EXPENDITURE CONTROL IN LESS-DEVELOPED COUNTRIES
WITH SPECIAL REFERENCE TO INDIA

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PREFACE

My special interest in the subject of expenditure control dates from 1955 when a new Department of Economic Administration was set up at the Delhi School of Economics. I was one of the three members of the staff appointed to teach the subject and my assignment since then has been the teaching of the administrative aspects of Public Finance. It was not long before I had accepted the assignment that I realized the difficult nature of the work. There was hardly any ready material on which I could draw for my lectures, and each lecture meant looking for information or adapting existing public finance literature to the requirement of the course.

Dissatisfaction with existing literature led me to carry out my own research into the field of public expenditures in India. As I gathered information, I became increasingly aware of the weaknesses of the Indian system of expenditure control, and was concerned about finding ways to improve it.

I am specially indebted to Professor A.T. Peacock, for the study would not have emerged in its present form without his constant stimulation and counsel in the formative stages of writing, and rigorous criticisms and constructive suggestions throughout the period of study. I am, of course, entirely responsible for the weaknesses in the presentation and development of ideas.

I am grateful to Douglas Dosser, Suphan Andic, Fuat Andic and Donald Winch for their very helpful suggestions and to the Staff seminar which helped me to formulate some of my ideas more clearly.
My thanks are specially due to the Staff of the following libraries: National Library of Scotland, Library of the University of Edinburgh, Ratan Tata Library of the Delhi School of Economics, the Library of the Institute of Economic Growth, Delhi, and the Library of the Ministry of Finance, New Delhi. I would particularly like to mention Mr Ansari of the Delhi School of Economics who has most willingly left his own work and spent many valuable hours looking for the information I required.

I also wish to place on record my thanks to A.K. Roy, former Finance Secretary to the Government of India and now Comptroller and Auditor General of India for not only discussing some of the problems of control but also deputing Shree Shankaran, Under Secretary Ministry of Finance to make available whatever information I required. I am indeed grateful to Shree Shankaran for the time and help he has given in spite of his heavy office duties. My thanks are also due to Shiv Naubh Singh, Budget Officer and Joint Secretary Government of India for explaining the intricacies of Indian Budgeting, and to Harbans Lal, Deputy Financial Adviser for explaining the control procedures at the departmental level.

I am particularly grateful to the University of Delhi and to the British Council without whose generous help the study would not have been completed.
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INTRODUCTION

The purpose of the study is to examine the problems of expenditure control in India, and to find out the extent to which the existing system of control is adequate to deal with the problems. In order to undertake the study, it was considered necessary to first examine the general problem of control of government expenditures, and some of the special problems of under-developed economies. After an examination of the problems, some of the techniques of expenditure control which have been suggested for, or are actually used in the more advanced economies are considered from the point of view of their suitability for under-developed economies.

The study is divided into two parts. The first part sets the theoretical framework with reference to which the problems of expenditure control and the system of expenditure control is examined. The second part gives a brief account of the growth in public expenditures in India, and the problems of control that have arisen as a consequence of growth. The examination of growth in public expenditures is followed by a description and evaluation of the system of expenditure control in India.

Information relating to the system of expenditure control in India is to the best of my knowledge, not available in any single government or non-government publication. Chapter IV, therefore, draws heavily on the Constitution of India, Parliamentary debates, Rules of Procedure in the Lok Sabha, Explanatory memorandum of the budget of the Central Government, Audit and Accounts Code, Compilation of the Treasury Rules, General Financial Rules, Annual Reports of the Ministry of Finance and office orders of the Ministry of Finance. Access to the last two was obtained by kind permission of the Ministry of Finance.

The examination and discussion of procedures is confined to procedures that are followed in the Central Government only; with minor differences,
the State Governments also follow the same procedures, and there is an increasing tendency to conform with the pattern of the Central Government. The analysis and the conclusions that follow are, therefore, equally applicable to the State Governments.

Information relating to techniques of expenditure control adopted in India is also not readily available. The account of the techniques is, therefore, based on information which has been gleaned from different passages in the General Financial Rules, Five Year Plans and Programme Evaluation Reports. It is believed that the methods of control have been discussed at 'high' levels within government, but the report of the discussion or just the results of the discussion are not available outside government, even on request, because of the 'confidential' nature of meetings and their proceedings.

The statistical tables in Chapters III and V have, except where the source is indicated, been specially prepared for this study. The chief sources of statistics are The Economic Survey, Budgets of the Central and State Governments, The Statistical Abstracts of India, Annual Reports of the Reserve Bank of India on Currency and Finance, The Five Year Plans, Review of the First Five Year Plan, Appraisal and Prospects of the Second Five Year Plan, and estimates of National Income issued by the Central Statistical Organization. Information that was not available in these sources has been obtained directly from the Planning Commission and the Ministry of Finance.

The final chapter contains some recommendations, which it is hoped, will help to strengthen the existing system to expenditure control in India. The recommendations fall broadly into three groups: (i) Recommendations relating to estimates, (ii) Recommendations relating to Administrative Organisation, and (iii) Recommendations relating to Parliamentary Control over expenditure.
A. Introduction

The problem of expenditure control is to direct and limit expenditures in such a way that the given objectives of policy are achieved at minimum cost. Hence, given a clear statement of policy objectives, the problem of control falls into two parts; first, the formulation of policy in such a way that all the objectives of policy are simultaneously achieved; second, the execution of policy at minimum cost.

Since government and industry are both concerned with the problem of expenditure control, a comparison of problems in government and industry may be made, with a view to finding out whether the techniques of expenditure control in industry can be used in government or whether different techniques are required.

B. Comparison of Expenditure Control in Government with Industry

Let us begin the comparison by observing the objectives of policy in government and industry, and the factors which guide the translation of policy objectives into action. Given the preferences of the consumers as revealed by market prices, the objective of expenditure policy in industry is to organise production in such a way as to maximize profits or revenue for the industry. Given the preferences of the voters, the aim of government expenditures is to achieve the objectives of policy.
in such a way as to maximize the length of life of the government. This apparent resemblance between government and industry is, however, superficial. The basic difference arises from the fact that in industry the objectives of policy as well as the preferences of the consumers can be quantified, whereas in government, neither the objectives nor the preferences of the voters are capable of quantification. It is true that each objective of policy, e.g. growth, stability, distribution, can be broadly measured by appropriate economic indicators; the difficulty, however, arises because the different economic indicators cannot be expressed in terms of an over-all index of achievement. The possibility of quantification, or otherwise, as we shall see presently, is of direct significance to the problem and methods of expenditure control.

A market demand schedule for the product of a firm expresses the different quantities that are likely to be bought at different prices. From this demand schedule a firm can derive its total revenue schedule. If the objective is to maximize profits, a firm needs to know by how much the total revenue will increase when output is increased from one level to another. The increase in output means not only a subsequent increase in total revenue, but also an increase in total costs. The schedule of total costs can be derived from the firm's input supply schedule. The problem of control is to find and maintain, as nearly as possible, that level of input and output which yields maximum profits.

1. This idea is expressed differently by Anthony Downs, An Economic Theory of Democracy, Harper and Brothers, New York, 1957, where he says that the objective of government is to maximize votes. Chapter IV, p.51-74. "Under conditions of certainty, a government's best strategy is to adopt choices which are favoured by a majority of voters. Before making any expenditure it takes a hypothetical poll to see how voters utility incomes are affected by the expenditure and the necessary financing. If it fails to adopt the majority's views, its opponents will do so and fight the election on this issue only, thereby insuring defeat for the incumbents." p.73. Hence the life of the government in power is shortened.
As far as government is concerned, the preferences of the voters are not expressed by the legislatures in terms of specific quantities demanded, but in terms of the need to satisfy certain demands. The translation of these demands in quantitative terms is left to the government. This translation is more difficult than in industry, because for a large number of services, government does not have a price indicator, or any other indicator which is equally sensitive and precise. Government services which are not priced, fall into two categories, those which cannot be priced because of the nature of the services, and those which can be priced, but are in fact not priced because of political reasons. Services like defence and General Administration belong to the first group. They cannot be priced, because the benefits from these services accrue to all members of the community, and there is no way of directing the service to any particular group or section. It is possible that some members of the community may benefit more than others, but since it is not possible to assign benefits, the services cannot be priced. These services are public or community services, in the sense that they can be consumed by one person, without a corresponding reduction in the quantity which another person can get.¹ The explanation for the second group of services is to be found in the social implications of the Exclusion Principle.² If it is agreed that people should have the benefit of certain services, even if they cannot afford to pay for them, then the services have either to be subsidized or provided free.

We are not, for the moment, concerned with the pricing of government services, but with the implications of the absence of price for expenditure policy. The absence of a price makes it difficult to determine the total demand, and hence the total output. Since total expenditure depends on total output, it is in turn difficult to determine total expenditures. In other words, the absence of a price makes it difficult to have an objective criterion in terms of which the size of public expenditures may be determined.

C. The Allocation of Wants

The determination of the size of public expenditures involves explicitly or implicitly a choice among the different kinds of wants, public, social and private since they have competing claims on the available resources. In order to examine the problem of allocation of wants we can begin with certain simplifying assumptions:— (i) There are only two kinds of wants, public wants and private wants. Social wants will be introduced later; (ii) Government produces goods only for the satisfaction of public wants; (iii) With given resources, more public goods can be produced only by a reduction in the production of private goods; (iv) There are only two groups of consumers A and B; (v) For illustrating the position in an under-developed economy we further assume that group B is at subsistence level, while A can afford some luxuries as well. The significance of this assumption is that whatever B's desire for public wants, he cannot contribute substantially towards financing their production, because he is not in a position to give up private goods in exchange for public goods. However, since public goods are generally
financed by taxation, and since there is no direct relationship between the amounts of tax paid and benefits received, public goods can be demanded by B, even though he is not in a position to pay for them. The problem of control which arises here is, to what extent can A be asked to sacrifice consumption of private goods, to satisfy B's demand for public goods? By definition, if B is provided with public goods, A gets public goods too, but A may not want as many public goods as B. To take an example, if security of household goods is desired, A may want to employ a private night watchman, as is very largely done in India, rather than give more by way of taxation to finance a larger police force. B, on the other hand, would be very keen on police protection, because that is the only form of protection he can get; he cannot afford to employ a private watchman. The decision which government has to take is, how much police protection should be provided, and how are the resources to be raised? This is essentially a political decision.

When government starts producing social goods, it involves an addition to its expenditures. It is possible that as government expenditure increases, it is not able to raise adequate finances by direct taxes and indirect taxes on luxuries. The tax base has to be broadened by imposing taxes on articles of daily consumption. In an under-developed economy, since the greater part of the revenues have to be derived from indirect taxes, some taxation of necessities already exists. Hence the people who are very nearly at subsistence level have to be asked to pay more taxes. It thus becomes necessary to organize the distribution of goods and services in such a way that they are made available to the comparatively more under-privileged. The problem of directing the distribution in favour of the under-privileged arises because, due to
shortage of financial resources, technical equipment etc., government cannot produce goods and services in quantities adequate to meet the total demand. The problem which arises is, is it possible to have a system of distribution, some form of pricing for example, which would help in deciding how much should be produced? This question will be discussed in the next chapter.

D. Implementation of Policy

Once policy has been formulated, the problems faced by government are similar to those faced by a business enterprise, for both are interested in the organisation and execution of policy in such a way that costs are kept to a minimum. A private enterprise is interested in reducing costs because a reduction in costs means a corresponding increase in profits. In the long run governments are also interested in keeping costs low because the pressure to keep costs low comes from the public. This pressure is exerted because (i) high costs mean high taxation, and (ii) the people are interested in knowing what has happened to the money transferred to government through taxes and loans.

The statement that the objective of government and industry is to keep costs low, brings us to the concept of low costs. In industry the concept of low costs is minimum cost, and is associated with the scale of operations and cost per unit of output. The objective is to produce a unit at lowest cost. A method used in industry for this purpose is standard costing. Standard Cost means an estimate of the cost of what is to be produced at a future date. In preparing this cost estimate,

standard specifications of labour and material are laid down. The comparison of actual costs with standard costs, and an analysis of the causes of variations, helps in maintaining maximum efficiency. It is necessary to lay down the period for which any particular assessment of standard costs is to apply. Standard costs can be applied to a business or organisation of any size, but two conditions are essential before standard costing can be used (i) the operations to which it relates must be repetitive, and (ii) the product must be divisible and measurable.

Public goods produced by government are neither measurable nor divisible. They are not divisible, because it is not possible to consider them in terms of units, e.g. units of police protection or units of general administration. The administrative decisions are not repetitive either. The effort involved and the time taken by an administrator in making a decision in one situation is not necessarily comparable with the time and effort taken in dealing with another situation. If the product is not repetitive and divisible, it cannot be standardised. Hence methods of standard cost control are inapplicable.

It is not suggested here that standard costing is the only method of efficiency control, that can be employed or is employed by industry. It is examined here to illustrate the point that techniques of efficiency control in industry are, by and large, built around the fact that expenditures are divisible, in the sense that the product on which the expenditures are incurred can be divided into smaller units, and therefore expenditures on individual units, or cost per unit can be calculated. Indivisible expenditures of the government, approximately correspond with expenditures on public goods, whereas divisible
expenditures of the government correspond with expenditures on social goods. Divisible expenditures themselves may be divided into two kinds: (i) expenditures on trading and manufacturing services, and (ii) expenditures on services like health, education etc.

As far as services like health, education etc. are concerned, the standard quantity cannot be expressed in terms of per unit of the product e.g. teaching but may be expressed as a ratio. The per unit cost, that is the cost of teaching per child, may be calculated in terms of some prescribed teacher-student ratio. The number of students who actually join a class may not necessarily be the maximum, nor need the number always be constant. As the number of students per teacher vary, the per unit cost varies. No generalisations from per unit cost can be made about pay scales, or employment policy, or general efficiency of teaching. Hence it follows, while there is a unit in terms of which control can be exercised, it is an imperfect one. Hence, if techniques of efficiency control used by industry are employed, the interpretation of results should be more liberal. The interpretation may perhaps be facilitated by the use of supplementary data.

In the case of Indivisible Expenditures, since there is no unit in terms of which control can be exercised, the methods of control will have to be entirely different from those employed by industry. The major problem associated with the control of Indivisible Expenditures is that of the absence of a standard in terms of which control may be exercised. Indivisibility also leads to a greater diffusion of responsibility, for it is comparatively more difficult to determine the impact of individual administrative decisions on the final product.

We find that from the point of view of control we have two kinds of
public expenditures, Indivisible Expenditures and Divisible Expenditures. Divisible expenditures themselves may be divided into two groups, depending upon whether the unit into which they can be divided is perfect or imperfect.

E. Incentives to Control

The incentives to control may be divided into those derived from external sources, and those derived from internal sources. The external sources are those which do not depend upon internal organisation of an enterprise or government department. For a government department the external source is the pressure exerted by public opinion for keeping taxes low. For an industry, external pressure is exerted by the presence of competitors, or in the case of monopoly the fear of substitutes. Within an organisation, however, whether in industry or government, the incentive to control depends upon the extent to which promotion is related to efficiency. In order to link promotion with efficiency, it is necessary to fix individual responsibility for specific types and amount of work. By and large, in the matter of incentives industry and government seem to present essentially similar problems. In India, the question of efficiency and responsibility has attracted a great deal of attention since the Appleby Report. The problems that have arisen, and the attempts that have been made by the Government of India to deal with them will be considered when we examine the system of expenditure control in India.

F. Results of Comparison of Government Expenditures with Industry

The comparison of government expenditures with industry clearly brings out the fact that both industry and government are interested in
economy and efficiency. The difference is that an objective efficiency criterion, comparable with profits or revenue in industry, is not available for government. The absence of an objective efficiency criterion raises the question: Is there a rational basis for decision making in government? As long as the decision maker can assign values to alternative courses of action, and is consistent in his choice, decision making is rational. In deciding whether more should be spent on education, as compared with hospitals, the decision maker is guided by the relative subjective values he attaches to education and health. Since subjective evaluations are likely to differ, different values may be assigned by different people. Hence, given rationality in decision making, the absence of an objective criterion makes it difficult to determine which of the possible alternatives is the correct one.

G. Efficiency Criterion and Government Decision Making

The absence of an objective efficiency criterion affects government decision making in three ways, (i) by introducing an element of uncertainty, (ii) by making it possible for the administrator to project his own value judgements, and (iii) by making room for pressure groups.

The absence of an objective efficiency criterion introduces uncertainty, because in addition to the effect of a decision on the issue at hand, the administrator has to consider what the reactions of his colleagues will be to a particular decision.¹ The uncertainty

¹ G.L.S. Shackle, Decision, Order and Time in Human Affairs, Cambridge University Press, 1961, points out that "To allow for his uncertainty about the responses of others to his own acts ...... and about the behaviour of nature, a decision maker would have to prescribe for himself alternative courses of action for dates beyond the immediate future, this or that alternative to be adopted in case of this or that reaction of the total human and natural environment to his own acts." p.24.
regarding their reactions is important, because his promotion may depend on their evaluation of his work. It may also be important, if he is not strong enough, in case of opposition, to defend his own opinions. Hence the way in which uncertainty affects his decision behaviour depends upon his own position in the administrative hierarchy, and his ability to enforce his own opinions.

The fact that administrative decisions cannot be divorced from value judgements, makes it possible for the administrator, within limits, to project his own value judgements, even if they are different from the values indicated in the policy objectives. This possibility lays the door open for pressure groups. The administrator in his day to day functioning, comes into contact with individuals or certain groups of individuals, and hence knows their requirements. The problem before the administrator, is to fit in the demands of an individual or group with the broader policy objectives. In the process of co-ordinating the demands of individuals or groups with the policy objectives, the administrator tends to achieve not only a compromise between the pressure groups and the interests of the groups implicit in the objectives, but what Mary Parker Follet\(^1\) has called an integration of interests. It is, however, possible that since the individuals or groups who come directly into contact with the administrator, are usually those who are extremely influential in their own sphere of life and in government circles, they are quite often able to get policy directed towards their requirements. Situations can arise where their interests conflict with the interests of the majority of the public, and actual policy as formulated by the administrator is not in keeping with the demands or interests of the public, as expressed by the will of the legislature.

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\(^1\) See *The Collected Papers of Mary Parker Follet*, Harper, 1942, p.31.
This shows that there is a possibility of conflict between the Executive and the Legislature, and procedures have to be devised to ensure that, as far as possible, the Executive will conform to the wishes of the Legislature.

H. Implications of the Analysis for Expenditure Control

The above analysis shows that the difficulties of expenditure control arise from two sources (i) the absence of a price mechanism for a wide range of government services, and (ii) the difficulty of quantifying the objectives of policy.

The absence of a price mechanism means the absence of a guide to the allocation of resources. Assuming that the over-all size of the budget is determined by the goods and services the people would like government to provide, and by their own willingness to accept certain levels of taxation, a given budget may be differently allocated among the possible expenditure programmes.

Different allocations imply that different weights are attached to individual policy objectives. A certain outlay on education for example may be preferred if the social objective is given more weight, but another outlay may be selected if the objective of economic growth is given relatively more importance. Since the objectives of policy cannot be quantified, it is not possible to assign physical weights and hence evolve a system of weights that will help in the maximisation of the objectives. The extent to which different outlays on programmes leads to an achievement of the over-all objectives of policy depend upon subjective evaluation. It is, therefore, not possible to lay down criteria in terms of which it can be judged whether a greater outlay
on education is preferable to health. The actual choice depends upon the preference system of the government. Given the programmes, the problem still remains of ensuring operational efficiency.

In the next chapter some of the techniques that help in assessing and achieving operational efficiency may be considered.
CHAPTER II

SOME TECHNIQUES OF EXPENDITURE CONTROL

A. The Administrative Approach to Public Expenditures

The administrative approach to public expenditures can be best examined by following the routine adopted by government departments in preparing expenditure plans. We are not concerned here with any individual country, but with the routine which is generally adopted.

The estimates for the next financial year are prepared some time towards the middle of the current year. In preparing the estimates for the next financial year, the departments take into consideration the extent to which allotments have been "adequate" to meet their requirements, and whether their requirements are likely to change in the next financial year. After an estimate of the needs and the finances required to meet them, the individual departments draw up the expenditure estimates. If an estimate involves an increased outlay, the question which has to be answered is, how much increased expenditure can be incurred? The department concerned answers this question by what it thinks it can persuade the Finance Ministry to sanction. This means that the allocations tend to be made on the basis of need and negotiation. As the departmental allocations are not linked with costs, there is from the point of view of getting additional funds, no incentive to reduce costs.

Again, the concept of cost the departments are concerned with, is the money cost of meeting their requirements. The alternative cost which is measured by an eventual reduction in the demand made by some other department, is not considered, since each department is concerned only with its
own requirements.

After the estimates have been prepared, they are submitted to the Finance Ministry for consideration. The Finance Ministry examines the total cash requirements and the composition of expenditures. An examination of the total cash requirements helps the Finance Ministry to make an estimate of the total reductions that are required in order to balance the total expenditure estimates with the total estimated income.¹ An examination of the composition of expenditure helps the Finance Ministry to make marginal adjustments in the demands relating to new expenditures by considering the alternative costs. The final decision relating to the demands, however, is the joint result of an examination of alternative costs and the bargaining power of individual ministries.

The administrative approach to public expenditures does not make the availability of future sums of money depend upon operational efficiency. The system of promotions within government is also not related to cost reductions or overall results achieved. There is, therefore, very little incentive within government departments for either reducing costs or improving results. Hence it is increasingly felt, within and without government, that some techniques need to be evolved for increasing operational efficiency and for minimising the arbitrary character of expenditure allocations.

Techniques which help to increase operational efficiency may be divided into two classes:

(1) Techniques which are applicable where targets of achievement

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¹. The total income is made up of tax and non-tax revenues, grants, loans and deficit financing, if any.
are given and costs have to be minimised, and

(2) Techniques which are applicable when targets are flexible.

B. Operational Efficiency with fixed targets

(a) Performance Budget

The term performance budgeting was first\(^1\) used by the Hoover Commission in 1949. "We recommend that the whole budgetary concept of the Federal Government should be re-fashioned by the adoption of a budget based upon functions, activities and projects: This we designate as a performance budget."\(^2\) The object of re-designing the budget is to present budgetary information in a way that helps to assess the performance or efficiency of the unit concerned. Performance budgeting therefore involves (i) a cost classification; (ii) measurement of the end product; (iii) relating the cost classification with the end product.

In an under-developed economy a large, or at least a substantial proportion of government expenditures is directed towards the building up of capacity. This capacity is not designed on the basis of current demands but future demands. It is expected that with the rise in per capita incomes due to development, the future demand will be very much higher than the current demand. This means that for a cost classification to be meaningful, the variable costs must be separated from the fixed costs, since the fixed costs may be said to represent the size of the establishment, whereas variable costs represent the running costs. In

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1. F.H. Rue, Government Finance, Richard D. Irwin, Illinois, 1959, points out (p.65) that while the development of Performance Budgeting is largely the result of the report of the Hoover Commission, some use of performance budgeting was made prior to this report.

order to fully appreciate the significance of variable costs and fixed costs, the installed capacity and the capacity currently being used must be shown. A performance budget for an under-developed economy may be classified as follows:

Establishment I

<table>
<thead>
<tr>
<th>Installed Capacity</th>
<th>Capacity Utilised</th>
<th>Total Fixed Cost</th>
<th>Total Variable Cost</th>
<th>Fixed Cost per Unit</th>
<th>Variable Cost per Unit</th>
<th>Output</th>
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<tbody>
<tr>
<td>I₁</td>
<td>C₁</td>
<td>F₁</td>
<td>V₁</td>
<td>f₁u₁</td>
<td>v₁u₁</td>
<td>O₁</td>
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</tbody>
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Establishment II

<table>
<thead>
<tr>
<th>Installed Capacity</th>
<th>Capacity Utilised</th>
<th>Total Fixed Cost</th>
<th>Total Variable Cost</th>
<th>Fixed Cost per Unit</th>
<th>Variable Cost per Unit</th>
<th>Output</th>
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<tbody>
<tr>
<td>I₂</td>
<td>C₂</td>
<td>F₂</td>
<td>V₂</td>
<td>f₂u₂</td>
<td>v₂u₂</td>
<td>O₂</td>
</tr>
</tbody>
</table>

For Establishment I and Establishment II we are given that $I₁ = I₂$, $F₁ = F₂$ and $O₁ = O₂$. If $C₁$ and $C₂$ are equal but $V₁ > V₂$ then the first conclusion one is tempted to draw is that Establishment I is inefficient compared with Establishment II. It may, however, happen that the variable factor used is qualitatively better in Establishment I than Establishment II, and therefore, more has to be paid to retain it. This may not necessarily be reflected in the output measured quantitatively. This situation may be quite frequently encountered when two apparently similar educational
institutions or hospitals, for example, are compared. Hence we find that performance budgeting should be used along with qualitative assessment.

