenue expenditure has had a telling effect on nation's infrastructure.

Out of various heads, capital expenditure on defence services constituted the largest proportion of non developmental capital expenditure. Roughly it has remained higher than 80 per cent of non-developmental capital expenditure. The areas like transport including Railways, communication, power, irrigation and flood control though account for major chunk of developmental capital expenditure, in absolute terms, expenditure in these directions is still inadequate in relation to the growing demand for infrastructural facilities.

It is thus clear that the goal of expenditure compression to bring down fiscal deficit must accommodate the need for adequate expenditure on infrastructure both economic as well as social. Large gaps exist in social infrastructure like education, health etc. which need to be filled up with stepped up public investment. In absence of adequate resources with the Government , the gap can be filled up by encouraging private investment .

Also, fiscal adjustments relying primarily on the tax increases and cuts in public investment cannot be sustained in the long run. Therefore,

expenditure compression should be targeted on large items of revenue expenditure, excluding defence where pruning can jeopardise strategic interests of the country. Besides reduction, concrete steps should be taken to improve the quality of expenditure through tightening of expenditure management and control, so that the leakages from corrupt practices could be plugged.

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