The overall advantages of performance budgeting are (i) that since it provides clearer information, it helps in a better understanding of the programme. Hence it (ii) tends to make decisions more rational, and (iii) further helps to make a better assessment of the demands of individual departments, and within departments to a better utilisation of resources. This fact is important for performance budgeting can only help in comparing efficiency of individual units within the same programme. Performance budgeting cannot help in making a comparative evaluation of different projects; (iv) to the extent that performance budgeting can help to analyse individual causes of inefficiency, it can also help in fixing the level and area of responsibility.

In spite of these advantages it may not be possible to introduce performance budgeting in an under-developed economy unless an adequate number of trained personnel is available to use the technique of performance budgeting. Again the introduction of performance budgeting itself involves cost, and this may be a deterrent.

Performance budgeting indirectly helps to increase efficiency by showing the causes and areas of inefficiency, but it does not by itself promote efficiency. Some methods have therefore been suggested which it is claimed, if adopted, will directly promote efficiency. These methods may now be examined.

(b) Lerner's Proposal

Lerner's proposal was originally made in connection with the defence

budget, but if the proposal is accepted in principle, it can be extended to all government departments. Given the overall defence budget, Lerner suggested that the assessment of the military worth of marginal operations in each theatre, would be the responsibility of the Joint Chiefs of Staff. They would allocate the defence budget, according to the Principle of Equi-Marginal Utility, so that the utility to the over-all military effort of the last million dollars spent on Eastern Command, would be equal to the utility of the last million dollars given to the European Command.

The allocations decided upon would be placed at the disposal of the various theatre commanders. The theatre commanders could use these sums of money, for bidding for the different kinds of goods and services required by them. If this method was adopted it was claimed that it would provide an incentive to the theatre commanders to make an economical use of their resources. It would also bring about an adjustment between the supply and demand of different resources, for if the demand was in excess of supply, price could be raised by the supply department, and if the demand was less than the supply, then the price could be lowered. Another advantage would be that the markets would provide the information needed by the supply, procurement and training commands, regarding the relative importance of the different kinds of instruments and skills.

Lerner's proposal may be divided into two sections, first that part of the proposal which deals with the departmental allocation of a given budget grant and second the utilisation of a departmental allocation. Lerner suggests that the most efficient allocation of a budget grant would be that where the marginal "worth" of the departmental allocations was equal. He does not, however, specify any objective unit in terms of which the marginal worth may be assessed. In the absence of any known objective
unit of measurement the suggestion loses a great deal of its practical utility.

The second part of the proposal implies that given the departmental allocations, each department should be allowed reasonable freedom in utilising its purchasing power. If it purchases some equipment, the cost is debited against the account of the department, and the purchase of this particular equipment reduces the department's ability to buy other goods and services. Even if the department did not 'save' purchasing power under a system of financial administration where the savings have to be surrendered to the Finance Ministry at the end of the financial year, it would at least allocate the funds at its disposal in the way it considers most efficient. Whether this happens in actual practice depends to a large extent upon the incentives to efficiency provided by the administrative system. Lerner does not consider the question of incentives at all. Perhaps the system of promotions could be linked with efficiency. This, however, assumes that an individual's contribution can be more or less precisely measured. Unless some method of measuring individual contributions in government is devised Lerner's proposal does not appear to be very practical.

(c) **Stock and Industrial Funds**

The method of stock and industrial funds is an attempt to simulate market conditions, in order to promote departmental efficiency. According to the scheme, a particular fund is earmarked for financing specific activities. A stock fund is intended for buying material, equipment and other items, from the non-government sector, while an industrial fund is intended for financing the "industrial type" establishment, such as transport, printing etc. A department which operates a fund is comparable with a firm. The comparison is valid since the fund indicates working
capital, and the amount spent on buying goods or paying factors of production represents the cost of production. The amounts received from other departments, that is its 'customers' is equivalent to its receipts. The difference between its costs and receipts represents either 'profits' or 'loss'.

In an under-developed economy, the earmarking of stock funds for specific activities, is likely to lead to better control over utilisation of real resources. Even if government expenditures are based on an advance planning of real and financial resources, shortages may develop in the course of the implementation of the plans. This has been clearly demonstrated by the experience of Indian planning. The shortage of resources of a particular kind are, however, perfectly compatible with an ample supply of other resources. The probability is that when finances in general have been sanctioned and are available, there is a strong temptation for stock piling of resources that are currently available, and speeding up the implementation of those activities which use these resources. If this happens, distortions in the relative rates of growth of different activities are likely to be aggravated. If the stock funds are earmarked, the slowing down of one activity because of shortages of resources required by it, will not result in a faster rate of growth of another activity. Hence the formation of funds will tend to minimize the imbalance that is likely to result from a shortage of real resources. In addition, there are the general advantages pointed out by Hitch and McKean. These advantages are (i) since 'profits' are an indicator of efficiency, the operators of the 'firm' will try to conduct their work more efficiently; (ii) since the customers will have

to pay for the goods they buy, they will either try to look for cheaper substitutes, or economise in the consumption of the goods they require; (iii) the output of the firm will be allocated more efficiently since it will be distributed on the basis of market price. The system of stock funds therefore, may be worth adopting, provided it does not "result in too many pockets of funds which become cumbersome from the standpoint of efficient administration."¹

The use of industrial funds as a method of ensuring efficiency suggests that the rate of return on funds can be a possible indicator of efficiency. The rate of return, however, in the absence of competition can be increased if the quality of the product is lowered. In an under-developed country 'quality' control may be difficult to administer throughout the range of government products due to shortage of trained personnel and the costs involved. Hence the method of industrial funds may not be suitable as a general form of efficiency control. The method may, however, to begin with be tried in some government department where standardization is already an important requirement. The experience gained would help in deciding whether the method should be eventually extended to the other departments as and when the finances and personnel become available.

C. Efficiency with Variable Targets

(a) Pricing of services

Pricing can be used as a method of expenditure control when (a) a service is divisible; (b) it is possible to fix such a price or prices, that a limit is set to the amount demanded. A ceiling on the amount demanded,

automatically sets a maximum limit to the amount which needs to be produced. Given the quality of the product or service, and the technique of production, the amount to be produced determines the total expenditure which should be incurred. (c) Given the cost curve and demand curve, it is possible to fix prices which help either to maximize revenue or maximize profits or minimize losses.

In order to consider the possibility of pricing as a method of expenditure control in an under-developed economy, the nature of a demand curve for social services might be examined.

Given inequality of incomes, and given the fact that a large part of the population has incomes about subsistence level, the demand curve for services is likely to be of the form DMRQ (Fig. 1 below):

OP is the total demand. OM is the amount demanded by that section of the population which is prepared to pay for the service. MR represents the demand for the service at zero price, and RP is the demand at negative price. The portion of the demand curve RQ is explained by the fact that the use of the service creates other disutilities. An example of this in the Indian situation would be education. While generally there is a
widespread demand for education, some of the very poor families are reluctant to send their children to school, even if they have the facilities for free education, and the schools are limited to two or three hours only. The basic explanation is that where incomes are low and families are large, the girls are required to help in the house and the boys to supplement the earnings of the family.

Given the demand curve for education, and further given the objective of wiping out illiteracy within a given period, what are the possibilities for pricing? If the consumers are required to pay for education, then the consumers whose demand is shown on the diagram by MR and RP would not be able to get the benefit of education because they cannot afford to pay for it. If the education is provided free, even then RP of the demand would remain unsatisfied. If education is subsidised only for consumers RP, then as soon as a subsidy is given to RP it is likely to have an adverse effect on the consumers in the range MR. They would now be willing to consume only if the subsidy was given to them also. The removal of illiteracy, therefore, implies that a negative price would have to be charged. If, however, a negative price is charged the cost of education becomes prohibitive. If the price is raised from negative even to zero, then the objective of removing illiteracy is not achieved.

Keeping in mind the objective of removing illiteracy, another possibility is to introduce compulsion along with price discrimination. The consumers may be divided on the basis of their income, and they may be required to pay different prices for education. In fixing the highest price for education, the prices charged by existing non-government fee paying schools has to be kept in mind. Assuming that the service is of the same quality, there will be a lot of political opposition if a higher price is charged by government schools, although it may still be possible to attract consumers because of the over-all scarcity of schools. In view of the fact that the greater part of the population would have to be provided the service free or at a negative price, it would not be possible to cover the total cost of education by fixing a high price for consumers OM, since the price required would be prohibitive. If it is not possible to cover the costs of education by charging prices, then what is the criterion in terms of which the total revenue derived from education is to be determined? The markets would have to be divided upon some arbitrary assessment of 'ability
(b) Assignment of Revenues

Assignment of revenues can either be general in the sense of the assignment being irrespective of who benefits, or the assignment may be in relation to the benefits received. It is only the latter which can be used as a method of control. Given an approximate idea of the benefits that are likely to be received from the expansion of a service, a tax can be imposed in some proportion of expected benefits, and the expansion restricted to the revenue from the tax. This method of assignment is workable only if the number of beneficiaries is large enough, so that the total of individual tax contributions is adequate to finance the expansion required. Let us say that in an underdeveloped economy an existing road is fit only for use by bicycles, horse drawn carriages and carts, but is not fit for use by motor vehicles. If it is desired to modernize the road the beneficiaries would be cyclists, cart and carriage owners and motor owners. Theoretically it should be possible to tax all the beneficiaries. Since in this case the tax is in proportion to benefits, the assumption is that the beneficiaries themselves are interested in the benefits and hence are willing to pay for them. In this particular example, the cyclists and the cart and carriage owners are not interested in future tangible or intangible benefits like additional comfort, if they have to pay for them in the present. They are not likely to have the necessary ability to pay. Hence almost all the additional revenue required will have to be realised from the owners of the cars. Except in the large and rich cities this would not be possible, because even with very heavy rates of taxes, since the number of people on whom the tax would be imposed would be very small, the revenue would not be adequate to finance the construction of the road. Hence assignment of revenues may be used as a method of control in some cases, but it is not likely to be workable as a general method of control.

(c) Cost-Benefit Appraisal

The basic logic underlying cost-benefit appraisal is that a project can be accepted only if the total benefits from the project are greater in some sense than the total costs. It follows that if a choice has to be made between two different projects, that project will be
selected where the difference between benefits and costs is greater.

An application of the cost-benefit analysis involved the following steps - (i) identification and measurement of benefits, (ii) identification and measurement of costs, (iii) translation of costs and benefits into a common time schedule.

The benefits from a project may be either tangible or intangible. Intangible benefits are those which cannot be expressed in money terms. Tangible benefits on the other hand can be expressed in money terms. The tangible benefits may be either direct or indirect. The direct benefits are represented by the value added by a project, while the indirect benefits are represented by an increase in the value of goods and services caused by the project.

The direct benefits can be measured simply by the price of the product multiplied by the number of units produced. This measure of direct benefits, however, assumes that the product can be priced and that no indivisibilities are present. If indivisibilities are present, then it means that a factor is available in only very large units, and if the factor is used fully, then the price per unit of the product may fall appreciably if the additional units produced are marketed. The additional unit multiplied by the lower price is not a correct index of the benefits derived the product. McKean suggests that "the extra output contributed by the lumpy investment should really be multiplied by an average price between the amounts for which the first extra units could be sold and the price for which the last unit could be sold".¹

The choice of the price level in terms of which the calculations are made is important. It has been suggested that "in order to satisfy the various purposes to be served by the benefit-cost analysis, the use of prices reasonably expected to prevail at the time of the benefits and cost accrual" should be used. The practical difficulty however, remains how is one to arrive at these expected price levels?

A more serious difficulty is encountered when the product cannot be priced. Since the product cannot be priced, it is not possible to measure the costs and benefits in terms of money. Since the costs cannot be measured in money terms it is not possible to examine the project in terms of benefits minus costs. In such a case the "gain can be fixed as the

achievement of a specified task and the criterion can be to carry out that mission at minimum cost, or the cost can be fixed, and the criterion can be to achieve the most gain.1

The indirect benefits may be measured by the increased activities of processing, manufacturing and trade and also by the increase in economic activity brought about by the increase in income in the locality and elsewhere during the construction of the project. This is essentially a short term benefit. The indirect benefits may also be of a preventive character. In the case of flood control projects for example, the loss of business income, disruption of markets, and other general dislocation caused by floods may be important benefits.

The direct costs of a project may be divided into the capital cost of development, and the operation, maintenance and replacement costs. The money costs, however, do not always represent benefits foregone. To the extent that a project is constructed with the help of resources which would otherwise be idle, the project from the point of view of society does not represent any cost. This might well be the case in an under-developed economy to the extent that the project involved the use of those resources such as unemployed or under-employed labour which would not have been used in the absence of the project. Instances may also occur where the money costs may understate the social costs of the project.

After having identified the costs and the benefits the next problem is to reduce them to a common time schedule. In this connection an important question to be answered is what is the rate of interest which should be charged on the initial investment which goes into the project? If the interest selected for purposes of calculation is lower than the actual rate of their computed stream, this may influence the decision in favour of the project. On the other hand, the choice of a higher interest rate may exclude some of the projects that might otherwise have been selected. The influence of the interest rate becomes greater if the duration of the project in question is comparatively longer, and there is thus a greater lag between the beginning of construction and the time when benefits actually begin to flow, and benefits have to be recouped over a longer period.

The second problem relates to depreciation. Depreciation may be calculated either by the

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straight line method or the sinking fund method. The latter is generally considered better as the interest earned by the fund is credited to the fund.

We may now very briefly review the use of Cost-Benefit Analysis in U.S.A. and some less-developed countries with a view to finding out the difficulties that have been experienced by these countries in applying the Cost-Benefit Analysis.

U.S.A.

Cost-benefit analysis has been extensively used in U.S.A. It has been applied to the following project groups:

Tennessee Valley Authority
Bonneville Power Administration
Hoover and Parke Davis Projects
Central Valley Project
South Western Power Administration
South Eastern Power Administration
Missouri River Basin

The major defects that have been brought out by the Report on Water Resources and Power¹ are:

(i) Direct benefits are often over-estimated;
(ii) Claimed indirect benefits are not always adequately supported;
(iii) Costs are by and large under-estimated;
(iv) Inadequacy of basic data;
(v) Failure to keep authorised programme up to date.

Thailand

Technical feasibility and economic justification in the sense of benefits exceeding costs are the main criteria for the selection of projects. The major difficulties² that have been found are:

(i) The government has undertaken too much at once and thus has failed to provide adequate funds for completing the projects according to schedule. A major reason

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for starting too many projects has been political pressure;

(ii) Budgeting practices have been haphazard. The result has been that while appropriations are available in one year, adequate funds are not available in subsequent years for completing the project;

(iii) There has been a tendency to under-estimate costs;

(iv) Insufficient provision has been made for subsidiary structures, regulators and outlets to carry water control down to the farm level.

**Philippines**

The National Economic Council derived a formula for determining the priorities among competing projects. The formula\(^1\) is as follows:

Industrial Priority \(= R_1 + R_2 + R_3 + R_4\)

\[ R_1 = \frac{e(W + R + I + P)}{K} \]

where

- \(e\) = essentiality factor determined according to (1) economic importance of the product either as a commodity for export or for domestic use, (2) source of raw materials and supplies used, (3) source of capital equipment, and (4) source and nationality of financing.
- \(W\) = compensation of all officials, employees, and laborers adjusted for portion paid to non-Filipinos.
- \(R\) = rent adjusted for payments remitted abroad.
- \(I\) = interest paid adjusted for payments on foreign borrowings.
- \(P\) = profit accruing to Filipinos.
- \(K\) = total investment in the firm with the peso component adjusted by the factor of 0.7.

\[ R_2 = \frac{F.E. \ s/e - F.E. c}{K} \]

where

- \(F.E. \ s/e\) = foreign exchange saved or earned.
- \(F.E. \ c\) = foreign exchange cost.

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\[ R_3 = \frac{0.5 \times \frac{\text{rmd}}{\text{rmt}} \times \text{rmd}}{K} = \text{domestic materials utilization ratio.} \]

\[ \text{rmd} = \text{value of domestic materials and operating supplies used in production, excluding the} \]
\[ \text{value of the imported component of domestically processed intermediate products} \]
\[ \text{whenever such imported component exceeds value-wise 50 per cent of the value of} \]
\[ \text{that intermediate product.} \]
\[ \text{rmt} = \text{value of the raw materials and supplies used in production. The coefficient } 0.5 \times \]
\[ \frac{\text{rmd}}{\text{rmt}} \text{represents a measure of the additional economic value generated by the} \]
\[ \text{utilization of the domestic materials and supplies.} \]

\[ R_4 = \frac{\text{ld} \times 2000}{K} = \text{contribution to alleviation of domestic unemployment.} \]
\[ \text{ld} = \text{number of paid Filipino workers (officials, employees, and laborers employed during} \]
\[ \text{at least 300 days a year).} \]

The formula clearly shows that a favourable cost-benefit ratio is considered after adjusting
for availability of resources, foreign exchange, etc.

In the selection of irrigation projects, the additional factors which are kept in mind are
the need to encourage small holdings over large estates, geographical distribution and socio-
Economic factors, prospects of repayment in the case of community water works systems with no
distribution system.

Malaya

In Malaya it has been found that even a very rough application of the cost-benefit analysis
is not possible. The reasons for this may be divided into two - administrative and technical.
Even if the administrative difficulties can be overcome the technical difficulties will still
remain.

The administrative difficulty arises from the fact that the estimate of capital costs made
by the Drainage and Irrigation Department (D.I.D.) are too low, because the estimates exclude
the costs which are outside the jurisdiction of the D.I.D. Costs which are excluded relate to
new land development, construction of access roads, payments to settlers for land clearance,
work, additional initial grants to settlers for subsistence, if necessary, water supplies,
schools, dispensaries, and other community requirements.

The technical reasons which complicate the cost-benefit analysis is that there is a wide
variation in per capita costs among projects. A large number of projects are designed to improve existing land as well as to develop new land, and the per acre costs and benefits for one differ substantially from those of another. There is also a wide variation in the per acre maintenance costs of different projects. The information relating to economies of cultivation is limited. This limits the possibility of estimating benefits realized by the cultivators.

**Pakistan**

Financial criteria are used in the calculation of costs and benefits but more emphasis is being placed on the economic analysis of both tangible and intangible benefits. Projects in respect of which complete benefit-cost analysis has been carried out, such as the Ganges-Kobadak, Taunso and other schemes, on which foreign consultants have been employed, have been justified on the basis of both financial and economic criteria.

Other objectives which are used in examining proposed projects are (i) the national goal of attaining self-sufficiency in food grains, and (ii) rehabilitation of refugees and people desiring to leave the congested areas.

A study of cost-benefit analysis in some under-developed countries shows that all the difficulties experienced by U.S.A. are present, perhaps, in a more magnified form. In addition a given standard of performance which underlines all cost benefit calculations is not achieved either because the target arrived at is too high, or because the budgetary allocations expected are not actually available. In the evaluation of benefits and hence in the fixing of targets a special problem that arises is the utilization of output. It is quite possible that in less developed countries, the output though available is in fact not utilized because of transport bottlenecks, social prejudices, etc. Hence efficient performance by the government, in the sense of achieving the given targets of production is not enough, for this may lead to over-production not in relation to potential but effective demand, thus upsetting the calculations relating to benefit.

While the difficulties of applying cost-benefit analysis to an under-developed economy are very great and hence the calculations very inaccurate and often arbitrary, the argument in favour of using the cost-benefit analysis is that to the extent the same calculations are possible they will provide some guidance to investment and make the decisions less arbitrary.
We may assume to begin with, that a project has been chosen after a careful consideration of the relative benefits and costs, and that the position on the basis of which the selection was made was represented as follows:

\[
\begin{array}{cccc}
\text{Year} & Y_1 & Y_2 & Y_3 & \ldots & Y_N \\
\text{Costs} & C_1 & C_2 & C_3 & \ldots & C_N \\
\text{Benefits} & B_1 & B_2 & B_3 & \ldots & B_N \\
\end{array}
\]

Since the benefits can be realised only if the targets underlying the cost estimates are achieved, cost-benefit calculations are based on a given standard of performance and given a time path of costs and benefits. The implications are that the annual budgetary allocations, as well as targets of achievement are anticipated when the project is selected. In actual fact, a given level of performance may not be achieved, either because the target aimed at was too ambitious, or because the price assumptions on the basis of which calculations have been made have changed, or because the budgetary allocations expected have to be cut down. In each of these situations cost-benefit estimates have to be suitably revised, and targets fixed accordingly. The position after revision may cast doubts upon the advisability of the original investment decision. This, however, is not a problem that is relevant at this stage. The question which has to be answered is, what target should be fixed for the next year and hence, how much should be the budget grant? In the evaluation of benefits and hence in the fixing of targets a special problem that arises is the utilisation of output. It is quite possible that in an under-developed economy, the output though available, is in fact not utilised because of transport bottlenecks, or social prejudices etc. Efficient performance by government, in the sense of achieving given targets is not enough, for there may be over-production in relation not to potential but effective demand. A revision of the costs-benefit table after taking due account of the changed situation can help government in fixing annual targets. The use of cost-benefit analysis for fixing annual targets may be illustrated by an example. In order to simplify the problem we shall make the following assumptions: (i) all capital costs are incurred in the first year, (ii) there are constant costs of production, (iii) one unit of output is equal to Re 1/- of benefits. The method of evaluating benefits need not concern us here, (iv) the life of the project is five years.
Table II.1 shows the estimate of costs and benefits on the basis of which the project was finally selected, after comparison with other possible projects.

<table>
<thead>
<tr>
<th>Year at end of which cost or benefit occurs</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Present Value of Stream (5%)</th>
<th>B/C</th>
<th>B-C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits</td>
<td>0</td>
<td>50</td>
<td>80</td>
<td>100</td>
<td>130</td>
<td>232.4</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costs</td>
<td>100</td>
<td>25</td>
<td>40</td>
<td>50</td>
<td>65</td>
<td>236.3</td>
<td>1.2</td>
<td>46.1</td>
</tr>
</tbody>
</table>

Table II.2

Let us say that the project has been in operation for three years. In the third year an output of 80 units representing an estimate of Rs.80 worth of benefits has been produced. The demand for the year, however, was only 70 units. This means that the benefits actually realised were 70 and not 80 as calculated. For the third year, therefore, there is a surplus production of 10 units. If we assume at this stage that the demand for the fourth and fifth years is still expected to be as originally calculated, then the question which arises is, how will the surplus of 10 units in the third year affect the production targets for the fourth and fifth years? There are two possibilities. Either the production for the fourth year could be reduced by 10 units so that the output now planned is 90 units instead of 100 units, and the production target for the fifth year remains spread over the fourth and fifth years. Which alternative is better? In order to answer the question let us see how the costs and benefits are affected. The period relevant for the calculation is the third, fourth and fifth years.

**First Alternative**

<table>
<thead>
<tr>
<th>Year at end of which cost or benefit occurs</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>Present Value of Stream (5%)</th>
<th>B/C</th>
<th>B-C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits</td>
<td>80</td>
<td>90</td>
<td>130</td>
<td>259.5</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Costs</td>
<td>40</td>
<td>45</td>
<td>65</td>
<td>129.7</td>
<td>2.01</td>
<td>129.8</td>
</tr>
</tbody>
</table>
Second Alternative

<table>
<thead>
<tr>
<th>Year at end of which cost or benefit occurs</th>
<th>Present Value of Stream (5%)</th>
<th>B/C</th>
<th>B-C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits</td>
<td>80  96  124</td>
<td>259.8</td>
<td></td>
</tr>
<tr>
<td>Costs</td>
<td>40  48  62</td>
<td>128.2</td>
<td>2.02</td>
</tr>
</tbody>
</table>

Table II.3

Table II.3 is constructed on the assumption that four units of the surplus production in the third year is utilised in the fourth year, and six units are utilised in the fifth year. Storage costs are assumed to be nil, but in actual fact adjustments will have to be made for the costs of storage.

A comparison of the estimates in Tables II.2 and II.3 shows that the benefit-cost ratio as well as the difference is in favour of the second alternative. That is the results from the point of view of the economy are better if the utilisation of surplus stocks is spread over the years, in this particular instance over the fourth and fifth year, than if it were utilised in the year following the surplus. Again by varying the amounts that can be produced in the different years the best alternative in terms of annual targets can be achieved. Similar tables can be constructed for adjustments necessitated by changes in costs.

Actual Costs and Benefits

<table>
<thead>
<tr>
<th>Year at end of which cost or benefit occurs</th>
<th>Present Value of Stream (5%)</th>
<th>B/C</th>
<th>B-C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Benefits</td>
<td>0  50  80  96  124</td>
<td>274.9</td>
<td></td>
</tr>
<tr>
<td>Costs</td>
<td>100  25  40  48  62</td>
<td>232.7</td>
<td>1.18</td>
</tr>
</tbody>
</table>

Table II.4

Table II.4 sets out the actual costs incurred and the actual benefits realised. In order to compare the actual results with the results expected at the beginning of the project we have to go back in time to the beginning of the project and calculate the present worth and cost benefit ratios as they would have appeared at the time, if the targets actually realised were in fact visualised at the very beginning. A comparison of Table II.4 and II.1 shows
that the cost benefit calculations in Table II.4 are more unfavourable as compared with Table II.1. This brings out the fact that a downwards revision of the targets may lead to more unfavourable results than expected.

A comparison of the actuals with the estimates will show the deviations of the actuals from the estimates. An analysis of the causes which have led to the deviations is likely to help in making future cost-benefits estimates more realistic. If the cost benefit analysis is used in fixing targets, then the budget estimates submitted to the Finance Ministry should show not only the money actuals and money estimates, but also the actual output and the estimated output.

D. *Minimising Arbitrary Nature of Decisions by Improving Information*

The decision relating to the size of an individual programme is generally speaking a political decision. It is difficult to lay down any rules or techniques by which the size of individual programmes can be precisely determined. It is, however, possible to present information that reduces the possibility of mistakes and the arbitrary character of decisions. Differences of opinion will still exist due to ideological or other differences. A classification of forms that can be used for presenting information to the Finance Ministry is given at the end of this Chapter.

Government accounts relating to income and expenditures are kept primarily with the objective of ensuring accountability. The accounts, therefore, are kept in such a way that the expenditure can be traced back to the agency which is responsible for incurring the expenditure. It is possible that the expenditure on education for example, may be spread over two ministries, the Ministry of Education and the Ministry of Civil Works, and here again it may not be possible to separate expenditure on schools from expenditure on other buildings. Hence the accounts as they are maintained are not suitable for policy purposes. It is therefore necessary to re-arrange the accounts in a way more useful for policy.

The accounts should show the total amounts that are spent on each 'function' and the economic effects of the expenditure. The Economic-Functional Classification has been used.

designed by the United Nations with this end in view. The Economic-Functional Classification of government accounts helps to analyze the effects of government programmes on the rest of the economy. The Functional Classification is intended to show the individual functions on which expenditures are incurred. The Economic Classification analyzes the expenditure on each function in terms of its distribution between current and capital expenditure. The combined Economic-Functional Classification is therefore "particularly useful in drawing up a programme of projected development expenditure covering a period of years and in evaluating the progress of actual expenditure."  

# FORM I

**Project:** RAILWAYS

**Capital Expenditures**

<table>
<thead>
<tr>
<th>Items of expenditure</th>
<th>Materials required in physical units</th>
<th>Estimated cost</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Obtained</td>
<td>To be locally imported</td>
</tr>
<tr>
<td><strong>Construction</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Buildings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bricks and tiles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lime</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Joists, girders, angles</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total 1</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Residential</strong></td>
<td></td>
<td></td>
</tr>
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<td>Offices</td>
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<tr>
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<tr>
<td>Bridges</td>
<td></td>
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</tr>
<tr>
<td>Electric sub-stations</td>
<td></td>
<td></td>
</tr>
<tr>
<td>and power-houses</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Construction of new lines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Restoration of dismantled lines</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total 2</td>
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<tr>
<td><strong>TOTAL</strong> = T1 + T2</td>
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</table>

**Machinery and Plant**

<table>
<thead>
<tr>
<th>Locomotives</th>
<th>Boilers</th>
<th>Carriages</th>
<th>Wagons</th>
<th>Cranes</th>
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<tr>
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<tr>
<td><strong>Total</strong></td>
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**FORM II**

Consolidated Statement of Expenditure for RAILWAYS

<table>
<thead>
<tr>
<th>Expenditure Items</th>
<th>Total Cost</th>
<th>Import Requirements</th>
</tr>
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<tr>
<td>Works and Buildings</td>
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<td></td>
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<tr>
<td>Stores</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Machinery and Equipment</td>
<td></td>
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<tr>
<td><strong>Total</strong></td>
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<td></td>
</tr>
</tbody>
</table>

Information asked for in Forms I and II is necessary for New Projects as well as for Continuing Projects. For Continuing Projects additional information, in Forms III and IV given below, which would help to explain the difference, if any, between original estimates and revised estimates, is necessary. Some of the possibilities are - (i) actual money costs may have gone up as compared with original estimates, but the real resource requirements may have remained unaltered; (ii) the actual expenditure incurred may have been equal to the budget estimates but the real resources used may have been less, showing that targets may have been achieved in financial terms but not in real terms.
**F O R M I I I**

For Works Actually in Progress

<table>
<thead>
<tr>
<th>Particulars of work</th>
<th>Estimated total cost of work</th>
<th>Actual expenditure to year (X - 1)</th>
<th>Revised expenditure Year X</th>
<th>Total (Columns (2) and (3))</th>
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</thead>
<tbody>
<tr>
<td>Original</td>
<td>Revised</td>
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</tbody>
</table>


**F O R M I V**

<table>
<thead>
<tr>
<th>Particulars of work</th>
<th>Original Estimates</th>
<th>Targets as achieved up to year (X-1)</th>
<th>Resources used</th>
<th>Revised estimates Year X</th>
<th>Estimates for year X + 1</th>
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<tbody>
<tr>
<td>Targets</td>
<td>Resource requirements</td>
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</table>
CHAPTER III

GROWTH IN GOVERNMENT EXPENDITURES

A. Object of Enquiry

The only purpose of examining the growth in government expenditures in India is to show the effects of growth, if any, on the problems of expenditure control. The effects will be examined from two angles, first whether the size of expenditures itself has created any special problems of control, and second whether the composition of expenditures has changed in such a way that the adoption of new methods can help to make control more effective.

B. The Size of Government Expenditures

Table III.1 shows the growth in expenditures at current prices from 1951-52 to 1958-59\(^1\). For the years 1952-53 and 1953-54 expenditures have fallen. This fall is explained by the fact that during these two years government deliberately kept its expenditures low so that it could curb the existing inflationary pressures in the economy. The base for the calculations of the price indices and the cost of living index had been revised in 1948-49 but even at the 1948-49 base the cost of living index has risen to 104 in 1952-53 and to 106 in 1953-54. By 1954-55 the cost of living index was brought down to 99, and from then onwards expenditures have steadily increased. From 10.58 crores in 1951-52 expenditures rose to Rs. 22.89 crores in 1958-59, that is total expenditures more than doubled

---

Growth in Government Expenditures and National Income

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<thead>
<tr>
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<td>1037.03</td>
<td>947.98</td>
<td>987.01</td>
<td>1218.20</td>
<td>1370.70</td>
<td>1743.11</td>
<td>2127.46</td>
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<tr>
<td>Index of Growth</td>
<td>100</td>
<td>91.4</td>
<td>95.1</td>
<td>117.4</td>
<td>132.1</td>
<td>168.0</td>
<td>205.1</td>
<td>214.3</td>
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<tr>
<td>National Income</td>
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<td>9820</td>
<td>10480</td>
<td>9610</td>
<td>9980</td>
<td>11310</td>
<td>11340</td>
<td>12600</td>
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<tr>
<td>Index of Growth</td>
<td>100</td>
<td>98.5</td>
<td>105.1</td>
<td>96.4</td>
<td>100.1</td>
<td>113.4</td>
<td>113.7</td>
<td>126.4</td>
</tr>
<tr>
<td>Proportion of Government Expenditure to National Income</td>
<td>10.4</td>
<td>9.6</td>
<td>9.4</td>
<td>12.6</td>
<td>13.7</td>
<td>15.4</td>
<td>18.7</td>
<td>17.6</td>
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<tr>
<td>Per Capita Government Expenditures</td>
<td>287.3</td>
<td>257.6</td>
<td>267.4</td>
<td>322.3</td>
<td>358.8</td>
<td>449.3</td>
<td>542.7</td>
<td>558.6</td>
</tr>
<tr>
<td>Index of Growth</td>
<td>100</td>
<td>89.7</td>
<td>93.0</td>
<td>112.1</td>
<td>124.9</td>
<td>156.3</td>
<td>118.8</td>
<td>194.4</td>
</tr>
</tbody>
</table>

Table III.1

Source: (i) Economic Survey 1959-60, Government of India
         (ii) Annual Reports on Currency and Finance, Reserve Bank of India
         (iii) Ministry of Finance
in eight years. The change in National Income\(^1\) was not so rapid. National Income at current prices rose from Rs.9970 crores in 1951-52 to Rs.12600 crores in 1958-59. The proportion of government expenditures to National Income rose from 10.4 in 1951-52 to 17.6 in 1958-59. This trend is expected to continue in the Third Five Year Plan and possibly in the subsequent plans. National Income is expected to go up by 30% i.e. from about Rs.14,500 crores (at 1960-61 prices) at the end of the Second Plan to about Rs.19 crores at the end of the Third Plan. Outlay for the Third Plan is estimated at Rs.7,500 crores.

How is the increase in total expenditure related to population changes? Since population has increased, the rate of increase of per capita expenditures is less rapid than the rate of increase of total expenditures. The absolute increase in the expenditures in current prices is to some extent the result of a rise in prices. In order to eliminate the effects of price changes, the figures for expenditure at current prices have been deflated by the wholesale price index. The base, following the usual practise of the Government of India has been taken as 1948. Table III.2 shows the growth of government expenditures at 1948 Prices. The proportion of government expenditures to national income at constant prices is not very markedly different from the proportion of government expenditures to national income at current prices. The elimination of price changes in per capita incomes shows a higher rate of growth of 'real'

\(^1\) The National Income Committee has calculated the National Income of India by Industrial Origin, but "there are large gaps in the information available about certain sectors of the economy, which probably introduce a high margin of error even into the estimates of aggregate national income." First Five Year Plan, p.101. Hence any attempt to bring out statistically the implications of the relationship between government expenditures and national income on the lines used in advanced countries serves only an illustrative purpose.
## Growth in Government Expenditures and National Income

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
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<th></th>
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</thead>
<tbody>
<tr>
<td>Government Expenditure</td>
<td>946.20</td>
<td>913.28</td>
<td>945.41</td>
<td>1279.62</td>
<td>1439.81</td>
<td>1695.63</td>
<td>2030.02</td>
<td>2041.66</td>
</tr>
<tr>
<td>Index of Growth</td>
<td>100</td>
<td>96.5</td>
<td>99.9</td>
<td>135.2</td>
<td>152.2</td>
<td>179.2</td>
<td>214.5</td>
<td>215.8</td>
</tr>
<tr>
<td>National Income</td>
<td>9100</td>
<td>9460</td>
<td>10030</td>
<td>10280</td>
<td>10480</td>
<td>11000</td>
<td>10830</td>
<td>11570</td>
</tr>
<tr>
<td>Index of Growth</td>
<td>100</td>
<td>104.0</td>
<td>110.2</td>
<td>113.0</td>
<td>115.16</td>
<td>120.8</td>
<td>119.0</td>
<td>127.1</td>
</tr>
<tr>
<td>Proportion of Government Expenditure to National Income</td>
<td>10.4</td>
<td>9.7</td>
<td>9.4</td>
<td>12.4</td>
<td>13.7</td>
<td>15.4</td>
<td>18.7</td>
<td>17.6</td>
</tr>
<tr>
<td>Per Capita Government Expenditures</td>
<td>262.1</td>
<td>248.2</td>
<td>256.2</td>
<td>338.5</td>
<td>376.9</td>
<td>437.0</td>
<td>517.9</td>
<td>513.0</td>
</tr>
<tr>
<td>Index of Growth</td>
<td>100</td>
<td>94.7</td>
<td>97.8</td>
<td>129.2</td>
<td>143.8</td>
<td>166.7</td>
<td>197.6</td>
<td>195.8</td>
</tr>
</tbody>
</table>

### Table III.2

Source: Same as for Table III.1
expenditures as compared with expenditures at current prices. This shows that the effects of price changes on per capita incomes cannot be ignored. For example, if the price index goes up, and it is also decided that the influence of the government on the individual should remain unaltered, then corresponding adjustments have to be made in the size of the expenditures.

C. Implications of the Growth in Expenditures for Control

Given the policy objectives, the decisions relating to the size of government expenditures are not independent of price changes. Rising expenditures after price changes have been eliminated, show that the volume of work has increased. The increase in the volume of work can cause a decline in efficiency if there is a shortage of personnel. The shortage of trained staff is being strongly felt in India. Discussions with the officials at the Ministry of Finance and the Planning Commission has brought out the fact that there is a greater shortage of personnel at the States than at the Centre. Staff are being given in-service training at the Centre with the ultimate objective of sending them to the State Departments. Larger expenditures also entail heavier taxation. Either there is an increase in the rates of existing taxes, or new taxes are imposed, or both measures are simultaneously adopted. The increase in taxation increases interest in the efficiency of government expenditures, and thus helps to focus attention more sharply on the problems and methods of expenditure control. In India, individual problems of control have been dealt with as and when they have arisen, but the general problem of control of government expenditures has not attracted sufficient attention so far. This point will be illustrated in detail in the next chapter.
D. Composition of Expenditure and Control Methods

We are concerned here with the control exercised by the Finance Ministry. This control is exercised when the budget estimates are examined. In the examination of budget estimates, among other things, the Finance Ministry is concerned with the operational efficiency of the Ministry making the demand, and the financial accuracy of the estimates submitted. Concern with operational efficiency is of recent origin; it would, therefore, be useful to examine the composition of government expenditures from the point of view of the method of control which can be used.

The analysis in Chapter I showed that performance budgeting could be used for assessing operational efficiency provided there was a standard unit in terms of which the evaluation could be made. The applicability of performance budgeting to an under-developed economy was considered in Chapter II, and it was found that it could be applied provided the necessary personnel was available. We may examine the composition of government expenditures in India in order to find out what are the areas where performance budgeting is applicable.

For considering the applicability of performance budgeting the following procedure is adopted. As far as expenditures on General Administration, Police, Defence etc. are concerned, where it is not possible to have a unit of efficiency, because no two administrative decisions for example, are identical, they are placed in Group I. For reasons set out in Chapter I, performance budgeting is not applicable to this group. However, out of the expenditures shown in the budget, part of the expenditure is incurred on the construction of police stations, jails, etc. For these expenditures standard specifications of quality and material can
be laid down, and the final output measured in appropriate units.

Performance budgeting is therefore applicable, and is also a fairly adequate measure of efficiency. An approximate idea of the size of expenditures in Group I can for the time being be obtained by classifying all current expenditures on the relevant heads as belonging to this group. A margin of error is introduced by the fact that current expenditure represented by wages paid to labourers employed in constructing the police stations for example, should appropriately be subtracted from Group I. This has not been possible here because the necessary data are not available. Group III consists of all expenditures to which performance budgeting is applicable. Group II consists of all expenditures to which performance budgeting is applicable, but qualitative assessment is required to supplement the results of performance budgeting. Hospital expenses for instance can be examined in terms of the number of beds and patients leaving the hospital. Suppose there are two hospitals A and B and each hospital has 20 beds. The total monthly expenditure is Rs.1000 in each hospital. Hence the expenditure per bed per month is Rs.50. If in hospital A, 40 patients were treated and released the expenditure per patient is Rs.1.25. If in hospital B on the other hand in spite of a waiting list only 30 patients were treated and released then the expenditure per patient is Rs.1.6 per patient. It cannot, however, be concluded without additional information about the nature of the patients that hospital B is more inefficient as compared with hospital A. Hence given the cost estimate and the performance, qualitative assessment is essential before the demands can be considered and sanctioned.

Expenditures requiring this kind of assessment are placed in Group II. Here again only current expenditures are considered, all capital expenditures being placed in Group III. The growth of expenditures belonging to
Groups I, II and III are examined to get an idea of the magnitude of the expenditures where performance budgeting can be applied. The growth in the different groups of expenditures is also examined separately for the Central and State Governments, because the size of expenditures at the different levels of government is likely to give an approximate idea of the personnel required to enforce performance budgeting. Even if performance budgeting cannot be introduced immediately in the State Governments because of shortage of personnel, the information relating to the work, on the basis of which estimates relating to personnel required can be made, is important for long-term manpower planning.

We shall first consider the growth in expenditures at the Central Government. Table III.3 shows the growth in expenditures belonging to Group I, while tables III.4 and III.5 show the growth in expenditures in Groups II and III. We find that expenditures in all groups have risen steadily, but groups II and III have grown faster than group I. In 1951-52 expenditures in groups II and III taken together were 33% of expenditures in group I, but by 1958-59 they have risen to about 133% of expenditures in group I. This shows that the expenditures to which performance budgeting can be applied have increased absolutely as well as relatively to other expenditures.

Tables III.6, III.7 and III.8 show the growth in expenditures in groups I, II and III respectively at the States. The same trend as at the Centre is found at the States also. Expenditures in all groups have risen steadily, but expenditures in groups II and III have risen faster than expenditures in group I.

Having examined the size and composition of public expenditures in India, and their implications for control, we may now examine the general system of control.
### Expenditures - Group I

#### Central Government

<table>
<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>1. Defence</td>
<td>18628</td>
<td>19238</td>
<td>19806</td>
<td>20134</td>
<td>18837</td>
<td>21185</td>
<td>28179</td>
<td>29179</td>
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<tr>
<td>2. General Administration</td>
<td>1392</td>
<td>1364</td>
<td>1552</td>
<td>1713</td>
<td>1869</td>
<td>2097</td>
<td>2202</td>
<td>2384</td>
</tr>
<tr>
<td>3. Police</td>
<td>380</td>
<td>291</td>
<td>316</td>
<td>410</td>
<td>417</td>
<td>658</td>
<td>789</td>
<td>826</td>
</tr>
<tr>
<td>4. Administration of Justice</td>
<td>62</td>
<td>21</td>
<td>18</td>
<td>26</td>
<td>25</td>
<td>34</td>
<td>54</td>
<td>56</td>
</tr>
<tr>
<td>5. Cost of tax collection</td>
<td>1217</td>
<td>1101</td>
<td>1069</td>
<td>1133</td>
<td>1250</td>
<td>1445</td>
<td>1735</td>
<td>1898</td>
</tr>
<tr>
<td>6. Debt services</td>
<td>3900</td>
<td>3650</td>
<td>4082</td>
<td>3972</td>
<td>4314</td>
<td>3906</td>
<td>3744</td>
<td>4000</td>
</tr>
<tr>
<td>7. Compensation to displaced persons</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>1174</td>
<td>1368</td>
<td>1987</td>
<td>1554</td>
<td>1333</td>
</tr>
<tr>
<td>8. Tribal areas</td>
<td>174</td>
<td>216</td>
<td>303</td>
<td>382</td>
<td>501</td>
<td>418</td>
<td>573</td>
<td>941</td>
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<tr>
<td>9. Others*</td>
<td>7729</td>
<td>6073</td>
<td>4609</td>
<td>4799</td>
<td>6410</td>
<td>5854</td>
<td>7948</td>
<td>9935</td>
</tr>
<tr>
<td>10. Total</td>
<td>33482</td>
<td>31954</td>
<td>31755</td>
<td>33743</td>
<td>34991</td>
<td>37584</td>
<td>46778</td>
<td>50552</td>
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</tbody>
</table>

**Table III.3**

Others include audit, territorial and political pensions, pre-partition payments, privy purses and allowances, famines, superannuation allowances and pensions, and miscellaneous.
### Expenditures - Group II

**Central Government**

<table>
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<tbody>
<tr>
<td>1. Agriculture and rural development</td>
<td>223</td>
<td>246</td>
<td>234</td>
<td>353</td>
<td>637</td>
<td>793</td>
<td>1425</td>
<td>1472</td>
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<tr>
<td>2. Irrigation</td>
<td>38</td>
<td>30</td>
<td>38</td>
<td>31</td>
<td>18</td>
<td>31</td>
<td>23</td>
<td>32</td>
</tr>
<tr>
<td>3. Community projects and National Extension</td>
<td>-</td>
<td>3</td>
<td>13</td>
<td>17</td>
<td>970</td>
<td>928</td>
<td>1223</td>
<td>1402</td>
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<td>4. Veterinary</td>
<td>32</td>
<td>30</td>
<td>34</td>
<td>34</td>
<td>51</td>
<td>93</td>
<td>114</td>
<td>153</td>
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<tr>
<td>5. Medical</td>
<td>151</td>
<td>72</td>
<td>75</td>
<td>123</td>
<td>146</td>
<td>287</td>
<td>458</td>
<td>615</td>
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<tr>
<td>6. Public health</td>
<td>80</td>
<td>69</td>
<td>87</td>
<td>151</td>
<td>236</td>
<td>335</td>
<td>584</td>
<td>933</td>
</tr>
<tr>
<td>7. Education</td>
<td>408</td>
<td>331</td>
<td>430</td>
<td>943</td>
<td>1423</td>
<td>1944</td>
<td>2415</td>
<td>2963</td>
</tr>
<tr>
<td>8. Scientific departments</td>
<td>518</td>
<td>623</td>
<td>680</td>
<td>760</td>
<td>892</td>
<td>1133</td>
<td>1409</td>
<td>1779</td>
</tr>
<tr>
<td>10. Multipurpose River Schemes</td>
<td>377</td>
<td>397</td>
<td>398</td>
<td>336</td>
<td>286</td>
<td>225</td>
<td>330</td>
<td>422</td>
</tr>
<tr>
<td>11. Others</td>
<td>1026</td>
<td>784</td>
<td>898</td>
<td>1318</td>
<td>2005</td>
<td>3082</td>
<td>3259</td>
<td>3815</td>
</tr>
<tr>
<td>Total</td>
<td>3048</td>
<td>2777</td>
<td>3096</td>
<td>4292</td>
<td>6982</td>
<td>9169</td>
<td>11584</td>
<td>14015</td>
</tr>
<tr>
<td>12. State Trading</td>
<td>5960</td>
<td>816</td>
<td>-2544</td>
<td>6347</td>
<td>-2959</td>
<td>1167</td>
<td>7917</td>
<td>8138</td>
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<tr>
<td>Total</td>
<td>9008</td>
<td>3593</td>
<td>552</td>
<td>10339</td>
<td>4023</td>
<td>10336</td>
<td>19051</td>
<td>22153</td>
</tr>
</tbody>
</table>

**Table III.4**

**Note:** State Trading: The yield from State Trading is not shown under the heading of non-tax revenues. Hence the expenditure figures on State Trading as recorded, do not show the aggregate expenditure incurred, but aggregate expenditure minus receipts. This explains negative expenditure for certain years. In order to avoid distorting the expenditure totals for all heads of expenditure, the figures for State Trading have not been included in the total. The total after including expenditures for State Trading has, however, been shown separately.
### Expenditures - Group III
**Central Government**

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<thead>
<tr>
<th></th>
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<th></th>
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<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Civil works</td>
<td>2151</td>
<td>2338</td>
<td>2707</td>
<td>2630</td>
<td>3136</td>
<td>3098</td>
<td>3323</td>
<td>3544</td>
</tr>
<tr>
<td>2. Industries</td>
<td>1443</td>
<td>588</td>
<td>1745</td>
<td>2498</td>
<td>2483</td>
<td>8727</td>
<td>21807</td>
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<tr>
<td>3. Forests</td>
<td>137</td>
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<td>121</td>
<td>168</td>
<td>214</td>
<td>335</td>
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<td>4. Aviation</td>
<td>267</td>
<td>272</td>
<td>239</td>
<td>244</td>
<td>253</td>
<td>279</td>
<td>308</td>
<td>325</td>
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<tr>
<td>5. Railways</td>
<td>2321</td>
<td>705</td>
<td>1185</td>
<td>3225</td>
<td>6752</td>
<td>10738</td>
<td>13847</td>
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<tr>
<td>6. Shipping</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>70</td>
<td>123</td>
<td>59</td>
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<tr>
<td>7. Electricity</td>
<td>2</td>
<td>20</td>
<td>11</td>
<td>8</td>
<td>18</td>
<td>42</td>
<td>27</td>
<td>54</td>
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<td>8. Posts and Telegraphs</td>
<td>496</td>
<td>653</td>
<td>766</td>
<td>933</td>
<td>903</td>
<td>959</td>
<td>1101</td>
<td>1082</td>
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<td>10. Currency and Mint</td>
<td>269</td>
<td>302</td>
<td>289</td>
<td>357</td>
<td>1209</td>
<td>459</td>
<td>762</td>
<td>965</td>
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<tr>
<td>11. Printing</td>
<td>118</td>
<td>269</td>
<td>288</td>
<td>234</td>
<td>244</td>
<td>128</td>
<td>252</td>
<td>267</td>
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<td><strong>Total</strong></td>
<td><strong>8251</strong></td>
<td><strong>5835</strong></td>
<td><strong>8347</strong></td>
<td><strong>11097</strong></td>
<td><strong>16925</strong></td>
<td><strong>26684</strong></td>
<td><strong>44378</strong></td>
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Table III.5
Expenditures - Group I
State Government

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<td>1. General administration</td>
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<td>3531</td>
<td>3666</td>
<td>4055</td>
<td>4386</td>
<td>4762</td>
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<td>2. Police</td>
<td>5548</td>
<td>5404</td>
<td>5396</td>
<td>5551</td>
<td>5953</td>
<td>5940</td>
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<td>3. Administration of Justice</td>
<td>1820</td>
<td>1887</td>
<td>1902</td>
<td>1879</td>
<td>1893</td>
<td>1963</td>
<td>2053</td>
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<td>4. Cost of tax collection</td>
<td>2718</td>
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<td>3480</td>
<td>4347</td>
<td>4599</td>
<td>5577</td>
<td>5315</td>
<td>5419</td>
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<tr>
<td>5. Debt services</td>
<td>849</td>
<td>930</td>
<td>1295</td>
<td>1495</td>
<td>1836</td>
<td>2308</td>
<td>3814</td>
<td>4677</td>
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<td>6. Expenditure on displaced persons</td>
<td>53</td>
<td>55</td>
<td>54</td>
<td>128</td>
<td>104</td>
<td>207</td>
<td>177</td>
<td>1553</td>
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<td>7. Others*</td>
<td>5185</td>
<td>5765</td>
<td>5363</td>
<td>6494</td>
<td>5948</td>
<td>6579</td>
<td>6363</td>
<td>6635</td>
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<td><strong>Total</strong></td>
<td><strong>19574</strong></td>
<td><strong>20661</strong></td>
<td><strong>21156</strong></td>
<td><strong>23949</strong></td>
<td><strong>24719</strong></td>
<td><strong>27336</strong></td>
<td><strong>29352</strong></td>
<td><strong>31936</strong></td>
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<tr>
<td>8. Compensation to Zamindars</td>
<td>203</td>
<td>280</td>
<td>127</td>
<td>-196</td>
<td>264</td>
<td>674</td>
<td>504</td>
<td>851</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>22191</strong></td>
<td><strong>19057</strong></td>
<td><strong>18995</strong></td>
<td><strong>21935</strong></td>
<td><strong>23749</strong></td>
<td><strong>27542</strong></td>
<td><strong>31371</strong></td>
<td><strong>32310</strong></td>
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Table III.6

*Others includes: Territorial and political pensions, privy purse allowances, superannuation allowances and pensions, famine relief, appropriations to contingency fund, and miscellaneous.
## Expenditure - Group II

**State Government**

<table>
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<tr>
<th></th>
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<td>1. Agriculture and rural development</td>
<td>1895</td>
<td>2011</td>
<td>2497</td>
<td>2497</td>
<td>3068</td>
<td>3104</td>
<td>3383</td>
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<td>2. Irrigation</td>
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<td>4654</td>
<td>4869</td>
<td>6173</td>
<td>8785</td>
<td>10726</td>
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<td>8128</td>
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<td>3. Community Projects and National Extension</td>
<td>6</td>
<td>90</td>
<td>508</td>
<td>1079</td>
<td>2911</td>
<td>3189</td>
<td>3426</td>
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<td>4. Veterinary</td>
<td>410</td>
<td>403</td>
<td>444</td>
<td>478</td>
<td>590</td>
<td>909</td>
<td>868</td>
<td>1054</td>
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<td>5. Medical and Public Health</td>
<td>2945</td>
<td>3181</td>
<td>3429</td>
<td>3758</td>
<td>4719</td>
<td>5425</td>
<td>5534</td>
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<td>6. Education</td>
<td>6126</td>
<td>6899</td>
<td>7579</td>
<td>8630</td>
<td>10417</td>
<td>11993</td>
<td>13084</td>
<td>14277</td>
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<td>7. Scientific Departments</td>
<td>55</td>
<td>42</td>
<td>43</td>
<td>60</td>
<td>52</td>
<td>72</td>
<td>125</td>
<td>134</td>
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<td>8. Cooperation</td>
<td>376</td>
<td>373</td>
<td>514</td>
<td>616</td>
<td>648</td>
<td>979</td>
<td>1069</td>
<td>1192</td>
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<td><strong>Total</strong></td>
<td><strong>16562</strong></td>
<td><strong>17653</strong></td>
<td><strong>19883</strong></td>
<td><strong>23273</strong></td>
<td><strong>31190</strong></td>
<td><strong>36397</strong></td>
<td><strong>35867</strong></td>
<td><strong>38439</strong></td>
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<tr>
<td>10. Compensation to Zamindars*</td>
<td>203</td>
<td>280</td>
<td>127</td>
<td>-196</td>
<td>264</td>
<td>674</td>
<td>504</td>
<td>831</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>19179</strong></td>
<td><strong>16049</strong></td>
<td><strong>17722</strong></td>
<td><strong>21259</strong></td>
<td><strong>30220</strong></td>
<td><strong>36603</strong></td>
<td><strong>37886</strong></td>
<td><strong>38183</strong></td>
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*Note: For reasons explained in Table III figures for State Trading and Compensation to Zamindars are recorded separately from the rest of the expenditures.
## Expenditures - Group III
### State Government

In lakhs of Rs.

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<tr>
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<td>1. Civil works</td>
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<td>5618</td>
<td>5743</td>
<td>6881</td>
<td>9394</td>
<td>12741</td>
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<td>2. Industries</td>
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<td>1390</td>
<td>1610</td>
<td>2087</td>
<td>2514</td>
<td>4728</td>
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<td>3. Forests</td>
<td>891</td>
<td>972</td>
<td>995</td>
<td>1106</td>
<td>1265</td>
<td>1502</td>
<td>1494</td>
<td>1592</td>
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<tr>
<td>4. Electricity</td>
<td>1995</td>
<td>2373</td>
<td>2039</td>
<td>2725</td>
<td>4287</td>
<td>6093</td>
<td>3470</td>
<td>3457</td>
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<tr>
<td>5. Printing</td>
<td>551</td>
<td>579</td>
<td>580</td>
<td>641</td>
<td>673</td>
<td>695</td>
<td>874</td>
<td>880</td>
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<tr>
<td><strong>Total</strong></td>
<td><strong>10350</strong></td>
<td><strong>10932</strong></td>
<td><strong>10967</strong></td>
<td><strong>13442</strong></td>
<td><strong>18133</strong></td>
<td><strong>25759</strong></td>
<td><strong>22408</strong></td>
<td><strong>22647</strong></td>
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Table III.8
CHAPTER IV

THE SYSTEM OF EXPENDITURE CONTROL IN INDIA

Expenditure control is exercised at different stages of the budget cycle. The study of the budget cycle is, therefore, important in showing the different stages of control and the kind of control that is exercised at each stage. We shall be concerned here with a brief description of the budget cycle and budget procedures in India. An evaluation of the system will be taken up in the next chapter.

The budgetary system as it exists in India to-day is basically the same as that introduced by the British Administration more particularly since the Government of India Act, 1935 and the inauguration of Provincial Autonomy, 1937.1

In order to avoid repetition, the system as it exists to-day will be described, and the main points of departure from the Government of India Act, 1935 will be indicated. The purpose of examining the changes, if any, in the budgetary system is to find out to what extent the system has tended to adapt itself to the changed pattern of government expenditures, and whether the change is in the right direction and is adequate to meet the requirements of the country.

A. Preparation of the Budget

The work of budget preparation begins in the individual Ministries when they prepare the budget estimates for the next financial year. The estimates

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represent a forecast of the work expected to be done during the next year and the costs that are likely to be incurred.

(a) Assumptions underlying the estimates

Since the basic objective of public expenditure is to promote economic development, a possible target rate of growth of national income is assumed. On the basis of this rate of growth the total investment required is calculated. The total investment required assumes a certain capital output ratio. "This ratio is obtained from the calculations of the intimated increases in the net output in the individual sectors, corresponding to the investment proposed in these sectors. The ratio in other words is worked out broadly on the basis of the data furnished by the project making authorities while commending these for acceptance. An element of conjecture does, however, enter into this overall estimate, as there are sectors of the economy for which increases have to be incurred from direct evidence."  

Given the rate of growth and the investment required, the development programmes in the public sector are "related to an assessment of the effort that is likely to be forthcoming for the private sector."  

The feasibility of the investment in the public sector depends upon the rate of domestic savings and the expected foreign aid. For the purposes of mobilising domestic savings it is assumed that "the manner in which - and the extent to which - private savings get transferred to the public sector, depends essentially upon the willingness of the public to hold their assets in different forms: cash, negotiable government bonds and small savings certificates or deposits. So long as the total savings transferred are

2. First Five Year Plan, Planning Commission, Government of India, New Delhi, p.75.
adequate it is a matter of comparative indifference whether they take the form of subscriptions to loans or of small savings, or are held in the form of currency created by the State. The first essential point then is whether private savings can be expected to be larger than the requirements for private investment by the amount that is needed by the State. Sufficiency of private savings in this sense can be postulated only if the necessary over-all constraints on consumption are operative. In other words, the smaller the proportion of public savings available directly to the State in the form of surplus tax receipts or profits of public enterprises, the greater is the need for other measures and techniques for keeping down consumption within the desired limit.\(^1\)

The next assumption is about the annual rate of growth of population. "In an under-developed economy with very little capital per person, a high rate of population growth makes it even more difficult to step up the rate of savings, which in turn largely determines the possibility of achieving higher productivity and incomes. Moreover, for a given investment, a large proportion will need to be devoted to the production of essential consumer goods at the expense of the producer goods industries, thereby still further slowing down the potential rate of economic growth."\(^2\)

(b) **Standing charges and new expenditure**

The departmental estimates are divided into Standing Charges and New Expenditure. The term New Expenditure\(^3\) includes expenditure on all new

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services, provision for which has not already been made in the sanctioned grant or appropriation, expenditure likely to be incurred in extending a service and all temporary expenditure. In cases of doubt whether expenditure of a particular kind should be included in the Statement of New Expenditure, the matter has to be referred to the Ministry of Finance, for orders.

In making estimates for fixed charges the Ministries are required to bear in mind what are called 'fixed establishment charges' are not irrevocably fixed for all time. They should, therefore, be brought under the review of Heads of Departments from time to time. Proposals requiring New Expenditure have to be submitted by Heads of Departments and other estimating authorities to the Ministry concerned, not later than 15th October each year, to permit the latter to undertake an examination of the proposals in their various aspects. It is open to the administrative Ministries to require Heads of Departments to submit proposals for New Expenditure in the course of the year without reserving for a consolidated report at the time of submission of the budget estimates, and also to require them to submit direct to other Departments of the Central Government those proposals for New Expenditure as have to be consolidated by the latter, in order to ensure that proper consideration of the proposals, from the administrative and financial points of view, is completed before 15th November.

The detailed estimates of expenditure are prepared in form supplied by the Accounts Office. The forms contain separate columns to show: (i) sub-heads and detailed heads of estimates; (ii) actuals of the past three years under each detailed head or sub-head -(a) for the full year, and (b) for six monthly periods; (iii) budget estimates for the current year; and (iv) budget estimates for the ensuing year.

The actuals for the past three years are filled in by the Accountant General in the forms sent out to him by the estimating authorities. The
latter fill in the six monthly figures of the previous year and the revised estimates in the relevant columns according to the available information. The revised estimates are as important as the past actuals in preparing the budget estimates are as important as the past actuals in preparing the budget estimates, and the authorities are, therefore, advised to exercise great care in including or omitting commitments which may or may not materialise during the year.

The main rules⁠¹ that are laid down for the preparation of the estimates are:—

(i) The estimates should be prepared on the basis of what is actually paid during the year, including arrears of the previous year, not only for the demand or liability falling due within the year. In no case should merely net receipts or the net charges be entered, but the gross transactions in full, even where the receipts are to be shown as deductions from expenditures.

(ii) in framing estimates for the sanctioned establishment, the full amount of pay, including increments drawn by men on duty during the year should be provided for. Suitable provision should be made for leave salary on the basis of past actuals. Provision for those who are not on duty or otherwise absent, and unlikely to return to the strength within the period of the budget should be excluded, but the names of the persons on deputation should be shown. A lump sum deduction is required to be made where experience shows that a saving may be anticipated for posts which are likely to be kept vacant for other reasons. The rate of pay should be stated where possible, in order to admit verifications from the columns of

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charge. No provision should be made for posts which it has been decided are not to be filled. If it is decided to revive any of the posts, previous consent of the Ministry of Finance should be obtained before including them in the estimates.

(iii) for all fixed recoveries and fixed payments the sanctions fixing the amounts should be quoted.

(iv) opposite every item of fluctuating charges, such as travelling allowances, contingent charges etc., a note should be made of the actual expenditure made during the last three years, together with a brief explanation of any abnormal variation, and in all cases where the estimates of the coming year differ from those of the previous year, full explanation must be given. In case of contract contingent charges, only the sanctioned amount of contract grant should be shown, and the estimates of the contingent charges should be checked by comparison with the expenditure of various offices.

(v) the estimates of receipts and varying charges should not be merely an arithmetic average of the figure for the three years. The average is a guide, but it should not be taken absolutely.

(vi) no lump sum provision should be made in the budget except under definite orders.

(vii) provision for losses should not be made in the budget estimates. If, however, the nature of the work of the Department is such that some losses should be regarded as inevitable, each year provision may be made with the special sanction of the Ministry of Finance.

(c) Estimates of capital expenditure

The provision for various items of expenditure met from Capital is related to ceilings allotted to each Ministry, after an over-all review
of the financial resources of the Central Government. In order to ensure
that the schemes of capital expenditure of all the Ministries are taken into
consideration, each Ministry is requested to take the concurrence of the
Department of Expenditure to its proposals in time and to send to the
Department a consolidated statement of the accepted items, in the prescribed
form (Appendix I), so as to reach the Department of Economic Affairs,
Planning Division of the Ministry of Finance, by November 10th. A copy of
the statement, in duplicate, is also endorsed to the Planning Commission
(Programme Administration Division). The Department of Economic Affairs
reviews the proposals of the administrative Ministries in consultation with
the Planning Commission and endeavours to communicate to the Ministries
concerned, at the earliest possible date, the decision of the Cabinet regard¬
ing the capital grant to be made to each Ministry, so that the Ministry may
send New Item Statements (in triplicate, in the prescribed form) (Appendix II)
to reach the appropriate branches of the Department of Expenditure within
three days of the receipt of the estimation of capital ceilings.

(b) Estimates relating to Central Schemes and Centrally Sponsored
Schemes for which assistance has to be given to the States, have to be
furnished in separate statements, in the prescribed forms. Each statement
is divided into two parts – one relating to Continuing Schemes and the other
to New Schemes to be taken up in the next financial year.

(c) In cases of schemes for which budget proposals are made both
under Capital and Revenue e.g. Grow More Food, Community Projects and
National Extension Service, the Ministries concerned have to indicate the
amounts accepted by the Department of Expenditure on Revenue Account, as
in fixing ceilings for capital expenditure the expenditure on revenue
account may also have to be taken into consideration.
(d) As the capital ceilings are intended to cover the gross amount and not merely the net cash expenditure or loans, the demands of the Ministries for capital ceilings are required to be inclusive of the estimated value of the equipment etc. Amounts expected to be received as foreign assistance are to be indicated separately in the statement of accepted estimates.

(e) The Ministries are required to indicate against each scheme the details of foreign exchange required and whether any portion of the foreign exchange requirements is covered by a scheme of foreign assistance like loans, grants or deferred payments agreements.

After the estimates have been compiled by the individual Ministries they are submitted to the Ministry of Finance for inclusion in the Financial Statement. These estimates are, however, first examined by the Ministry of Finance before they are finally incorporated in the Financial Statement. This examination is necessary because as the budgets are prepared by the individual Ministries on the basis of their own requirements it is possible that they may be inconsistent with each other. After the budget estimates have been considered and approved by the Ministry of Finance the Financial Statement is prepared and presented to Parliament.

Parliamentary procedures governing control relate to presentation, discussion, voting of the budget and passing of the Appropriation Act.

B. Parliamentary Control of Expenditure

(a) The form or content of the budget

The form in which the budget is presented is directly influenced by the type of information that is required. In India, public expenditures, from the point of view of Parliamentary control, may be divided into two
kinds — those which Parliament can vote upon and those which are 'charged' or outside the vote of Parliament. Hence article 112 of the Constitution lays down that —

"The estimates of expenditure embodied in the Annual Financial Statement shall show separately,

(a) the sums required to meet expenditure charged upon the Consolidated Fund of India, and

(b) the sums required to be made from the Consolidated Fund of India."

The items that are charged on the Consolidated Fund are:—

"(a) The emoluments and allowances of the President and other expenditure relating to his office.

(b) The salaries and allowances of the Chairman and Deputy Chairman of the Council of States, and the Speaker and Deputy Speaker of the House of the People.

(c) Debt charges for which the Government of India is liable, including interest, sinking fund charges and redemption charges, and other expenditure relating to the raising of loans and the services and redemption of debts.

(d) (i) The salaries, allowances and pensions payable to or in respect of the judges of the Supreme Court;

(ii) The pensions payable to or in respect of the judges of the Federal Court;

(iii) The pensions payable to or in respect of the judges of any High Court which exercises jurisdiction in relation to any area included in the territory of India, or which at any time before the commencement of the Constitution, exercised jurisdiction in relation to the area included in a province corresponding to a State, specified in Part A of the First Schedule.

1. The Constitution of India (As modified up to 1st December, 1957) Publications Department, Delhi, 1959, p.42.
(e) The salaries, allowances and pensions payable to or in respect of the Comptroller and Auditor General of India.

(f) Any sums required to satisfy any judgement, decrees or any award of any court or arbital tribunal.

(g) Any other expenditure declared by this Constitution to be so charged.\(^1\)

Before Parliament can vote the money, it is necessary that it should know exactly how much money is required and the purposes for which it is required. This information is provided to Parliament in detail in the form of Demands for Grants. Generally a separate Demand for Grant is presented for each Ministry. Each Demand for Grant contains an estimate of the total demand and a statement of the detailed estimates of individual items. The passing of the Demands for Grants by Parliament means distributing the allocations from the Consolidated Fund among individual Ministries.

When a government is concerned not only with the general functions of administration, law and justice, etc., but also directly with economic planning, then before an intelligent examination of the allocations among the individual Ministries can be made, Parliament needs to know further the economic impact of Government’s budgetary policy on the country.

"For some time past, need has been felt, in Parliament and outside for presenting the date on Government’s budgetary transactions in a form more readily amenable to economic interpretation. The usual budget papers, consisting of the Financial Statement of the Government of India and the Demands for Grants of the various Ministries - together with the Explanatory Memorandum of the budget - are devised to facilitate examination and voting by Parliament of the Ministerial Demands for Grants and the revenue proposals.

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associated with the total demand for expenditure. But as development proceeds, the impact of Government's budgetary operations becomes a matter of increasing importance, and a reclassification of the budget is required in order to bring out more clearly some of its economic implications.\footnote{1}{Economic Classification of the Central Government Budget, 1957-58, p.1.} In order to fulfil the requirement the Finance Ministry prepares and submits to Parliament, in addition to the usual budget papers, an Economic Classification of the Central Government Budget (Appendix III). The presentation of the Economic Classification was started in 1956-57. The general objective of the Economic Classification is to analyse the various aspects of the Central Government's operations vis-a-vis the rest of the economy. In particular, the objectives are:

\[(a)\] Central Government's total expenditure, which represents the aggregate flow-back of funds to the rest of the economy through the various uses to which they are put;

\[(b)\] Capital formation out of the budgetary resources of the Central Government;

\[(c)\] Savings of the Central Government which together with the savings of the rest of the economy give the total domestic savings;

\[(d)\] The various measures of deficit in Central Government's budgetary operations; and

\[(e)\] Central Government's contribution to the generation of national income.\footnote{2}{An Economic Classification of the Central Government Budget, 1960-61, p.7.}

Given the information relating to Ministerial demands, and the economic effects of the overall budgetary policy, how detailed is the control exercised by Parliament over budgetary allocations? Parliament does not...
exercise a very detailed control over the estimates but is, by and large, concerned with the policy embodied in the estimates. Cut Motions to reduce the amount of a Demand can be introduced in Parliament. These Cut Motions are of three kinds:\(^1\):

(i) Disapproval of Policy Cut. The amount reduced is only a token Re.1/-.

The member who moves a Disapproval of Policy Cut has to state clearly the aspects of the policy he wishes to discuss and he can, if he likes, suggest an alternative policy.

(ii) Economy Cut. This motion states the specified amount that may be reduced. The reduction may be a lump sum or the reduction asked for may relate to a specified item in the Demand. The mover of the Motion has to show clearly how economy may be brought about.

(iii) A Token Cut. The member asks for a reduction of the Demand by Rs.100/-. The Cut Motion is to voice a specific grievance, which it is believed can be remedied by the Government of India.

(b) The Appropriation Act

"As soon as may be after the Grants under Article 113 have been made by the House of the People, there shall be introduced a Bill to provide for the appropriation out of the Consolidated Fund of India of all moneys required to meet:--

(a) the grants so made by the House of the People; and

(b) the expenditure charged on the Consolidated Fund of India but not exceeding in any case the amount shown in the statement previously laid before Parliament.

(2) No amendment shall be proposed to any such Bill in either House of

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1. Rule 209 of the Rules of Procedure and Conduct of Business in Lok Sabha, Lok Sabha Secretariat, New Delhi, 1957, described the kinds of Cut Motions that are allowed and Rule 210 lays down the conditions of admissibility of Cut Motions.
Parliament which will have the effect of varying the amount of altering the destination of any grant so made or of varying the amount of any expenditure charged on the Consolidated Fund of India, and the decision of the person presiding as to whether an amendment is inadmissible under this clause shall be final."\(^1\)

The debate on an Appropriation Bill is "restricted to matters of public importance or administrative policy implied in the grants covered by the Bill which have not already been raised while the relevant demands for grants were under consideration."\(^2\)

After Parliament passes the Appropriation Act, the Executive can go ahead with the expenditure plans, as approved by Parliament.

Before examining Executive procedures governing spending, we may consider parliamentary procedures for increasing the sanctioned amounts when the amount "to be expended for the current financial year is found to be insufficient for the purposes of that year or when a need has arisen during the current financial year for supplementary or additional expenditure upon some new service not contemplated in the annual financial statement of the year."\(^3\)

(c) **Supplementary estimates**

When more money than has already been sanctioned by Parliament is required then it becomes necessary to submit Supplementary Estimates. Supplementary grants are governed by the same rules as are applicable to the Demands for Grants. The debate on Supplementary Grants has to be

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confined to the items included in the Supplementary Demand. No discussion can be raised on the original grant or policy underlying them, unless it is necessary to illustrate or explain the particular item under consideration in the Supplementary Demand.

(d) **Excess Votes**

Sometimes it is not possible to notice a deficit between income and expenditure until the end of the financial year. It is by then too late to present a Supplementary Demand, but the expenditure has to be regularised. An Excess Vote is, therefore, passed by Parliament to legalise the overdraft made by the Department. The need for Excess Vote is usually considered an indication of the inefficiency of the Department concerned.

(e) **Exceptional Grants**

Under Article 116 of the Constitution, the House of the People has the power "to make a grant for meeting an unexpected demand upon the resources of India when on account of the magnitude or the indefinite character of the service the demand cannot be stated with details ordinarily given in an annual financial statement.

To make an exceptional grant which forms no part of the current service of any financial year."¹

C. **Expenditure Control within the Executive**

Expenditure control within the Executive, after appropriations are available, may be broadly identified with financial control. The prerequisites for an effective exercise of financial control are (i) fixing standards of financial propriety; and (ii) fixing levels of responsibility.

¹. The Constitution of India, p.44.
The standards of financial propriety which should be maintained are laid down in the General Financial Rules of the Central Government.

"Every officer incurring or authorising expenditure from public funds should be guided by high standards of financial propriety. Among the principles on which emphasis is laid are the following:

(i) Every public officer is expected to exercise the same vigilance in respect of expenditure incurred from public moneys, as a person of ordinary prudence would exercise in respect of his own money.

(ii) The expenditure should not prima-facie be more than the occasion demands.

(iii) No authority should exercise its powers of sanctioning expenditure to pass an order which will be directly or indirectly to its own advantage.

(iv) Public moneys should not be utilised for the benefit of a particular person or section of the community unless -

(a) the amount of expenditure involved is insignificant,

(b) a claim for the amount could be enforced in a court of law,

(c) the expenditure is in pursuance of a recognised policy or custom.

(v) The amount of allowances granted to meet expenditure of a particular type should be so regulated that the allowances are not on the whole a source of profit to the recipient."

(a) **Sanctions for Expenditure**

The Rules of Business of Government lay down that all proposals having financial implications should be referred to the Ministry of Finance by the administrative Ministries of Departments concerned. Certain financial

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powers are delegated to the Heads of individual Ministries or Departments. These financial powers are, by and large, for routine administrative purposes. The maximum that can be spent and the items on which the expenditure can be incurred are listed in detail in the Book of Financial Powers. For all items not specified in the Book of Financial Powers the concurrence of the Ministry of Finance has to be obtained.

(b) Responsibility for Disbursing and Limiting Expenditure

Within the administrative Ministries the responsibility for administering the grant lies with the Head of Department, the Controlling Officer (the Head of Department may or may not be the Controlling Officer) and the Disbursing Officer. The over-all responsibility for controlling expenditure from the grant lies with the Head of Department. He distributes the grant among the various Controlling and Disbursing Officers subordinate to him.

A Controlling Officer has to see that the total expenditure is kept within the limits of authorised appropriations and that the funds allotted to the spending units are spent upon the objects for which the funds were actually sanctioned. Since the Public Accounts Committee is interested in this aspect of expenditure control it is a legitimate requirement that the Controlling Officer should be in a position to explain any deviations by way of surplus or deficit to the Public Accounts Committee and further answer such questions as the Public Accounts Committee may want to ask.

The Head of Department and his Controlling Officers are also expected to maintain a careful watch over expenditure incurred from time to time on important non-recurring objects such as grants and contributions, purchases of rations, and purchases of uniforms. It is necessary to deal with such items separately from the accounts of ordinary monthly expenditures, since
they occur only once or twice in the course of the year. The Head of Department or the Controlling Officer has to decide for himself the method of controlling such expenditure. In some cases he may prefer to keep the grant under his control and to order Disbursing Officers to report expenditure against it separately from the ordinary monthly accounts. Whatever method he adopts, it is essential that he should keep himself informed not only of actual expenditure against such grants but also of liabilities which have been incurred and must ultimately be met from them. Without such information adequate control over expenditure cannot be exercised.

In order to exercise effective control the Head of Department should be in a position, from month to month, to estimate the likely savings. This means that proper accounts have to be kept. It is laid down that in the matter of accounting and for control of expenditure the nomenclature of the 'budget-cum-accounts heads' should be strictly followed by Departmental officers. Wherever provision made in the budget estimates or in any Order of Appropriation does not conform to the prescribed head or unit the corresponding receipts or expenditures should be accounted for against the particular head or unit under which the provision has been made or the appropriation has been communicated by the competent authority, unless there are strong reasons for a different course.

D. Review of Expenditures

Review of expenditures is necessary to ensure their regularity in terms of prescribed procedures. This review is carried out by the Comptroller and Auditor General and the Public Accounts Committee.

The Comptroller and Auditor General is responsible for the audit of all
government accounts. He is appointed by the President of India and is not eligible for further office either under the Government of India or the State Governments after his term of office expires. Audit of expenditure, by and large, covers the following:

(a) **Audit against provision of funds**

Audit against provision of funds is directed to ascertaining that expenditure has been incurred against proper appropriations. Each appropriation is a single total sum appropriated to the purpose set out in it. The particulars of a Grant or Appropriation are based on the detailed estimates submitted to the Legislature. Any expenditure which is in excess of the appropriation or does not fall within its scope is treated as unauthorised expenditure. The Appropriation Accounts mainly depend on explanation furnished by the Heads of Departments to the Auditor General showing the cause of variations between appropriations and actual expenditure. Exact explanations for variations are required and it is expected that the use of vague terms like 'due to over-estimating' or 'covered by re-appropriation' or 're-appropriation proved inadequate' will be avoided.

The responsibility for watching the progress of expenditure against a Grant or Appropriation lies with the Executive, but it is expected that Audit will give all legitimate assistance to the Executive and see that suitable and adequate arrangements exist in all Departments of Government for control of expenditure.

(b) **Audit of Sanctions to expenditure**

Audit has to satisfy itself that (a) the authority sanctioning the expenditure was competent to do so by virtue of the financial powers vested in it; (b) that the sanction is definite and thus needs no reference either to the sanctioning authority itself or to any higher authority.
(c) **Audit against Regularity**

Audit against Regularity consists in verifying that expenditure conforms with the financial rules and regulations. The rules and regulations fall into the following categories: (a) Rules and Orders regulating the power to incur and sanction expenditure; (b) Rules and Orders dealing with the mode of presentation of claims against government, withdrawing money from the public account, and (c) the Financial Rules prescribing the detailed procedures to be followed by government servants in dealing with government transactions.

(d) **Audit against Propriety**

No precise rules for regulating the course of Audit against propriety can be laid down. Its object is to support a reasonably high standard of public financial morality and of sound financial morality.

(e) **Audit of Government Commercial Transactions**

The principles and rules to be applied to the audit of commercial accounts are those adopted by commercial law or practice for non-government concerns. The main object of audit of government commercial undertakings is to ensure that the accounts present a correct picture of the financial result of the undertakings in terms of liability and assets, debit and credit, profit and loss. In the audit of commercial accounts it is necessary to verify the correctness of the allocation of expenditure between capital and revenue, the valuation of assets upon a reasonable basis, and the adequacy of provision for depreciation.

The reports of the Comptroller and Auditor General relating to the accounts of the Union Government are submitted to the President and are subsequently laid before each House of Parliament.
(f) Public Accounts Committee

The Public Accounts Committee consists of not more than fifteen members who are elected by the House every year according to the principle of a single transferable vote. A Minister cannot be elected a member of a Committee. If he is already a member and is appointed a Minister he ceases to be a member.

The Public Accounts Committee examines the Appropriation Accounts and the Report of the Comptroller and Auditor General with the following objectives:

(i) that the money shown in the accounts as having been disbursed was legally available and intended for the services on which it has actually been spent;

(ii) that the expenditure conforms to the authority which governs it;

(iii) that every re-appropriation has been made in accordance with the provisions made in this behalf under the rules framed by competent authority.

The Committee also examines:

(a) the statement of accounts showing the income and expenditure of the State corporations; trading and manufacturing schemes, concerns and projects, together with the balance sheets and statement of profit and loss accounts, which the President may have required to be prepared or are prepared under the provisions of the statutory rules regulating the financing of a corporation; trading or manufacturing schemes, concerns or projects, and Report of the Comptroller and Auditor General on it;

(b) to examine the statement of accounts showing the income and expenditure of autonomous bodies, the audit of which may be conducted by the Comptroller and Auditor General of India, either under the direction of the President or by a Statute of Parliament;

(c) to consider the Report of the Comptroller and Auditor General in
cases where the President may have required to conduct an audit of any receipts or to examine the accounts of stores and stocks.

In case any money has been spent on a particular service in excess of the amount granted for the year for that service, the Committee examines, with reference to the facts of each case, the circumstances leading to such an excess and makes such recommendations as it thinks fit. The Committee examines departmental witnesses who are summoned to appear before it and to answer criticisms contained in the Comptroller and Auditor General's Report.

(g) **The Estimates Committee**

The Estimates Committee consists of not more than thirty members who are elected by the House every year from amongst its members, according to the principle of a single transferable vote. A Minister cannot be elected a member of a Committee, and if he is already a member and is elected a Minister, he ceases to be a member from the date of his appointment; the term of office of the members shall not be more than a year. The functions of the Estimates Committee are:

(a) to indicate the possible economies, improvements in organization, efficiency and administrative reform consistent with policy underlying the estimates;

(b) to suggest alternative policies in order to bring about efficiency and economy in administration;

(c) to examine whether money is well laid out within the limits of policy implied by the estimates;

(d) to suggest the form in which the estimates should be presented to Parliament.
E. Changes in the Budgetary System since 1947

The changes that have been introduced in the system since 1947 are the result of political as well as economic changes that have taken place in the country. The major changes that may be attributed to political reasons may be said to be the following:-

(1) Under the Government of India Act 1935, expenditure on certain subjects like Defence and External Affairs was classified as voted. These have now been brought under the vote of the Legislature.

(2) With regard to certain matters of Provincial Administration, Governors had the power to act otherwise than on the advice of the Ministers. If these decisions involved additional expenditures, the Governors were fully empowered to incur them on their own authority, subject to the control of the Governor General and the Secretary of State. Under the present Constitution, no expenditure can be incurred without the sanction of Parliament. However, "if the President is satisfied that a situation has arisen whereby the financial stability or credit of India or of any part of the territory thereof is threatened he may, by Proclamation, make a declaration to that effect." The Proclamation of Emergency has to be laid before the House of Parliament, but as long as the Proclamation "is in operation, the Executive authority of the Union shall extend to the giving of directives to any State to observe such canons of financial propriety as may be specified in the directions, and to the giving of such other directions as the President may deem necessary and adequate for the purpose. Notwithstanding anything in this Constitution:

(a) Any such direction may include -

(i) a provision requiring the reduction of salaries and allowances of all or any class of persons serving in connection with the affairs of a State;

(ii) a provision requiring all Money Bills or other Bills to which the provisions of article 207 apply to be reserved for the consideration of the President, after they are passed by the Legislature of a State.

(b) It shall be competent for the President during the period any Proclamation issued under this article is in operation to issue directions for the reduction of salaries and allowances of all or any class of persons serving in connection with affairs of the Union including the Judges of the Supreme Court and High Courts.¹

(3) Another change of political significance has been the abolition of the Standing Finance Committee. The Standing Finance Committee was set up in India by the Montague-Chelmsford Reforms 1919. The Committee consisted of a large majority of elected members. It was staffed by officials of the Finance Department and presided over by the Finance Minister. The Committee was a purely advisory Committee. The question of replacing it by an Estimates Committee was considered by the Constituent Assembly² and subsequently by Parliament³. The first Estimates Committee was elected on 10th April 1950 and the Standing Finance Committee was abolished.

Since economic changes do not represent a once over change, but are continuous, and are spread over time, the administrative system has

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¹ The Constitution of India, p.136.
² Constituent Assembly of India Debates, 17th November 1947.
³ Lok Sabha Debates, 28th February 1950.
responded as and when the need has been felt.¹

(1) In 1950 a separate organisation was set up under the Civil Expenditure Division of the Ministry of Finance. The object was to secure financial control over the Hirakud Project. The organisation was headed by a Financial Adviser, who had his headquarters at Sambalpur, and represented the Ministry of Finance on the spot.

(2) In 1951 the Government of India set up the Bhakra-Nangal Control Board, with the concurrence of the Punjab, Pepsu and Rajasthan Governments. The Board has final control over the technical and financial aspects of the execution of the Bhakra-Nangal Project. The Board is presided over by the Governor of Punjab and has representation of the three participating States. The Central Finance Ministry is represented on the Board by the Joint Secretary accredited to the Ministry of Natural Resources and Scientific Research.

(3) In 1953-54, with a view to facilitating speedy implementation and execution of various schemes relating to the First Five Year Plan, a policy of wider devolution of powers to the administrative Ministries was adopted. Orders were issued the same year delegating wider financial powers² to the administrative Ministries, in the matter of creation of temporary posts, contingent expenditure, works expenditure and other matters.

(4) In the same year a technical cell and a 'Special Finance Section' were constituted as a part of the Ministry of Finance. The function of the Special Finance Section is to scrutinize estimates for irrigation and power projects, centrally controlled projects, and flood control schemes

1. The information relating to this section has been obtained from the Office Orders and Annual Reports of the Ministry of Finance. Access to these documents was obtained by kind permission of the Ministry of Finance, Government of India, New Delhi.

2. For details see Book of Financial Powers, Government of India.
formulated by the State Governments.

(5) In order to ensure that the Ministries carried out the instructions laid down in the Standing Orders relating to control of expenditure the Joint Secretaries of the Ministry of Finance, who were accredited to the various Ministries, were required to periodically inspect the registers maintained for the purpose by the Ministries and to bring to the notice of the Secretaries concerned points in respect of which improvement was required.

(6) In 1956-57 a scheme for internal financial control was introduced. The purpose of this scheme is that individual Ministries should develop their own financial cells so that the schemes and proposals involving expenditure and requiring financial advice are properly scrutinized within the Ministries themselves.

(7) In view of the increased participation of the Union and State Governments in commercial undertakings, in 1951-52, separate Commercial Audit Wings were established in the Audit Offices. In June 1951 the post of Controller of Commercial Audit was sanctioned.

(8) In the same year, for the first time, a procedure was adopted for submission in advance of Audit Reports whenever delays were anticipated in the completion of the Appropriation Accounts. In July 1952 the Public Accounts Committee agreed to the suggestion of the Comptroller and Auditor General that he may, at his discretion, present an advance Audit Report (to be described as Audit Report, Part I) dealing with cases involving financial irregularities, losses of public money due to fraud or negligence or wasteful expenditures. A Supplementary Audit Report (to be described as Audit Report, Part II) should be submitted later. This would deal with comments or criticisms arising out of Appropriation Accounts e.g. accuracy of budgeting, control of expenditure, excesses and savings, etc. together with
audit comments on any new or outstanding cases of financial irregularities. In accordance with this procedure, the first advance Audit Report (Railways) 1952 was presented to Parliament on 10th December 1952.

(9) It had been felt for some time that control over accounts would be more effective if Audit was separated from Accounts. Hence, on 1st April 1955, Departmental Accounts Offices were set up in the Ministries of Supply, Food and Rehabilitation. So far the system has not been extended to other Ministries. The main reason for not extending it to other Ministries is the additional expenditure involved.

Having considered the changes that have been introduced in the system, throughout the budget cycle, we may now examine the extent to which the reforms have been adequate to meet the changed requirements, and in general examine the suitability of the system as a whole to current and future requirements of the country.
CHAPTER V

AN APPRAISAL OF THE SYSTEM OF EXPENDITURE CONTROL IN INDIA

A. Expenditure Control at the Policy Level

The system of expenditure control described in the preceding chapter may now be examined with a view to finding out the extent to which it takes account of and helps in solving the various problems of control discussed in Chapter I.

The first problem of control arose from the fact that the objectives of policy could not be quantified and hence there was no definite criterion in terms of which it could be determined whether the policy objectives were being fulfilled.

The objectives of policy in India are derived from the Directive Principles of the Constitution (Appendix IV). The Five Year Plans since 1951 are designed to achieve these objectives. In drafting the First, Second and Third Five Year Plans it was intended to give special attention to (i) increasing the rate of economic growth; (ii) bringing about a reduction in inequalities of incomes; and (iii) raising the standard of living of the underprivileged. It was clearly recognised that "these objectives have to be pursued in a balanced way, for excessive emphasis on any one of them may damage the economy and delay the realisation of the objectives which is being stressed."

The actual balancing of these objectives constitutes a political decision and since there are no available criteria in terms of which one can judge how finely they are balanced there is a possibility of fairly wide limits within which variations in individual policies can take

1. Second Five Year Plan, p.25.
place and may also be accepted. The weighting given to different objectives being a matter of opinion, it is still possible to find whether policy is moving towards the over-all achievement of the objectives or whether, in the course of translating policy objectives into actual policy, some objectives tend to get neglected.

Actual expenditure policy is influenced to a large extent by the budgetary procedures and techniques of expenditure control that are followed. The importance of existing budgetary procedures is limited to the information the administrative Ministries provide to the Planning Commission (vide Chapter IV). Chapter II of the First Five Year Plan examines the problem of 'Objectives, Techniques and Priorities in Planning'. "The question of techniques to be adopted for planning is linked up with the basic approach that a community desires to adopt for the realization of its objectives. It is possible to have a plan, based on regimentation, and on immediate measures for levelling down, in the hope ultimately of being able to level up. It is possible to take the view that mass enthusiasm cannot be created, except on the basis of reprisals against those classes which come to be associated in the public mind with the inequities and deficiencies of the old order. But the basic premise of democratic planning is that society can develop as an integral whole, and that the position which particular classes occupy at any given time - a product of various historical forces, for which no individual or class as such can be held responsible - can be altered without reliance on class hatreds or the use of violence. The need is to secure that the change is effected quickly and it is the positive duty of the State to promote this through all the measures at its command."¹

One of the means by which the change can be brought about is through

¹. First Five Year Plan, p.31.
the choice between private and social wants. The assumption in India is that this problem of choice is solved through voting, and the political process, and hence the problem that government has to take care of relates to specifying the relative spheres of the public and private sector in production. These spheres were outlined in the Industrial Policy Resolution in 1948, but later revised in 1956 (Appendix V). The Industrial Policy Resolution classifies industries into three categories. The first category, shown in Schedule A, consists of industries whose future development is the exclusive responsibility of the State. The second category, shown in Schedule B, consists of industries which will be progressively State-owned, and in which, therefore, the State will generally take the initiative in establishing new undertakings. Private enterprise is also expected to supplement the efforts of the State. The third category consists of remaining industries, where further development will be the responsibility of private enterprise. "These categories are not intended to be rigid or water-tight. In the industries listed in Schedule A, for instance, the expansion of existing privately owned units is not precluded, and the State is free to secure the co-operation of private enterprise, in the establishment of new units, when the national interest so requires, subject to the proviso that while securing such co-operation, it will ensure, through majority participation, in the capital of the undertaking or otherwise, that it has the requisite powers to guide the policy and control the operations of the undertaking. Schedule B relates to what may be called the mixed sector, a sector in which the State will enter progressively, and enlarge its operations, but private enterprise will at the same time have the opportunity to develop, either on its own or with State participation. In the rest of the field of development will ordinarily be undertaken through the initiative and enterprise of the private sector, but it will be open to
the State to start any industry even within this field. The prime consideration determining State policy over the whole industrial field is promotion of rapid development in keeping with the over-all objectives defined. The public sector has to grow - and rapidly - and the private sector has to conform to the requirements of the Plan. There has necessarily to be "a great deal of dovetailing" between the two sectors, and it has to be recognised that the private sector has to be given the opportunity and facilities to function effectively within the field allotted to it. It is within the framework of this new Industrial Policy Resolution that rapid industrialisation has to be carried through in the coming years."¹

Having determined the relative spheres of the public and the private sector, the decision has to be taken about planning public expenditures themselves. While the Plans in India are concerned with development as well as non-development expenditures, the discussion of techniques is limited almost entirely to the public sector. It is stated that the "criteria of investment are broader than those which govern private investment. The public sector can and has to take a longer and more comprehensive view of the requirements of the economy. The public authorities have to carry out and assist a programme of complementary investments, such that they make in the aggregate a larger contribution to the national product, than isolated investments, determined by considerations of costs and returns within a limited perspective would make possible."² In planning outlays, therefore, it is considered "essential to proceed on the basis of a broad strategy of economic development which will ensure that the economy expands rapidly and becomes self-reliant and self-generating within the shortest possible time."³ From a study of the Plans and official documents relating to the

Plans one is led to infer that those programmes are given the highest priority which can make the greatest visible contribution to national income.

Table V-1 shows the distribution of actual outlays in the First and Second Five Year Plans and the estimated outlays in the Third Five Year Plan. While commenting on the changes in the distribution of outlays the Third Five Year Plan points out that "the changes in the distribution of outlays reflect changes in emphasis in the two Plans. In the First Plan relatively greater stress was placed on programmes designed to build up the agricultural potential of the country. Consequently programmes for agriculture and irrigation comprised 31% of the Plan outlay. In the Second Plan greater emphasis was given to industrial development, and the relative shares of industries and minerals increased from 4% to 20%. Transport and Communications were given high priority in both Plans. Social Services and Miscellaneous Heads comprised 23% of the First Plan outlay, and 18% of the Second Plan outlay." Hence it is clear that economic development is given prime importance and other objectives are left to be achieved as a by-product. Out of all the expenditure programmes Social Services can contribute the most towards the achievement of the distributional objectives but it is Social Services that have constantly declined in relative importance. It may be pointed out here that 'Social Services' and 'Miscellaneous Heads' are lumped together and this in itself, whatever the political statements, is a strong indicator of the attitude of the planners towards Social Services.

   First Five Year Plan: Progress Report from April-September 1954, Delhi, 1955.
   Review of the First Five Year Plan, Delhi, 1957.
   Appraisal and Prospects of the Second Five Year Plan, Delhi, 1956.
2. Third Five Year Plan, p.33.
## Distribution of Outlays

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<th>HEAD</th>
<th>First Plan expenditure</th>
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<th>Second Plan expenditure</th>
<th>Percentage</th>
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<td>13</td>
<td>445</td>
<td>10</td>
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<td>900</td>
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<td>27</td>
<td>1300</td>
<td>28</td>
<td>1486</td>
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<td>23</td>
<td>830</td>
<td>18</td>
<td>1300</td>
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<td>4600</td>
<td>100</td>
<td>7500</td>
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*Table V.1*

Source: Third Five Year Plan
That all the objectives were not being given due importance was clearly recognised by the Congress Planning Committee while discussing the background of the Third Five Year Plan. "While the importance of reducing disparities in income and wealth has been recognised all along, and substantial reduction has taken place in the rural sector, it cannot be said that steps in this direction in industrial and urban sectors of the economy have already become sufficiently effective.

There are sections of the masses in the rural as well as urban areas who evidently have better living conditions than a few years earlier. There is also a widespread impression that economic development during these years has not helped sufficiently those large numbers who constitute the underprivileged groups. The mere awareness of the situation, however, was not sufficient, as we have just seen, to influence allocations in the Third Five Year Plan.

Given the bias in favour of economic growth, the approach to allocation of resources is basically the requirements approach. However, in view of the fact that the resources are, by and large, not adequate to meet all the requirements, the technique of fixing priorities is employed. We are not concerned here with the actual priorities that have been fixed but with the approach to priorities. In the Chapter on Priorities, the First Five Year Plan points out that "the demands of the economy for development are so large and pressing that great care has to be taken in allocating the limited resources available. When one views development as a process over a period of years, there is no sector of the economy in which a large increase in investment would not be justified. Within a limited time horizon, however, the problem assumes a different aspect. It follows, that a

concept of priorities over a period has to be a dynamic one, the emphasis as between different sectors shifting as development in those taken up initially prepares the ground for development in others."1 Hence, the fixing of priorities means a selection of programmes arranged in order of their importance. The dangers of the priorities approach have been pointed out by McKeen2 and it is evident from the experience of Indian planning that India has not been sufficiently aware of these dangers. The real significance as well as the pitfalls of the priorities approach were brought out in 1957, when it was considered necessary, in view of the shortage of foreign exchange, to lay down priorities in the form of the 'Core' of the Plan. A list of the 'Core' projects3 for the Second Five Year Plan is given below:

I. PUBLIC SECTOR

1. Steel:
   (i) Rourkela Steel Plant
   (ii) Bhilai Steel Plant
   (iii) Durgapur Steel Plant
   (iv) Mysore Iron and Steel Works (Ferro-silicon Expansion)

2. Coal and Lignite:
   (a) National Coal Development Corporation Scheme
      (i) Kathra
      (ii) Korba (Open cast)
      (iii) Korba (inclines)
      (iv) Gidi

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1. First Five Year Plan, p.44.
(v) Saunda
(vi) Korea
(vii) Existing State Collieries
(b) Singareni Collieries
(c) Coal Washeries
(d) Neivli Lignite Project (mining part)

3. Railway Development Programme (including the requirements of the Posts and Telegraphs Department in connection with the railway electrification programme).

4. Ports Development Programme:
   (i) Bombay
   (ii) Calcutta
   (iii) Madras
   (iv) Vishakhapatnam
   (v) Dredger Pool

5. Power Projects:
   (i) Korba Thermal Station (Madhya Pradesh)
   (ii) Khaper-Kheda Akola Thermal Station Extensions (Bombay)
   (iii) Hirakud Project (II stage) (Orissa)
   (iv) Lakkavalli (Bhadra) Project (Mysore)
   (v) Bhakra-Nangal H.E. Project (Punjab and Rajasthan)
   (vi) Chambal Project (first stage) (M.P. State/Rajasthan)
   (vii) Rihand Project (Uttar Pradesh)
   (viii) Tungabhadra H.E. Scheme (Mysore)
   (ix) Nariamangalam H.E. Scheme (Kerala)
   (x) Thermal Stations in Saurashtra region (Bombay)
   (xi) Ganderbal and Mohra Power Stations (Jammu and Kashmir)
(xii) Power Transmission, distribution and extension schemes
(sub-stations equipment, conductors, switchgears, underground
cables, steel for supports, ground water meters, etc.)

II. PRIVATE SECTOR

1. Steel:

   (i) Tata Iron and Steel Works

   (ii) Indian Iron and Steel Works

2. Coal:

The 'Core' indicated the programmes that would be undertaken because of
the changed resource position. It was apparently overlooked that the
changes in the Plan, brought about by excluding other projects originally
included in the Plan would affect not only the demand for foreign exchange
but the total demand for other resources as well. If instead of defining
the 'Core' in terms of priorities, an alternative Second Five Year Plan,
different in size and composition from the original Second Five Year Plan
had been prepared, then it would not have been necessary "to proceed
pragmatically in the matter of adjustments in the Plan" and a better over-
all allocations of resources might have been achieved.

Given the programmes, it is considered desirable to operate through
the markets, since "a democratic system of planning eschews direct command-
eering of resources, and it operates mainly through the price mechanism." It
was, therefore, considered necessary to ensure "(a) that movements in
relative prices accord with priorities and targets that have been set in
the plan, and (b) it must prevent any considerable rise in prices of
essential goods that enter into the consumption of low incomes."  

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2. First Five Year Plan, p.31.
3. Third Five Year Plan, p.119.
Apart from general statements like "monetary policy has to go hand in hand with fiscal policy", no attempt has been made to examine how the prices of products and services used in production could be adjusted by the eight amount. The need to consider the pricing policy of public enterprises is felt, but perhaps because of the difficulties of the problem the issue is evaded. "A word may be said in this context regarding the price policy of public enterprises. These enterprises have an important role in enlarging public savings. They must therefore operate at a profit and maintain the high standard of efficiency required for this purpose. Their price policy should be such as would secure an adequate return on the investment made from public funds."  

The attitude to costs and benefits in planning government expenditures needs to be examined. Over the whole range of government expenditures the weighing of costs and benefits has been left to experience and judgement, but an attempt at a more precise evaluation of benefits has been made for Irrigation and Power Projects.

Tables V.2 and V.3 give an abstract of benefit and cost from the major and medium irrigation projects. This study of benefits and costs has been used for two purposes - (i) for the phasing of the projects; (ii) for the purposes of imposing a betterment levy and water rates. "It is of utmost importance that projects should be correctly phased. This will lead to economy in construction and will also make it possible to secure the maximum use of irrigation facilities created, even before the actual completion of each project. It will also prevent unnecessary locking up of capital on items of work in advance of actual needs."  

1. Third Five Year Plan, p.127.  
2. Third Five Year Plan, p.127.  
3. Third Five Year Plan, p.386.
Abstract of benefits anticipated from major and medium irrigation projects
(*000 acres) gross area

<table>
<thead>
<tr>
<th>State</th>
<th>Irrigation on full development from First and Second Plan schemes</th>
<th>First and Second Plan schemes</th>
<th>new schemes of Third Plan</th>
<th>total from continuing schemes and new schemes of Third Plan to end of Third Plan</th>
<th>additional benefits in Third Plan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>potential created to end of Second Plan</td>
<td>utilisation to end of Second Plan</td>
<td>potential to end of Third Plan</td>
<td>utilisation to end of Third Plan</td>
<td>potential (col. 5 + 7)</td>
</tr>
<tr>
<td>Andhra Pradesh</td>
<td>3720</td>
<td>830</td>
<td>736</td>
<td>3361</td>
<td>2159</td>
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<tr>
<td>Assam</td>
<td>**</td>
<td>**</td>
<td>**</td>
<td>**</td>
<td>**</td>
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<tr>
<td>Bihar</td>
<td>5569</td>
<td>915</td>
<td>720</td>
<td>3192</td>
<td>2402</td>
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<td>3809</td>
<td>640</td>
<td>227</td>
<td>1716</td>
<td>1091</td>
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<tr>
<td>Jammu &amp; Kashmir</td>
<td>163</td>
<td>5</td>
<td>5</td>
<td>55</td>
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<td>Kerala</td>
<td>555</td>
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<td>581</td>
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<td>3307</td>
<td>2957</td>
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<td>734</td>
<td>618</td>
<td>2357</td>
<td>1754</td>
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<td>Uttar Pradesh</td>
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<td>2118</td>
<td>1479</td>
<td>2800</td>
<td>2423</td>
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<tr>
<td>West Bengal</td>
<td>2990</td>
<td>1690</td>
<td>1084</td>
<td>2071</td>
<td>1936</td>
</tr>
<tr>
<td>Total</td>
<td>37560</td>
<td>13243</td>
<td>9989</td>
<td>27026</td>
<td>21628</td>
</tr>
</tbody>
</table>

Additional utilization in Third Plan from the continuing scheme of First and Second Plans (col. 6 - col. 4) = 11,639,000 acres

Table V.2
Source: Third Five Year Plan
Abstract of estimated cost of major and medium irrigation projects and outlays on them in the Third Plan

(Rs. lakhs)

<table>
<thead>
<tr>
<th>State</th>
<th>estimated cost of First and Second Plan schemes</th>
<th>schemes continuing from First and Second Plans into Third Plan</th>
<th>new schemes of Third Plan</th>
<th>total provision in Third Plan for continuing and new schemes (col. 5 + col. 7)</th>
</tr>
</thead>
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<tr>
<td></td>
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<td>carry-over from Second Plan</td>
<td>outlay for Third Plan</td>
<td>estimated cost</td>
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<td>3</td>
<td>4</td>
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<td>..</td>
<td>..</td>
</tr>
<tr>
<td>3. Bihar</td>
<td>10743</td>
<td>9094</td>
<td>7118</td>
<td>4712</td>
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<td>4. Gujarat</td>
<td>17411</td>
<td>17267</td>
<td>12098</td>
<td>5014</td>
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<tr>
<td>5. Jammu and Kashmir</td>
<td>1529</td>
<td>1285</td>
<td>1141</td>
<td>556</td>
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<td>6. Kerala</td>
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<td>2262</td>
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<td>378</td>
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<tr>
<td>7. Madhya Pradesh</td>
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<td>8402</td>
<td>5097</td>
<td>3600</td>
</tr>
<tr>
<td>8. Madras</td>
<td>6086</td>
<td>4602</td>
<td>2150</td>
<td>2150</td>
</tr>
<tr>
<td>9. Maharashtra</td>
<td>10438</td>
<td>10360</td>
<td>6637</td>
<td>5834</td>
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<td>10. Mysore</td>
<td>10853</td>
<td>10328</td>
<td>3897</td>
<td>3341</td>
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<tr>
<td>11. Orissa</td>
<td>10226*</td>
<td>10184*</td>
<td>2657</td>
<td>1911</td>
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<tr>
<td>12. Punjab</td>
<td>11424</td>
<td>10193</td>
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<td>14074</td>
<td>13987</td>
<td>8069</td>
<td>5770</td>
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<td>14. Uttar Pradesh</td>
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<td>15. West Bengal</td>
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<td>8104</td>
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<tr>
<td>16. Union Territories</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
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<tr>
<td>17. Central Schemes</td>
<td>..</td>
<td>..</td>
<td>..</td>
<td>..</td>
</tr>
</tbody>
</table>

| Total                  | 138368         | 126957        | 64100    | 43556         | 36352       | 16378                  | 59934                                 |

* Includes cost of Hirakud Stage I (Power portion)
** Includes Rs.1000 lakhs for supplying water to Bokaro Steel Plant and other industries

Table V.3

Source: Third Five Year Plan
While the balancing of costs and benefits is considered necessary it is also recognised that the financial return "does not by itself provide an adequate criterion for assessing the over-all benefits of the project. In order to get an idea of the various benefits, which accrue from irrigation projects, the Research Programme Committee, at the instance of the Planning Commission, initiated evaluation studies for five major irrigation works - Ganga Canal in Rajasthan, Sarda Canal in U.P., Tribeni Canal in Bihar, Damodar Canal in West Bengal, and Cavery-Mettur Project in Madras. These evaluation studies suggest that while several of the indirect benefits of irrigation cannot be assessed in precise quantitative terms, among the principal benefits to be taken into account, apart from the financial returns to Government, are more extensive utilization of land and other resources; adoption of a better cropping pattern and a shift to more valuable crops; creation of conditions favourable to fresh investment or an increase in productive investment in farm business; increase in farm productivity; and stabilisation of enhancement of farm incomes; increased employment opportunities for labour; and stimulus to industry, especially processing industries, and to trade and transport. The studies also provide useful information on various aspects of irrigation development."

As far as the relationship between taxation and benefits is concerned, it is felt that the water rates should normally cover working expenses and debt charges. Except in the scarcity areas they should not involve a loss to the general revenues. Legislation for betterment levy has been enacted in all States except Uttar Pradesh, West Bengal, Jammu and Kashmir. Legislation in these areas is recommended if the target of Rs.39 crores in the Third Five Year Plan from the betterment levy and flood cess has to be

1. Third Five Year Plan, pp.388-389.
achieved.

When we consider tax policy in general we find that "the Third Five Year Plan will involve substantial increase in indirect taxation. The number of assessees paying direct taxes in India is very small. Although collections of direct taxes are expected to improve in the course of the third Plan, the total of resources required cannot be raised without taxing consumption through indirect taxes over a wide range. In some cases taxation may be most effective at the point of final consumption, in other cases intermediate products or raw materials may be found more suitable. Indirect taxation along these lines tends to raise the price paid to the domestic producer. This is a sacrifice that has to be accepted as part of the Plan."¹ The increase in indirect taxation means that instead of a rise the standard of living of the masses is likely to deteriorate still further unless they are in some way compensated for the rise in prices.

The above analysis shows that the design of expenditure policy cannot be independent of tax policy and secondly that there is need for some techniques that will help to direct policy decisions towards the achievement of given objectives.

B. Budget Estimates and Expenditure Control

The expenditure estimates of individual Ministries give the Ministry of Finance an indication of the total financial requirements of government. In view of the finances which are likely to be available, the Ministry of Finance can make reductions and adjustments in individual requirements so that the total demand for finance is matched by its supply. The description, in the preceding chapter, of the method and requirements of presenting

¹ Third Five Year Plan, p.104.
estimates shows that the concept of co-ordination is relevant only to New Expenditure. It is also clear that the entire emphasis is on financial planning. The emphasis on financial planning seemed appropriate when the functions of government were limited to General Services only. There was then a large element of compulsion in the sense that there was hardly any choice as far as the size and composition of government expenditures was concerned. The problem, therefore, was to get adequate financial resources, and to ensure that in the process of mobilizing the financial resources the sacrifices imposed were equitable. It is no longer possible now for governments with mixed economic systems to ignore the problem of utilisation of real resources. The problem cannot be adequately considered by concentrating attention on financial estimates and by a detailed consideration of New Expenditure only. It is comparatively easier to refuse New Expenditure than it is to refuse marginal increases in existing expenditures but the refusal of additional expenditures, whether existing or New, can have as disturbing an effect on the real resources position, as the sanctioning of additional expenditures. Consistency in resource allocations can be achieved only if the total expenditure requirements and not just additional expenditure requirements are taken into account.

It is not suggested that the need for resource planning has not been recognised in India. Under its terms of reference the Planning Commission was required to (i) make an assessment of the material, capital and human resources of the country including technical personnel and to investigate the possibilities of increasing those resources which are scarce; (ii) formulate a plan for the most effective and balanced utilisation of the country's resources.

The first Five Year Plan provided as much information as could be made available about the land, water, mineral and energy resources of the country.
It drew attention to the major problems and outlined plans for further surveys and investigations. It also made recommendations for strengthening the organisations responsible for these surveys by providing them with personnel and equipment. Expanding programmes for training were also suggested.

Over the last few years organisations dealing with the surveys and utilisation of natural resources such as the Indian Council of Agricultural Research, the Central Water and Power Commission, the Central Board of Irrigation and Power, the Geological Survey of India, the Oil and Natural Gas Commission, the Indian Bureau of Mines, the Survey of India, the Forest Research Institute, the Atomic Energy Commission and the Council of Scientific and Industrial Research and its National Laboratories have been greatly expanded and have undertaken a series of new surveys and investigations. These surveys have provided a fuller assessment of the country's natural resources and pointed out their deficiencies in relation to future requirements.

The information relating to resources would be more usefully utilised in the framing of the budget if the financial estimates of individual Ministries would be further supplemented by an estimate of the real resource requirements.

Again the procedure adopted seems to suggest that while financial planning is the work of the Ministry of Finance resource planning is the work of the Planning Commission. This dichotomy between financial and real resources, from the point of view of administration, is a functional dichotomy in the sense that the magnitude of the problem involved at each level of enquiry is such that it needs a separate body of administrators to examine the problem. In its final shape the Plan has to be based not
on a dichotomy but a synthesis of the real and financial resources. This suggests that in fact the responsibility for budget administration is no longer the individual responsibility of the Ministry of Finance but the joint responsibility of the Ministry of Finance and the Planning Commission. The present system seems to ensure co-ordination but not joint responsibility. In actual practice the Ministry of Finance is very greatly influenced by the opinion of the Planning Commission but the Ministry of Finance alone is responsible for the budget. So far the system has worked smoothly but it is not difficult to visualise a situation where there can be a conflict between the Ministry of Finance and the Planning Commission. The present system is the result of an ad-hoc expansion brought about by the need for economic planning. The correct approach, from the point of view of administrative organisation, to the problem of planning, budgeting and ministerial responsibility would be to merge the Ministry of Finance and the Planning Commission into one Ministry having two co-ordinate wings.

C. Accuracy of Budget Estimates and Expenditure Control

In comparing budget estimates and actuals it is very often assumed that the larger the deviations of actuals from the estimates the more imperfect are the estimates. Bjerve points out five factors that are responsible for the deviation of actuals from budget estimates:

1. the actual magnitude of "data variables" are different from those anticipated
2. estimates may be based on incorrect information regarding "behaviour relations"
3. government may deliberately publish national budget estimates

which are different from the figures they expect. The objective is either to get certain advantages or avoid some disadvantages.

(4) there may be shifts in the cabinet’s social welfare preferences which require changes in policy.

(5) the policy directives may not have been properly carried out.

It may be pointed out here that factor (3) is not likely to operate in India because Parliamentary control is strong enough to be able to prevent government from providing fictitious figures. Factors (1), (2), (4) and (5) however are likely to be present though it may not be possible to show in a statistical study to what extent an individual factor is responsible for the deviation.

In Chapter I of the first Five Year Plan the probable trends in the growth of national income and aggregate consumption expenditures in India, over a period of 25 to 30 years, was given. The projections of national income, investment and aggregate consumption expenditure were used to bring out the broad implications, in terms of effort and return, of the process of development extending over a generation. With the help of these projections it was shown that given continuity of effort in terms of the assumptions made the country’s 1950-51 national income could be doubled by 1971-72, that is in about 21 years. It was further shown that the 1950-51 per capita incomes could be doubled by 1977-78, that is in about 27 years.

In making these calculations the population growth rate was assumed at 12.5% per decade for the whole period for which the projections were made. In the projections made by the second Five Year Plan the rate of growth assumed for the decade 1961-70 is 13.3% and 14% for the decade 1971-80.

In the first Five Year Plan the proportion of investment to national income was assumed to rise from 5% in 1950-51 to about 20% by 1968-69 and
to continue at that level afterwards. The capital output ratio was taken at 3:1 with a time lag of two years between the increase in investment and the increase in output. The increase in national income in the first Five Year Plan was 7½ % more than originally expected. For the first Five Year Plan period the incremental capital output ratio worked out to 1.8:1. Making an allowance for specially favourable factors like good monsoons that operated during the first Plan the second Plan estimated capital output ratio of 2.3:1.

The balance of payments did not present a problem during the first Plan period. The actual deficit was Rs.318 crores over the Plan period. Out of this Rs.196 crores was met by external assistance and Rs.122 crores by withdrawals from the country's foreign exchange reserved. The second Plan, which put greater stress on industrialisation, did in fact expect a heavier drain on foreign exchange. The second Plan report estimated the aggregate deficit in the balance of payments over the five year period at about Rs.1100 crores and assumed that Rs.800 crores out of this would be met out of external assistance. The Plan, however, ran into an unexpected balance of payments difficulties from the very start and had to be re-appraised in 1958. Strict control was imposed on less important imports and foreign exchange reserves had to be drawn down by Rs.600 crores.

In addition to the fact that the assumptions on which the calculations were made changed another factor which was responsible in the first Plan period to a great extent and perhaps to a lesser extent in the second Five Year Plan was "inadequate administrative and organisational arrangements for implementation"¹ of the schemes. Tables V.4 and V.6 show the budget estimates, revised estimates and accounts for expenditure on current and

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¹ Review of the First Five Year Plan, 1957, p.20.
### REVENUE EXPENDITURES

<table>
<thead>
<tr>
<th>Years</th>
<th>Budget</th>
<th>Revised</th>
<th>Accounts</th>
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<td>422.43</td>
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<td>422.32</td>
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<td>498.93</td>
<td>489.36</td>
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<td>1956-57</td>
<td>545.43</td>
<td>533.55</td>
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</table>

#### Table V.4

Source: Annual Reports of the Reserve Bank of India on Currency and Finance.

### Percentage Deviation of Revised Estimates and Accounts from Budget Estimates

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</tr>
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<td>1956-57</td>
<td>97</td>
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#### Table V.5
capital account respectively. The figures relate not only to Plan figures but to total expenditures of the government. Tables V.5 and V.7 show the percentage deviation of the revised estimates and accounts from the budget estimates. It will be observed that the actuals are invariably less than the budget estimates and the revised estimates. This shows that there is a tendency towards over-estimation in the budget estimates. One cause for over-estimation is that the Ministry of Finance invariably reduces the demands of the administrative Ministries. Another cause perhaps is that sometimes too ambitious a target is set in terms of achievement and it cannot be fulfilled. The fact that the percentage deviation of actuals relating to expenditure on current account is less the deviation relating to expenditure on capital account. It might, however, be pointed out here that what might be considered a reasonable measure of deviation from the budget estimates on capital account depends to a large extent on the composition of capital expenditure.

In a system which encourages over-estimation the need for stricter measures to enforce economy is imperative. This is due to the fact that once the money has been sanctioned and is available unless responsibility for expenditure can be fairly accurately fixed there is a possibility of more amounts being spent than are strictly necessary. Hence the need for

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1. Paul Appleby in Re-Examination of India's Administrative System, with special reference to Administration of Government's Industrial and Commercial Enterprises, Organization and Methods Division, Cabinet Secretariat, Government of India, Delhi, 1956, points out that 'The Ministries, knowing that Finance will reduce their costs, are given to loose and extravagant estimates of cost. They are given positive encouragement to do this. When a particular Ministry submits a tightly estimated project, Finance has complained "You put us in a difficult position by making it so hard for us to reduce your figures".', p.22.

### CAPITAL EXPENDITURES

<table>
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<td>563.71</td>
<td>487.64</td>
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Table V.6

Source: Annual Reports of the Reserve Bank of India on Currency and Finance

### Percentage Deviation of Revised Estimates and Accounts from Budget Estimates

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<td>1956-57</td>
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</table>

Table V.7
economy has been constantly and emphatically pointed out by all the Five Year Plans. The problem of securing economy in construction costs has been specially considered by the Central Government in consultation with the State Governments. A general agreement on the following lines has been reached:

All aspects of a project should be carefully considered before it is finally undertaken. Side by side with an estimate of the material and financial requirements and phasing of the component units of a project there should be specific plans for land acquisition, housing, communication, recruitment of staff and laying down procedures for procurement of plant, equipment, stores etc. A careful assessment should be made of the spare parts requirements for construction, machinery and other stores. It is important that work is not held up for want of essential stores, and, on the other hand, there is no unnecessary accumulation of inventories.

D. Administrative Organisation and Expenditure Control

Whatever the procedures that are followed and whatever the emphasis on economy the extent to which economy can be enforced depends very largely on the fixing of individual responsibility for the expenditures incurred and the provision of some positive incentives to economy. There has been a very strong feeling in government that there is diffusion of responsibility since advice and consultation have "become necessary ingredients of the Executive process itself. In the present functioning of the administration, consultation with other authorities is not always confined to broader matters; instead it is too frequent and too concerned with details, and therefore impedes effective action."1

1. Third Five Year Plan, p.278.
The problem of incentives assumes that the efficiency of an individual can be judged by results. A pre-requisite for a scheme of incentives, however, is the development of methods by which individual performances can be estimated.

E. Parliamentary Control of Expenditure

Parliamentary control of expenditure is, to begin with, influenced by the way in which the budget is presented. We have seen that the Constitution lays down that the budget must distinguish between expenditures that are 'Charged' on the Consolidated Fund and expenditures which require to be voted upon. The significance of the requirement, from the point of view of expenditure control, depends upon (i) the purposes and composition of the Consolidated Fund; and (ii) the distinction between clause (a) and clause (b) of Article 112 of the Constitution.

The Consolidated Fund of India consists of "All revenues received by the Government of India, all loans raised by the Government of India by the issue of Treasury Bills, loans or ways and means advances and all moneys received by the Government in repayment of loans."\(^1\)

The objective of the Consolidated Fund was to constitute a common fund which would indicate the actual resources available, from which Parliament could allot and disburse funds in the general interests of the people. On the one hand the existence of the Consolidated Fund would ensure that Parliament would have funds at its disposal when it met to discuss the budget and on the other hand it would help to limit total expenditure to the available funds.

The difference between clause (a) and clause (b) of Article 112 of

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the Constitution is that all items contained in clause (a) can only be discussed in Parliament but cannot be voted upon whereas items contained in clause (b) can be discussed as well as voted upon. The question as to why Parliament should not have the right to vote on all items of expenditure was the subject of a heated discussion in the Constituent Assembly of India.

"This practice of distinguishing between votable and non-votable items of expenditure, or those open to the annual vote of Parliament and those withdrawn from that vote is a legacy of the preceding regime, which I think was open and is to-day still more open to strong objection. For that regime no doubt it can be understood that there were many items of expenditure, which it did not dare, would not dare, to bring before the representatives of the people ....... The present Parliament or the Parliament under this Constitution, would be the supreme financial authority. It would be sovereign legislative body which ipso-facto should have the right to discuss every item of expenditure and also vote upon it."¹

It is important to realise that the historical explanation for having a non-votable list of expenditures is to be found in the financial history of Great Britain from whom India took over the system of financial administration, and not in the political history of India. The real issue is to what extent is British system suitable for India. On this particular point under consideration the answer depends upon the items that are excluded from the vote of Parliament. The items that are 'Charged' on the Consolidated Fund are:

"(a) the emoluments and allowances of the President and other expenditure relating to his office;

(b) the salaries and allowances of the Chairman and Deputy Chairman of

the Council of States, and the Speaker and Deputy Speaker of the House of the People;

(c) Debt charges for which the Government of India is liable, including interest, sinking fund charges and redemption charges, and other expenditure relating to the raising of loans and the service and redemption of debt;

(d) (i) the salaries, allowances and pensions payable to or in respect of the Judges of the Supreme Court;

(ii) the pensions payable to or in respect of the Judges of the Federal Court;

(iii) the pensions payable to or in respect of the Judges of any High Court, which exercises jurisdiction in relation to any area included in the territory of India, or which at any time before the commencement of the Constitution, exercised jurisdiction in relation to the area included in a Province corresponding to a State, specified in Part A of the First Schedule;

(e) the salaries, allowances and pensions payable to or in respect of the Comptroller and Auditor General of India;

(f) any sums required to satisfy any judgement, decree or any award of any Court or Arbitral Tribunal;

(g) any other expenditure declared by this Constitution to be so charged.\(^1\)

It is clear from the items that are 'charged' on the Consolidated Fund that the reason and justification for having a non-votable list is that the appointments listed above should be free from political influence. As far as item (c) is concerned the objective is to maintain the "soundness"

\(^1\) The Constitution of India, p.42.
of national finances.

After the budget is presented the procedures for debate and discussion and voting show clearly that Parliament is not concerned with detailed estimates but with the policy outlined by the estimates. After Parliament approves the budget the administrative Ministries have, in general, permission to proceed with their expenditure plans. The check on how the financial power is used is provided by Audit. The Accounts compiled by the Executive are examined by the Comptroller and Auditor General and the Public Accounts Committee. As far as examination by Audit and the Public Accounts Committee is concerned reliance on an accounting control seems appropriate for the objective of control is limited to ensuring that expenditures have been incurred according to prescribed financial procedures and that the money has been spent on the purposes for which it was intended. However, it may be pointed out that even as far as accounting control is concerned the type of control that would be appropriate for government administrative Departments is clearly different from the type of control that would be suitable for government Enterprises. In addition to the differences in control techniques the magnitude of the work involved in examining accounts of public enterprises is so large that it is advisable to have a separate Parliamentary committee for public enterprises.

The general weakness of the system of Parliamentary control seems to be due to the fact that (1) it is laid down that the term of office of the members of the Public Accounts Committee and the Estimates Committee should not exceed one year. This means that the experience gained by the members in the course of the membership of the Committee is lost; (2) the absence

1. On the significance of the length of service of the members of Parliamentary Committees, see Basil Chubb, The Control of Public Expenditure, Oxford University Press, 1952, p.133.
of a definite time limit within which the Committee should give their findings; (3) the absence of an effective machinery to follow up the findings; (4) the fact that the demands for grants are not considered along with the Reports of the Public Accounts Committee and the Estimates Committee of the preceding year greatly reduces the practical utility of the Reports. If this were done then in addition to the purely negative influence of post expenditure control there would be a positive influence on efficiency since Departmental efficiency would also be a factor which would be taken into account in sanctioning Demands for Grants.

F. Budget Cycle and Expenditure Control

The efficacy of control, whatever its nature, depends to a large extent upon whether the control is applied in time. The question, therefore, is how much time should be allowed for the examination of the estimates and/or accounts before the findings of the authority making the examination are made available? Since the Indian system is based almost entirely on the British pattern, if we take the British pattern as the standard, then a comparison of the Indian system with the British in terms of time will help to show whether there is a possibility at any stage of reducing the time taken in India. The formal departmental preparations begin in India as well as U.K. about October 1st, and the estimates are required to be submitted to the Finance Ministry by December 15th. There is a minor difference, however, that in India estimates for Standing Charges have to be submitted to the Finance Ministry by November 15th. While in U.K. the estimates have to be brought before the House by mid-February, and hence the examination of estimates by the Finance Ministry duly completed by that date, in India the Finance Ministry can complete them just in time to
be able to present the Financial Statement to Parliament. The Estimates Committee "may continue the examination of the estimates from time to time throughout the financial year, and report to the House as its examination proceeds. It shall not be incumbent on the Committee to examine the entire estimates of only one year."1 The discussion and voting of the budget and passing of the Appropriation Acts takes longer in U.K. than in India. A comparison of the budget discussion in the Lok Sabha with the discussion reported in the Hansard shows that the discussion in the Lok Sabha is more superficial. It follows, that the control exercised by Parliament in India is less rigorous. Control, however, cannot be made more effective by merely lengthening the Budget Session. In U.K. the report of the Public Accounts Committee is published about two to two and a half years after the accounts have been submitted. In India the period is longer, extending to about three years, and sometimes the cases reported extend to as far back as nine years. If cases are reported after such a long time the control tends to be less effective for a number of reasons, the most important perhaps being that the officers concerned with the expenditures in which irregularities have been pointed out are either transferred and it is, therefore, difficult to get explanations from or they may have even retired, and it is therefore considered advisable to drop the case rather than pursue it.

Having examined the general system of control in India particularly from the point of view of its shortcomings, we may now consider some possible ways by which the system may be improved and strengthened.

A. Conclusions

(a) The problem of control

The general problem of control of government expenditures arises because of the absence of a price mechanism for a large range of government expenditures and because of the difficulty of quantifying the objectives of policy.

The absence of a price mechanism means the absence of a guide for the allocation of resources. Given the fact that the overall size of the budget is determined by the goods and services the people would like government to provide, and by their own willingness to accept certain levels of taxation, a given budget may be differently allocated among the different expenditure programmes.

Different allocations imply that different weights are attached to individual policy objectives. Since the policy objectives cannot be quantified, it is not possible to assign physical weights and hence evolve a system of weights that will help in the maximization of the objectives. The extent to which different outlays on programmes lead to an achievement of the over-all objectives of policy depends upon subjective evaluation. It is, therefore, not possible to lay down criteria in terms of which it can be judged whether a greater outlay on education is preferable to health. The actual choice depends upon the preference system of government. Given the programmes, the problems still remain of ensuring operational efficiency.

(b) The technique of control

The techniques which help to increase operational efficiency may be broadly divided into two classes - (i) techniques which are applicable where the targets to be achieved are given and costs have to be minimized, and (ii) techniques which are applicable when the targets are flexible. To the former group belong 'Performance Budgeting' and the method of 'Stock and Industrial Funds' and to the latter 'Pricing of Services', 'Assignment of Revenues' and 'Cost-Benefit Appraisal'.

In spite of the fact that these methods are theoretically sound, and have
been actually put into practice in some of the developed countries, all of them cannot be profitably used in less developed countries. There are two major reasons for this. The statistical information on the basis of which the methods can be applied is by and large not available, and there is very often a lack of trained personnel to apply and implement the techniques.

(c) The problem of expenditure control in India

In addition to the general problem of control of expenditures faced by all governments, the special problem of control in India is due to the fact that the volume of work has increased considerably since 1951. The increase in the volume of work means an increase in the demand for trained personnel. The supply, however, has not increased correspondingly and this has resulted in a shortage of personnel at the Centre and the States.

The shortage of personnel has two implications for control of government expenditures. Firstly it implies that the existing staff is overburdened with work, and consequently there is an additional risk that some of the work tends to be carried out less efficiently than it would otherwise have been. Secondly the application of new techniques of control implies the availability of adequate trained personnel. In view of the existing shortage to carry out the accepted functions of government the question is to what extent can the trained staff be diverted for controlling government expenditures, particularly in view of the fact that the change in the composition of government expenditures in India clearly shows that the new techniques of control which are being used in other countries like U.S.A. for example can profitably be applied in India also.

(d) The system of expenditure control in India

The general system of expenditure control as it exists in India to-day is basically the same as that introduced by British Administration, more particularly since the Government of India Act 1935, and the inauguration of Provincial Autonomy 1937. The changes that have been introduced in the system since 1947 are the result of political as well as economic changes that have taken place in the country. Since the economic changes do not represent a once-over change but are continuous, and are spread over time the administrative system has responded as and when the need has been felt. By and large, however, the general emphasis is on financial accuracy and regularity. The changing character of government expenditures, however, requires a greater emphasis on real resource budgeting and
operational efficiency. The need for real resource budgeting has been explicitly recognized by the Government and the Planning Commission, but perhaps what is lacking is the proper coordination between financial and physical planning. The actual budgetary procedures also seem to suggest that while financial planning is the work of the Ministry of Finance, resource planning is the work of the Finance Commission. This dichotomy between financial and real resources, from the point of view of administration, is a functional dichotomy in the sense that the magnitude of the problem involved at each level of enquiry is such that it needs a separate body of administrators to examine the problem. In its final shape the programmes have to be based not on a dichotomy but a synthesis of the real and financial resources. This suggests that in fact the responsibility for budget administration is no longer the individual responsibility of the Ministry of Finance but the joint responsibility of the Ministry of Finance and the Planning Commission. The present system seems to ensure coordination but not joint responsibility.

As far as implementation of the programmes is concerned the extent to which economy and efficiency can be enforced depends upon the fixing of individual responsibility for the expenditures incurred and the provision of some positive incentives to economy. There has been a very strong feeling in government that there is diffusion of responsibility since consultation is not only confined to broader matters of policy but has become part of the administrative process itself.

The general weakness of the system of parliamentary control in India stems from the fact that (1) it is laid down that the term of office of the members of the Public Accounts Committee and the Estimates Committee should not exceed one year. This means that the experience gained by the members in the course of the membership of the Committee is lost; (2) the absence of a time limit within which the Committees should give their findings; (3) the absence of an effective machinery to follow up the findings; and (4) the fact that the Demands for Grants are not considered along with the Reports of the Public Accounts Committee and the Estimates Committee greatly reduces the practical utility of the reports.

B. Recommendations

(a) Recommendations relating to estimates

(i) Since the estimates and accounts are the media through which control is exercised, it is suggested that the methods by which the estimates are submitted
to the Finance Ministry should be appropriately revised. The estimated should be presented not according to total departmental requirements but according to individual projects. If the estimates are submitted according to total departmental requirements the Finance Ministry can only suggest a lump sum reduction in order to keep the estimated expenditure within the estimated income. A lump sum marginal reduction has a greater element of arbitrariness for it is not possible for the Finance Ministry to examine the effect of the reduction on the individual programmes. If the estimates are submitted project wise, then the additional demands can be considered more carefully in relation to commitments, and the future liabilities that the acceptance of the project in the current year will entail. Again apart from the financial and real resource commitments, the importance of the project in relation to projects already undertaken or to be currently undertaken in other Ministries can be carefully considered.

(ii) The estimates should in addition to financial requirements show the real resource requirements as well. The forms suggested in Chapter II or at least forms on similar lines should be used for presenting departmental estimates.

(iii) The present distinction between Plan and non-Plan expenditure should be given up. The utility of the distinction is doubtful. All that is achieved is that if an item of expenditure is included in the Plan, the chances of its being sanctioned are greater. Since the Plan is not limited to 'Development Expenditures' but includes non-Development Expenditures as well, it is possible that for the same item of expenditure, part may be covered by the Plan and the rest may be outside the Plan (see Appendix VI). Hence there is a possibility that expenditures which cannot be fitted into the Plan get sanctioned as non-Plan expenditures, and upset the balance visualised in the Plan. In actual practice this would not be done very easily, as it would require some administrative adjustments, but so long as personality can play an important part in administration, the adjustment between Plan and non-Plan expenditures is a possibility which should not be overlooked.

(iv) When the Finance Ministry considers the demands of the individual Ministries, it should be able, by comparison of the demands of two similar institutions, for example, to find out whether the demands have been kept to the minimum consistent of course with operational efficiency. For expenditures where performance budgeting is applicable it is suggested that the forms suggested in Chapter II should be submitted to the Finance Ministry in addition to the forms showing the requirements.

(v) From the prescribed forms when we turn to the attitude towards estimates, we find that there is a definite need for a change in the Ministry of Finance as well as in the Administrative Ministries. The Administrative Ministries should emphasise accuracy in budgeting and should not deliberately, as is well known and taken for granted, present over-estimates on the assumption that the Finance Ministry will definitely reduce the amounts demanded. On the other hand, the Finance Ministry should treat reductions as a necessity and not, as it appears to be at present, a normal routine. If the reductions
are made, the Finance Ministry should state whether they have been necessitated by the
over-all resource position or because the Ministry of Finance thinks there has been over-
budgeting. In the case of over-budgeting the Finance Ministry should state definitely
where economies can be brought about. Over-budgeting when clearly proved should be treated
as an indication of the inefficiency of the Administrative Ministries.

(b) **Recommendations relating to administrative organization**

(i) Once the budget estimates have been approved by the Ministry of Finance and
subsequently sanctioned by Parliament, the Administrative Ministries should be authorised
to proceed with the expenditure plans. We have already seen that too frequent references
to the Finance Ministry leads to delays and to the diffusion of responsibility. This could
be avoided or at least reduced if appropriate authority is delegated to the Administrative
Ministries.

(ii) It has been seen earlier that the dichotomy between financial and real resources
from the point of view of administration is a functional dichotomy in the sense that the
magnitude of the problem involved at each level of enquiry is such that it needs a separate
body of administrators to examine the problem. In its final shape, however, the Plan has
to be based not on a dichotomy but a synthesis of the real and financial resources. This
synthesis of real and financial resources can be brought about more effectively if the
departments responsible for real and financial planning were jointly responsible for planning. Hence it is suggested that from the point of view of planning, budgeting and ministerial responsibility it would be advisable to merge the Ministry of Finance and
the Planning Commission into one Ministry having two coordinate wings.

(c) **Recommendations relating to Parliamentary control over expenditure**

(i) The form in which the budget is presented is governed to a very large extent
by the need to ensure accountability of the spending units. The 'accountability' budget,
however, is not suitable for examining the policy implications of the budget. This requires
a 'Functional' and 'Economic' classification of the budget. The government of India
recognises this need but has so far, due largely to the shortage of technical personnel,
not been able to present an Economic Classification only of the Central Government budget. The 'Economic' classification, in addition to showing capital formation by government, and
government's contribution to National Income, should also show the total money incomes
generated by government. This total should further be broken up into two components: (i)
income generated by government administration, (ii) income generated by Departmental
commercial undertakings. The information would be particularly useful in examining the
inflationary impact of government's expenditure policy. The impact of government's
policy is not limited to Central Government's policy only but is the result of the policy
of the Central and State Governments taken together. Hence all State Governments should
follow the Central Government in presenting an Economic Classification of the budget.
Eventually the Central and State Governments should present an 'Economic-Functional'
Classification of their budgets. It is essential that it should be possible to present an
(ii) The all-India classification would have a meaning for policy purposes only if there is some way by which coordination can be brought about between Central and State Governments. Because of a federal structure of the Constitution the budget for the Central Government is presented to Parliament and the budgets for the State Governments are presented to the respective State Legislative Assemblies. The difficulty that this gives rise to is that there is no coordination of policy between the Central and the State Government. Close contact for policy purposes should throughout the year be maintained between the Central and the State Governments.

(iii) In addition an annual meeting of the Finance Ministers may be held sometime in January to discuss the economic situation and the forthcoming budget.

(iv) The State Governments might consider presenting their own budgets are the Union budget has been passed. The adoption of this procedure will not subordinate the State Governments to the Union Government, but will allow them to adjust their budget policies more appropriately to the economic needs of the respective States.

(v) After having approved the policy underlying the budget estimates Parliament is subsequently interested in finding out to what extent government has in actual fact carried out the policies embodied in the estimates and whether in carrying out the policies the expenditure incurred has been kept to the minimum. While Parliamentary Committees who review government expenditures, function on the basis of information provided by audit reports themselves, an examination of the reports and the interviewing of government officials needs a great deal of experience which is best gained, not by studying the reports and procedures of the earlier years, but by serving on the Committee themselves. It is, therefore, suggested that the clause in Parliamentary Procedures fixing the tenure of the office of members of the Estimates Committee and the Public Accounts Committee to not more than one year should be deleted.

(vi) The next suggestion related to the reports of the Parliamentary Committees. If the reports of Parliamentary Committees are to be more than a deterrent and exert a positive influence on policy the findings should be made available before the Demands for Grants for the next financial year are considered.

(vii) Again since the character of control that is appropriate for government administrative departments is different from the control that is required for Public Enterprises a separate Parliamentary Committee for Public Enterprises with functions similar to the Public Accounts Committee should be set up.

If the above recommendations are adopted it is hoped that they will go a long way in filling most of the gaps in the present system. The adoption of the recommendations may themselves indicate the needs for further changes but this should not give rise to any alarm or scepticism about their utility. Conservatism in administrative techniques and Parliamentary procedures cannot be combined with dynamism in government policy.

APPENDIX I

(Due on 10th November 1958)

Revised Estimates 1958-59 and Budget Estimates 1959-60 of Capital Expenditure of the Ministry of

(N.B. Please show the estimates on Central schemes and Centrally sponsored schemes for which assistance is to be given to States separately)

(Figures in thousands)

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Circle of No.</th>
<th>Major Grant No.</th>
<th>Particulars of work, scheme and sub-heads etc. of the Grant (Please give descriptive notes giving the justification of allotment asked for, the programme to be executed, separately as indicated overleaf)</th>
<th>Actuals for 57-58</th>
<th>Budget Estimates 1958-59</th>
<th>Revised Estimates 1958-59</th>
<th>Revised Estimates 1959-60</th>
<th>If a Plan scheme, total amount allotted for the Second Plan (re-phased) as well as amount recommended for 59-60 may be indicated</th>
<th>Foreign exchange requirements for any, total for 5 years and for 1959-60. Is any (if so, what portion) of the estimate covered by a scheme of Foreign assistance, e.g. loan, grant or deferred payment ed (if agreement? Has the scheme been approved by the Finance Committee (please attach copy of Memo. submittal agreement? any)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
<td>5</td>
<td>6</td>
<td>7</td>
<td>8</td>
<td>9</td>
<td>10</td>
</tr>
</tbody>
</table>

**Part A - Continuing Schemes**

**Part B - New Schemes**

Footnote: 1. Estimates of Foreign Assistance in the form of equipment or otherwise should be indicated separately where possible

2. The Expenditure relating to the Government Trading Schemes need not be reported in the above proforma
## APPENDIX II

**NEW ITEM STATEMENT**

<table>
<thead>
<tr>
<th>No. and Date of acceptance by the Department of Expenditure</th>
<th>Circle of Account</th>
<th>Major Head</th>
<th>Minor Head</th>
<th>Grant of Appropriation</th>
</tr>
</thead>
</table>

### I. Gross Expenditure

<table>
<thead>
<tr>
<th>S. No.</th>
<th>Details of Expenditure under each subhead (**)</th>
<th>Budget 1958-59</th>
<th>Revised 1958-59</th>
<th>Budget 1959-60</th>
<th>Portion if any to be incurred outside India</th>
<th>Brief particulars of the Schemes (***)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1)</td>
<td></td>
<td>(2)</td>
<td>(3)</td>
<td>(4)</td>
<td>(5)</td>
<td>(6)</td>
</tr>
</tbody>
</table>

### II. Recoveries

<table>
<thead>
<tr>
<th>Total</th>
</tr>
</thead>
</table>

### III. Net Expenditure

* Delete the portion not applicable

** Number of posts, if any, in each category should be indicated

(***) It should be clearly indicated whether the provision is required for direct expenditure of the Central Government or for giving grant in aid. In the latter case grant-in-aid to State Governments and other parties should be shown under separate sub-heads
### APPENDIX III

**CENTRAL GOVERNMENT**

Account 1 - Transactions in commodities and services and transfer
Current Account of Government Administration

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Consumption expenditure</td>
<td>5. Tax receipts:</td>
</tr>
<tr>
<td>1.1 Wages and salaries</td>
<td>5.1 Taxes on income and wealth</td>
</tr>
<tr>
<td>1.2 Commodities and services</td>
<td>5.2 Taxes on commodities and transactions</td>
</tr>
<tr>
<td>2. Transfer payments</td>
<td>5.3 Tax on expenditure</td>
</tr>
<tr>
<td>2.1 Interest</td>
<td>6. Income from property and enterprise</td>
</tr>
<tr>
<td>2.2 Grants -</td>
<td></td>
</tr>
<tr>
<td>(a) To States</td>
<td>6.1 Profits transferred by departmental</td>
</tr>
<tr>
<td>(b) To others</td>
<td>commercial undertakings</td>
</tr>
<tr>
<td>(c) To Local authorities</td>
<td>6.2 Profits transferred by non-departmental</td>
</tr>
<tr>
<td></td>
<td>commercial undertakings</td>
</tr>
<tr>
<td>2.3 Other current transfers -</td>
<td>6.3 Profits of the Reserve Bank</td>
</tr>
<tr>
<td>(a) Subsidies</td>
<td>6.4 Trading profits</td>
</tr>
<tr>
<td>(b) Pensions</td>
<td>6.5 Interest receipts</td>
</tr>
<tr>
<td>(c) Others</td>
<td>(a) From States</td>
</tr>
<tr>
<td></td>
<td>(b) From others</td>
</tr>
<tr>
<td>3. Savings on current account</td>
<td>6.6 Other income from property</td>
</tr>
<tr>
<td>4. Total</td>
<td>7. Fees and miscellaneous receipts</td>
</tr>
<tr>
<td></td>
<td></td>
</tr>
<tr>
<td>8. Total</td>
<td></td>
</tr>
</tbody>
</table>
### CENTRAL GOVERNMENT

Account 2 - Transactions in commodities and services and transfers

Current Account of departmental commercial undertakings

<table>
<thead>
<tr>
<th>Expenditure</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Wages and salaries</td>
<td>10. Gross sales proceeds</td>
</tr>
<tr>
<td>2. Pension payments</td>
<td>(a) Railways</td>
</tr>
<tr>
<td>3. Commodities and services</td>
<td>(b) Post and Telegraphs</td>
</tr>
<tr>
<td>4. Repairs and maintenance</td>
<td>(c) Others</td>
</tr>
<tr>
<td>(a) Wages and salaries</td>
<td></td>
</tr>
<tr>
<td>(b) Commodities and services</td>
<td></td>
</tr>
<tr>
<td>5. Interest</td>
<td>11. Interest receipts</td>
</tr>
<tr>
<td>6. Provision for depreciation</td>
<td></td>
</tr>
<tr>
<td>7. Profits transferred to current account of Government (administration)</td>
<td></td>
</tr>
<tr>
<td>8. Retained profits of departmental commercial undertakings</td>
<td></td>
</tr>
<tr>
<td>9. Total</td>
<td>12. Total</td>
</tr>
</tbody>
</table>


### Central Government

**Account 3 - Transactions in commodities and services and transfers**

**Capital Account of Government Administration and departmental commercial undertakings**

<table>
<thead>
<tr>
<th>Disbursements</th>
<th>Receipts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Gross fixed capital formation</td>
<td>5. Gross savings</td>
</tr>
<tr>
<td>1.1 Buildings and other construction</td>
<td>5.1 Savings on current account (administration)</td>
</tr>
<tr>
<td>(a) New outlay</td>
<td>5.2 Retained profits of departmental commercial undertakings</td>
</tr>
<tr>
<td>(b) Renewals and replacements</td>
<td>5.3 Depreciation provision</td>
</tr>
<tr>
<td>1.2 Machinery and equipment</td>
<td></td>
</tr>
<tr>
<td>(a) New outlay</td>
<td>6. Capital transfers</td>
</tr>
<tr>
<td>(b) Renewals and replacements</td>
<td>6.1 Gift tax and estate duty</td>
</tr>
<tr>
<td>2. Increase in Inventories</td>
<td>6.2 Foreign grants</td>
</tr>
<tr>
<td>2.1 Works stores</td>
<td></td>
</tr>
<tr>
<td>2.2 Stocks of food, steel, etc.</td>
<td></td>
</tr>
<tr>
<td>3. Capital transfers</td>
<td>7. Balance: Deficit on all transactions in commodities and services and transfers</td>
</tr>
<tr>
<td>3.1 Grants for capital formation</td>
<td></td>
</tr>
<tr>
<td>(a) To States</td>
<td></td>
</tr>
<tr>
<td>(b) To non-departmental commercial undertakings</td>
<td></td>
</tr>
<tr>
<td>(c) To others</td>
<td></td>
</tr>
<tr>
<td>3.2 Gratuities and commuted</td>
<td></td>
</tr>
<tr>
<td>3.3 Compensation paid to displaced persons</td>
<td></td>
</tr>
<tr>
<td>4. Total</td>
<td>8. Total</td>
</tr>
<tr>
<td>Outgoings</td>
<td>Incomings</td>
</tr>
<tr>
<td>-----------</td>
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</tr>
<tr>
<td>1. Investments in shares</td>
<td>7. Sterling pensions annuities</td>
</tr>
<tr>
<td>1.1 Of Government concerns</td>
<td></td>
</tr>
<tr>
<td>1.2 Of other concerns</td>
<td></td>
</tr>
<tr>
<td>2. Loans for Capital formation</td>
<td>8. Repayment of loans</td>
</tr>
<tr>
<td>2.1 To State Governments</td>
<td>8.1 By State Governments</td>
</tr>
<tr>
<td>2.2 To local authorities</td>
<td>8.2 By others</td>
</tr>
<tr>
<td>2.3 To non-departmental commercial undertakings</td>
<td></td>
</tr>
<tr>
<td>2.4 To others</td>
<td>9. Balance: net increase in financial assets</td>
</tr>
<tr>
<td>3. Other loans</td>
<td></td>
</tr>
<tr>
<td>3.1 To State Governments</td>
<td></td>
</tr>
<tr>
<td>3.2 To foreign Governments</td>
<td></td>
</tr>
<tr>
<td>3.3 To others</td>
<td></td>
</tr>
<tr>
<td>4. Subscriptions to International Monetary Fund</td>
<td></td>
</tr>
<tr>
<td>5. Net purchase of domestic gold</td>
<td></td>
</tr>
<tr>
<td>6. Total</td>
<td>10. Total</td>
</tr>
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</table>
### CENTRAL GOVERNMENT

Account 5 - Changes in financial liabilities  
Capital Account of Government Administration and departmental commercial undertakings

<table>
<thead>
<tr>
<th>Outgoings</th>
<th>Incomings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Repayment of long-term rupee debt</td>
<td>5. Long-term rupee debt</td>
</tr>
<tr>
<td>2. Repayment of foreign debt</td>
<td>5.1 Market borrowings</td>
</tr>
<tr>
<td>2.1 Sterling debt</td>
<td>5.2 Funding of Treasury bills</td>
</tr>
<tr>
<td>2.2 Dollar debt</td>
<td>6. Foreign debt</td>
</tr>
<tr>
<td>2.3 Other foreign debt</td>
<td>6.1 Sterling debt</td>
</tr>
<tr>
<td></td>
<td>6.2 Dollar debt</td>
</tr>
<tr>
<td></td>
<td>6.3 Other foreign debt</td>
</tr>
<tr>
<td></td>
<td>8. Small savings (net)</td>
</tr>
<tr>
<td></td>
<td>9. Other unfunded debt (net)</td>
</tr>
<tr>
<td></td>
<td>10. Floating debt (net)</td>
</tr>
<tr>
<td></td>
<td>10.1 Special treasury bills</td>
</tr>
<tr>
<td></td>
<td>10.2 Other treasury bills</td>
</tr>
<tr>
<td></td>
<td>11. Other debt (net)</td>
</tr>
<tr>
<td></td>
<td>12. Issue of one-rupee notes</td>
</tr>
<tr>
<td>4. Total</td>
<td>13. Total</td>
</tr>
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</table>
## CENTRAL GOVERNMENT

Account 6 - Cash and Capital Reconciliation Account of Government Administration and departmental commercial undertakings

<table>
<thead>
<tr>
<th>Outgoings</th>
<th>Incomings</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Deficit on all transactions in commodities and services and transfers - Balancing item Account 3.</td>
<td>5. Net increase in financial liabilities - Balancing item Account 5</td>
</tr>
<tr>
<td>2. Net increase in financial assets - Balancing item Account 4.</td>
<td>6. Decrease in cash balance</td>
</tr>
<tr>
<td>3. Increase in cash balance</td>
<td>7. Total</td>
</tr>
<tr>
<td>4. Total</td>
<td></td>
</tr>
</tbody>
</table>
ACCOUNT I

Transactions in commodities and services and transfers:

Current account of Government Administration.

This account is concerned with current receipts and expenditure of government's administrative departments.

Item 1.1: The figure for wages and salaries includes the actual payment by civil departments in the form of pay of officers and of the establishment staff, their allowances and honoraria. They further include the wage payments to casual labour employed by administrative departments, wages and salaries of defence personnel and the wages and salaries components of (i) defence capital outlay, and (ii) repairs and maintenance. In estimating the wages and salaries component of defence capital outlay only the 'works' expenditure has been taken into account. The proportion of wages and salaries to expenditure on commodities and services is calculated at 33.3:36.6. The wages and salaries component of repairs and maintenance is assumed to be 50 per cent of total expenditures. This is an arbitrary allocation, as the detailed break up of the expenditure is not available. It may be mentioned here that similar allocations are used by the Central Statistical Organisation in computing national income. It will be observed that the figure for salaries and wages as shown in the Economic Classification will be larger than the figure for actual wage and salary payments mentioned in the Central Government budget.

Item 1.2: Commodities and services include expenditure under the head 'other charges'. Lump sum provisions in the budget have, as far as possible, been broken up into expenditure on wages and salaries, and commodities. Wherever the break up is not possible, the entire expenditure has been treated as expenditure on goods and services.
Item 2: Transfer payments. The transfer payments have been split up into (i) payments to State and local governments and other institutions and (ii) payments to individuals. The significance of this distinction is that the former show only the indirect contribution of the Central Government to individual incomes. Again if the economic classification of the integrated budgets of the Central and State Governments is prepared, then the transfers made by the Central Government to State and local governments and institutions become an 'intermediate' transfer, and hence will not be included in the figure for total transfers made by government to the rest of the community. Hence the importance of dividing the transfer payments between governments and individuals is greater than has been recognised by the Economic Classification, namely that "the distinction shown here between grants (to States etc.) and transfers (to persons) has significance only in so far as the recipients of these transfers constitute different sectors."

Item 2.1: Interest comprises interest on the national debt. It excludes interest charged to departmental commercial undertakings, but includes interest charged to States and non-departmental undertakings. The charging of interest is shown as a deduction in expenditure in the budget, but as a receipt in the Economic Classification.

Item 2.2: All statutory grants, and grants made for meeting current expenditure of the State Governments are included in 'grants to States'. The item 'grants to others' comprises grants to non-profit making organisations.

Item 5: Taxes on income and wealth include income-tax, corporation tax and land revenue (in respect of the Union Territories). Taxes on commodities and transactions include Central Excise duties, customs, sales tax, registration, stamp duties, tax on railway passenger fares, etc. As
far as the taxes which are divisible between the Centre and the States are concerned, only the Centre's share is included. A question which might be raised here is, why are taxes on wealth included as current transfers? The reason given by the Economic Classification is that "the distinction between transfer receipts of government on current and capital account rests on the hypothesis that Government's current transfer receipts constitute payments out of income, while capital receipts constitute payments out of capital. This distinction is arbitrary, and depends on the assumption that capital taxes are paid out of savings, and the further assumption that ordinary taxes do not affect savings but are paid through a cut in consumption. This is not necessarily true, and hence the distinction between taxes paid out of income, and out of capital is only partly valid." While this argument is perfectly true at the theoretical level of distinction, in any study of actual conditions in a country the payment of capital taxes out of income or capital is no longer a question of assumption but a matter of fact. Statistical evidence to bring out the facts may not be available, and hence practical considerations may make it necessary to include all taxes under current receipts but a distinction needs to be drawn between practical necessity and scientific validity.

It might be worth considering whether even an arbitrary distribution of tax receipts between current and capital transfers is not a step in the right direction, particularly in view of the fact that the inclusion of all tax receipts in current is not only equally arbitrary but scientifically incorrect. Again a precedence for arbitrary allocations already exists in Item 1.1 (wages and salaries).

**Item 6:** Income from property and enterprise. This includes profits
of departmental commercial undertakings transferred to administration; profits of the Reserve Bank; trading profits on sale of imported sugar; interest receipts from States, individuals, and non-profit making organisations only; profits from non-departmental commercial undertaking transferred to government; and rental and other income from property.

**Item 7:** Sales by government administrative departments of miscellaneous commodities, like jail products, or government publications not published for profit, are not strictly speaking commercial activities. Hence they are treated under government administrative departments and not under government's commercial activities.

**ACCOUNT 2**

Transactions in commodities and services and transfers:

Current Account of Departmental Commercial Undertakings.

The departmental commercial undertakings covered by this account include Railways, Posts and Telegraphs, Salt, Opium, Overseas Communications Service, Transport schemes, Electricity schemes. The transactions of government enterprises run as independent companies or corporations are not included in this account, as the Economic Classification is concerned only with the amounts asked for in the Demands for Grants and included in the Financial Statement.

The expenditure side of the operating account of departmental commercial transactions shows the amounts spent on purchases of commodities and services, payment of wages and salaries to employees, expenditure on repair and maintenance, interest on the capital at charge, and provision for depreciation. The receipts side shows the gross sale proceeds. Repair and maintenance expenditure is allocated between purchases of
commodities and wage and salary payments on 50:50 basis.

**ACCOUNT 3**

Transactions in commodities and services and transfers:

Capital Account of Government administration and departmental commercial undertakings.

This account shows the total capital outlay of administrative departments, and by departmental commercial undertakings. The distinction between transfers in this account and those in Account 1 is that the transfers in the former are intended to assist capital formation and are, therefore, included in the capital account of the recipient. Current transfers, on the other hand, are intended to augment the disposable income of the recipient.

**Item 1.1:** Buildings and construction include all buildings for residential, office and other purposes, construction for railways, electricity projects, etc. The amount spent on acquiring land and buildings is also included under 'buildings and construction' because separate details of the expenditure are not available. Again as construction is, by and large, carried out through contractors the actual amounts spent on wages and salaries, and on the purchase of materials for building and construction works are not known. The total outlay is allocated between wages and salaries and commodities and services in the ratio of 35.3:66.6. This is the overall ratio in respect of construction jobs undertaken by the Central Public Works Department.

**Item 1.2:** Expenditures on machinery and equipment include the value of 'Aid equipment' received as grants from abroad. New construction works and machinery purchased for new installations are shown separately from renewals and replacements.
Item 2: Increase in inventories. The net increase or decrease in the stores needed for construction, and inventories of departmental commercial undertakings are shown separately from changes in stocks of 'strategic materials' like food, fertilizers, etc.

Item 3.1: Grants for capital formation. Grants for capital formation to States include 'development grants' and other grants given for capital formation. Machinery and equipment which the Central Government receives as foreign aid, and then gives over to the States, is also included here. Grants to non-departmental commercial undertakings include grants to the Indian Air Lines Corporation, Damodar Valley Corporation etc. for new construction as well as for the acquisition of assets. Grants to others comprises grants to non-profit making institutions for construction of buildings and for the purchase of equipment.

Item 5: Gross savings consist of savings on current account brought forward from Account 1 (Item 3) and Account 2 (Item 7) and depreciation provision Account 2 (Item 8).

Item 6.2: Foreign grants comprise grants received under the different aid programmes.

ACCOUNT 4

Changes in financial assets: Capital account of Government administration and departmental commercial undertakings.
**Item 1:** Investment in shares includes investments in the share capital of industrial undertakings of the Government, organised as private limited companies. It also includes the acquisition of a financial interest in concerns primarily owned and operated by private enterprise.

**Item 2:** Loans for capital formation include loans given for the creation of capital assets like the construction of irrigation facilities, industrial housing etc. Loans to States, local authorities, are shown separately. Loans for capital formation to others includes loans to private industrial undertakings, building loans to private non-profit making institutions, co-operative housing societies etc.

**Item 3:** Other loans include loans to State Governments, like ways and means advances, advances to government servants, etc.

**Item 4:** Subscriptions to the International Monetary Fund includes subscription in rupees as well as gold.

**Item 5:** Net purchases of domestic gold represents purchases of gold from the Kilar and Hatti Gold Mines, less gold sold.

**Item 7:** Sterling pension/annuities refer to the recoveries from U.K. in respect of payments made earlier to cover all pension liabilities there. Its effect is to reduce government's assets in U.K.

**Item 8:** No breakdown is possible in respect of loans granted for capital formation and for other purposes.

**ACCOUNT 5**

Changes in financial liabilities: Capital Account of Government administration and departmental commercial undertakings.

The deficits in Accounts 3 and 4 show the total amount of financial resources required by the Central Government over and above its transfer
receipts. Account 5 is concerned with the provision of finance for meeting excess of outlays.

**Item 7:** Cash balance investment account. The sale of securities is treated here as an increase in liability; the explanation offered is that there is no basic difference between the sale of securities and new borrowing.

**ACCOUNT 6**

Cash and Capital Reconciliation Account of Government Administration and Departmental Commercial undertakings.

This is the reconciliation account which sums up the position shown by Accounts 3, 4 and 5. It shows the effect of all transactions of the Central Government on its cash position.

The Economic Classification, as it stands, helps to bring out (i) the total capital formation out of the budgetary resources of the Central Government, and (ii) contribution of the Central Government to income generation. Capital formation by the Central Government, it will be seen, takes two forms, (a) Direct, (b) Indirect. Direct capital formation consists of the actual creation of assets by the Central Government. This is made up of -

(a) Construction Works (vide Item 1.1(a) in Account 3).

(b) Machinery and Equipment (vide Item 1.2(a) in Account 3).

(c) Increase in Inventories (vide Item 2 in Account 3).

Indirect capital formation consists of financial assistance for capital formation. Indirect capital formation is made up of assistance to -

(a) State Governments (vide Item 3.1(a) in Account 3 and Item 2.1 in Account 4).
(b) Non-departmental commercial undertakings (vide Item 3.1(b) in Account 3 and Item 1.1 and 2.3 in Account 4).

(c) Others (vide Item 3.1(c) in Account 3 and Items 1.2, 2.2 and 2.4 in Account 4).
APPENDIX IV

DIRECTIVE PRINCIPLES OF STATE POLICY

37. The provisions contained in this part shall not be enforceable by any court, but the principles therein laid down are nevertheless fundamental in the governance of the country and it shall be the duty of the State to apply these principles in making laws.

38. The State shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social economic and political, shall inform all the institution of the national life.

39. The State shall in particular direct its policy towards securing
   (a) that the citizens, men and women equally, have the right to an adequate means of livelihood;
   (b) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good;
   (c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment;
   (d) that there is equal pay for equal work for both men and women;
   (e) that the health and strength of the workers, men and women, and the tender age of children are not abused and that citizens are not forced by economic necessity to enter avocations unsuited to their age and strength;
   (f) that childhood and youth are protected against moral and material abandonment.

40. The State shall take steps to organise village panchayats and endow
them with such powers and authority as may be necessary to enable
them to function as units of self government.

41. The State shall, within limits of economic capacity and development,
make effective provision for securing the right to work, to education
and to public assistance in cases of unemployment, old age, sickness
and disablement, and in other cases of undeserved want.

42. The State shall make provision for securing just and humane conditions
of work and for maternity relief.

43. The State shall endeavour to secure, by suitable legislation or economic
organisation or in any other way, to all workers, agricultural
industrial or otherwise, work, a living wage, conditions of work
ensuring a decent standard of life and full enjoyment of leisure and
social and cultural opportunities, and in particular, the State shall
endeavour to promote cottage industries on an individual or co-operat¬
ive basis in rural areas.

44. The State shall endeavour to secure for the citizens a uniform civil
code throughout the territory of India.

45. The State shall endeavour to provide, within a period of ten years
from this Constitution, for free and compulsory education for all
children, until they complete the age of fourteen years.

46. The State shall promote with special care the educational and
economic interests of the weaker sections of the people, and, in
particular, of the Scheduled castes and the Scheduled tribes, and
shall prevent them from social injustice and all forms of
exploitation.

47. The State shall regard the raising of the level of nutrition and
the standard of living of its people, and the improvement of
public health as among its primary duties, and in particular, the State shall endeavour to bring about the prohibition of the consumption except for medicinal purposes of intoxicating drinks and drugs which are injurious to health.

43. The State shall endeavour to organise agriculture and animal husbandry on modern and scientific lines, and shall in particular, take steps for preserving and improving the breeds, and prohibiting the slaughter of cows and calves and other milch and draught cattle.

49. It shall be the obligation of the State to protect every monument or place or object of artistic or historic interest, declared by law or under law made by Parliament to be of national importance, from spoliation, disfigurement, destruction, removal, disposal or export as the case may be.

50. The State shall take steps to separate the judiciary from the Executive in the public services of the State.

51. The State shall endeavour to

(a) promote international peace and security;
(b) maintain just and honourable relations between nations;
(c) foster respect for international law and treaty obligations in the dealings of organised peoples with one another; and
(d) encourage settlement of international disputes by arbitration.
No. 91/CP/48. - The Government of India set out in their Resolution dated the 6th April, 1948, the policy which they proposed to pursue in the industrial field. The resolution emphasised the importance to the economy of securing a continuous increase in production and its equitable distribution, and pointed out that the State must play a progressive active role in the development of industries. It laid down that besides arms and ammunition, atomic energy and railway transport, which would be the monopoly of the Central Government, the State would be exclusive responsible for the establishment of new undertakings in six basic industries - except where, in the national interest, the State itself found it necessary to secure the co-operation of private enterprise. The rest of the industrial field was left open to private enterprise though it was made clear that the State would also progressively participate in this field.

2. Eight years have passed since this declaration on industrial policy. These eight years have witnessed many important changes and developments in India. The Constitution of India has been enacted, guaranteeing certain Fundamental Rights and enunciating Directive Principles of State Policy. Planning has proceeded on an organised basis, and the first Five Year Plan has recently been completed. Parliament has accepted the socialist pattern of society as the objective of social and economic policy. These important developments necessitate a fresh statement of industrial policy, more particularly as the second Five Year Plan will soon be placed before the country. This policy must be
governed by the principles laid down in the Constitution, the objective of socialism, and the experience gained during these years.

3. The Constitution of India, in its preamble, has declared that it aims at securing for all its citizens —

"JUSTICE, Social, economic and political;
LIBERTY of thought, expression, belief, faith and worship;
EQUALITY of status and of opportunity; and to promote among them all
FRATERNITY assuring the dignity of the individual and the unity of the Nation."

In its Directive Principles of State Policy, it is stated that —

"The State shall strive to promote the welfare of the people by securing and protecting as effectively as it may a social order in which justice, social, economic and political, shall inform all the institutions of the national life."

Further that —

"The State shall, in particular, direct its policy towards securing —

(a) that the citizens, men and women equally, have the right to an adequate means of livelihood;
(b) that the ownership and control of the material resources of the community are so distributed as best to subserve the common good;
(c) that the operation of the economic system does not result in the concentration of wealth and means of production to the common detriment;
(d) that there is equal pay for equal work for both men and women;"
that the health and strength of workers, men and women, and
the tender age of children are not abused and that citizens
are not forced by economic necessity to enter avocations
unsuited to their age or strength;
(f) that childhood and youth are protected against exploitation
and against moral and material abandonment."

4. These basic and general principles were given a more precise
direction when Parliament accepted in December, 1954, the socialist pattern
of society as the objective of social and economic policy. Industrial
policy, as other policies, must therefore be governed by these principles
and directions.

5. In order to realise this objective, it is essential to accelerate the
rate of economic growth and to speed up industrialisation and, in particular,
to develop heavy industries and machine making industries, to expand the
public sector, and to build up a large and growing co-operative sector.
These provide the economic foundations for increasing opportunities for
gainful employment and improving living standards and working conditions for
the mass of the people. Equally, it is urgent, to reduce disparities in
income and wealth which exist today, to prevent private monopolies and the
concentration of economic power in different fields in the hands of small
numbers of individuals. Accordingly, the State will progressively assume
a predominant and direct responsibility for setting up new industrial
undertakings and for developing transport facilities. It will also
undertake State trading and on an increasing scale. At the same time, as
an agency for planned national development, in the context of the country's
expanding economy, the private sector will have the opportunity to develop
and expand. The principle of co-operation should be applied wherever possible and a steadily increasing proportion of the activities of the private sector developed among co-operative lines.

6. The adoption of the socialist pattern of society as the national objective, as well as the need for planned and rapid development, require that all industries of basic and strategic importance, or in the nature of public utility services, should be in the public sector. Other industries which are essential and require investment on a scale which only the State, in present circumstances, could provide, have also to be in the public sector. The State has therefore to assume direct responsibility for the future development of industries over a wider area. Nevertheless, there are limiting factors which make it necessary at this stage for the State to define the field in which it will undertake sole responsibility for further development, and to make a selection of industries in the development of which it will play a dominant role. After considering all aspects of the problem, in consultation with the Planning Commission, the Government of India have decided to classify industries into three categories, having regard to the part which the State would play in each of them. These categories will inevitably overlap to some extent and too great a rigidity might defeat the purpose in view. But the basic principles and objectives have always to be kept in view and the general directions hereafter referred to followed. It should also be remembered that it is always open to the State to undertake any type of industrial production.

7. In the first category will be industries, the future development of which will be the exclusive responsibility of the State. The second category will consist of industries, which will be progressively State-owned
and in which the State will therefore generally take the initiative in establishing new undertakings, but in which private enterprise will also be expected to supplement the effort of the State. The third category will include all the remaining industries, and their future development will, in general, be left to the initiative and enterprise of the private sector.

8. Industries in the first category have been listed in Schedule A of this Resolution. All new units in these industries, save where their establishment in the private sector has already been approved, will be set up only by the State. This does not preclude the expansion of the existing privately owned units, or the possibility of the State securing the co-operation of private enterprise in the establishment of new units when the national interests so require. Railways and air transport, arms and ammunition and atomic energy will, however, be developed as Central Government monopolies. Whenever co-operation with private enterprise is necessary, the State will ensure, either through majority participation in the capital or otherwise, that it has the requisite powers to guide the policy and control the operations of the undertaking.

9. Industries in the second category will be those listed in Schedule B. With a view to accelerating their future development, the State will increasingly establish new undertakings in these industries. At the same time private enterprise will also have the opportunity to develop in this field, either on its own or with State participation.

10. All the remaining industries will fall in the third category, and it is expected that their development will be undertaken ordinarily through the initiative and enterprise of the private sector, though it will be open to the State to start any industry even in this category. It will be the
policy of the State to facilitate and encourage the development of these industries in the private sector, in accordance with the programmes formulated in successive Five Year Plans, by ensuring the development of transport, power and other services, and by appropriate fiscal and other measures. The State will continue to foster institutions to provide financial aid to these industries, and special assistance will be given to enterprises organised on co-operative lines for industrial and agricultural purposes. In suitable cases, the State may also grant financial assistance to the private sector. Such assistance, especially when the amount involved is substantial, will preferably be in the form of participation in equity capital, though it may also be in part in the form of debenture capital.

11. Industrial undertakings in the private sector have necessarily to fit into the framework of the social and economic policy of the State and will be subject to control and regulation in terms of the Industries (Development and Regulation) Act and other relevant legislation. The Government of India, however, recognise that it would, in general, be desirable to allow such undertakings to develop with as much freedom as possible, consistent with the targets and objectives of the national plan. When there exists in the same industry both privately and publicly owned units, it would continue to be the policy of the State to give fair and non-discriminatory treatment to both of them.

12. The division of industries into separate categories does not imply that they are being placed in water-tight compartments. Inevitably, there will not only be an area of overlapping but also a great deal of dovetailing between industries in the private and the public sectors. It will be open to the State to start any industry not included in Schedule A and Schedule B when the needs of planning so require or there are other
important reasons for it. In appropriate cases, privately owned units may be permitted to produce an item falling within Schedule A for meeting their own requirements or as by-products. There will be ordinarily no bar to small privately owned units undertaking production, such as the making of launches and other light craft, generation of power for local needs and small scale mining. Further, heavy industries in the public sector may obtain some of their requirements of lighter components from the private sector, while the private sector in turn would rely for many of its needs on the public sector. The same principle would apply with even greater force to the relationship between large scale and small scale industries.

13. The Government of India would, in this context, stress the role of cottage and village and small scale industries in the development of the national economy. In relation to some of the problems that need urgent solutions, they offer some distinct advantages. They provide immediate large scale employment; they offer a method of ensuring a more equitable distribution of the national income and they facilitate an effective mobilisation of resources of capital and skill which might otherwise remain unutilised. Some of the problems that unplanned urbanisation tends to create will be avoided by the establishment of small centres of industrial production all over the country.

14. The State has been following a policy of supporting cottage and village and small scale industries by restricting the volume of production in the large scale sector, by differential taxation, or by direct subsidies. While such measures will continue to be taken, whenever necessary, the aim of the State policy will be to ensure that the decentralised sector acquires sufficient vitality to be self-supporting and its development is integrated
with that of large scale industry. The State will, therefore, concentrate on measures designed to improve the competitive strength of the small scale producer. For this it is essential that the technique of production should be constantly improved and modernised, the pace of transformation being regulated so as to avoid, as far as possible, technological unemployment. Lack of technical and financial assistance, of suitable working accommodation and inadequacy of facilities for repair and maintenance are among the serious handicaps of small scale producers. A start has been made with the establishment of industrial estates and rural community workshops to make good these deficiencies. The extension of rural electrification and the availability of power at prices which the workers can afford will also be of considerable help. Many of the activities relating to small scale production will be greatly helped by the organisation of industrial co-operatives. Such co-operatives should be encouraged in every way and the State should give constant attention to the development of cottage and village and small scale industry.

15. In order that industrialisation may benefit the economy of the country as a whole, it is important that disparities in levels of development between different regions should be progressively reduced. The lack of industries in different parts of the country is very often determined by factors such as the availability of the necessary raw materials or other natural resources. A concentration of industries in certain areas has also been due to the ready availability of power, water supply and transport facilities which have been developed there. It is one of the aims of national planning to ensure that these facilities are steadily made available to areas which are at present lagging behind industrially or where there is greater need for providing opportunities for employment,
provided the location is otherwise suitable. Only by securing a balanced and co-ordinated development of the industrial and the agricultural economy in each region, can the entire country attain higher standards of living.

16. This programme of industrial development will make large demands on the country's resources of technical and managerial personnel. To meet these rapidly growing needs for the expansion of the public sector and for the development of village and small scale industries, proper managerial and technical cadres in the public services are being established. Steps are also being taken to meet shortages at supervisory levels, to organise apprenticeship schemes of training on a large scale both in public and in private enterprises, and to extend training facilities in business management in universities and other institutions.

17. It is necessary that proper amenities and incentives should be provided for all those engaged in industry. The living and working conditions of workers should be improved and their standard of efficiency raised. The maintenance of industrial peace is one of the prime requisites of industrial progress. In a socialist democracy labour is a partner in the common task of development and should participate in it with enthusiasm. Some laws governing industrial relations have been enacted and a broad common approach has developed with the growing recognition of the obligations of both management and labour. There should be joint consultation and workers and technicians should, wherever possible, be associated progressively in management. Enterprises in the public sector have to be set an example in this respect.
With the growing participation of the State in industry and trade, the manner in which these activities should be conducted and managed assumes considerable importance. Speedy decisions and a willingness to assume responsibility are essential if these enterprises are to succeed. For this, wherever possible, there should be decentralisation of authority and their management should be along business lines. It is to be expected that public enterprises will augment the revenues of the State and provide resources for further development in fresh fields. But such enterprises may sometimes incur losses. Public enterprises have to be judged by their total results and in their working they should have the largest possible measure of freedom.

The Industrial Policy Resolution of 1948 dealt with a number of other subjects which have since been covered by suitable legislation or by authoritative statements of policy. The division of responsibility between the Central Government and the State Governments in regard to industries has been set out in the Industries (Development and Regulation) Act. The Prime Minister, in his statement in Parliament on the 6th April 1949, has enunciated the policy of the State in regard to foreign capital. It is, therefore, not necessary to deal with these subjects in this resolution.

The Government of India trust that this restatement of their Industrial Policy will receive the support of all sections of the people and promote the rapid industrialisation of the country.
SCHEDULE A

1. Arms and ammunition and allied items of defence equipment
2. Atomic energy
3. Iron and steel
4. Heavy castings and forgings of iron and steel
5. Heavy plant and machinery required for iron and steel production, for mining, for machine tool manufacture and for such other basic industries as may be specified by the Central Government
6. Heavy electrical plant including large hydraulic and steam turbines
7. Coal and lignite
8. Mineral oils
9. Mining of iron ore, manganese ore, chrome ore, gypsum, sulphur, gold and diamond
10. Mining and processing of copper, lead, zinc, tin, molybdenum and wolfram
11. Minerals specified in the Schedule to the Atomic Energy (Control of Production and Use) Order, 1953
12. Aircraft
13. Air transport
14. Railway transport
15. Shipbuilding
16. Telephones and telephone cables, telegraph and wireless apparatus (excluding radio receiving sets)
17. Generation and distribution of electricity
SCHEDULE B

1. All other minerals except "minor minerals" as defined in Section 3 of the Minerals Concession Rules, 1949.
2. Aluminium and other non-ferrous metals not included in Schedule 'A'.
4. Ferro-alloys and tool steels.
5. Basic and intermediate products required by chemical industries such as the manufacture of drugs, dyestuffs and plastics.
6. Antibiotics and other essential drugs.
7. Fertilizers.
8. Synthetic rubber
9. Carbonisation of coal
10. Chemical pulp
11. Road transport
12. Sea transport
## APPENDIX VI

### INDIA

**Major Head "40"**

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