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ROLE OF FISCAL POLICY IN ECONOMIC DEVELOPMENT

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ABSTRACT
Indian economy is witnessing rapid economic growth. With downsizing government activities in the aftermath of new economic policy private intervention in the economic activities enhanced. Fiscal policy plays an important role in the economic development, but due to increased imbalance between revenue and expenditure with reckless spending, enhanced non-developmental expenditure deficit curing growth. There is a clear message that government expenditures will be beneficial only if the revenue accumulated through tax or disinvestment process should be directed towards infrastructure investment, then only cost recovery and productivity gains can be possible.

KEYWORDS
fiscal policy, economic development, economic growth, public expenditure.

INTRODUCTION
Indian economy is witnessing a transformational progress with its Gross Domestic Product growing at an average rate of 7 to 8 percent per year (2004-2008) except during the period of economic recession. Economic recession adverse impact on Indian economy ended with inflationary situation for successive years (two to three). The growth during this period was mainly driven largely due to the contribution from service and industrial sectors. But the question ahead is whether the present growth is able to sustain for a long run? Or the economy is impressing aggressive economic growth. This question arises when we look at the economic capability and its stability. Macro-Economic stability is necessary for sustainable Development. To achieve economic growth and economic stability two policies such as Monetary and Fiscal Policies would be significantly effective techniques of economic policy in a developing economy. Fiscal policy mainly aims at rapid economic Growth, through its expansionary nature. Sound Monetary and Fiscal policies create a hospitable climate for private investment (which lacks in developing countries) and thus promote growth. A prudent fiscal policy is the foundation for a stable macro economy.

RESEARCH METHODOLOGY
The article covers the time period 1991 to 2010. The relevant data of public finance, obtained from Monetary Statistics and Handbook of Statistics on Indian Economy, RBI. The time period was considered, mainly the period from 1991 to 2004 the per-FRBM period, and the period from 2004 to 2010 post-FRBM period. In the analysis AAGR of fiscal variables has been used.

STATEMENT OF THE PROBLEM
Indian economy is today at important threshold with the severe crises it is undergoing in the fiscal and trade sectors. Our resources are inadequate to meet the many-dimensional challenges of economic planning. As already mentioned above; the key threat to sustainable economic growth and to economic security is the substantial decline in investment/capital expenditures made by the government with rising fiscal deterioration. So, in this context it is necessary to examine the changing trend in the central fiscal variables (revenue, expenditure, debt).

OBJECTIVES
In order to understand the current fiscal Predicament of the central government it is necessary to examine the pattern of central Government expenditure and revenues over At least the last 20 years. This study mainly focusses on the following objectives:
1. To analyze the growth pattern of central government revenue and expenditure
2. To examine the impact of FRBM act on the revenue and expenditure pattern

THEORITICAL BACKGROUND
Classical economists emphasized the role of money in achieving price stability where as Keynes strongly advocated fiscal action to revive depressed economies of the 1930s. The confidence on monetary action was again revived in recent years with cyclical inflationary conditions. But the recent economic slowdown was mainly due to US sub-prime crisis once again reminds the role of Governments in maintaining economic stability during economic imbalance. The effectiveness of above two policy instruments is interrelated. Though the social welfare is a prime objective of the two policies, Fiscal policy mainly concentrates on the growth gate of output, & monetary policy concentrates of economic stability. So in order to make balance between two objectives a proper coordination between Monetary as well as fiscal policy is the need of the hour. As Macro imbalances are inter-related, inter sectoral linkage and Inter policies are linked each other in the developmental process. Internal as well as external factors are contributing for structural Fiscal imbalance; mainly fiscal deficit and Trade deficit are interrelated through Current account deficit. Which is a common trend, can be traceable in Indian economy since 1980s. With respect to the nature of fiscal deficit, a close analysis shows that it is not only cyclical in nature but also structural. In the earlier day's fiscal imbalance is cyclical in nature but due to continued Government expenditure (revenue expenditure) faster than its revenue (revenue receipts) and the steady accumulation of public debt, transferred it into a structural one. The successive Governments with dual intention followed expansionary fiscal policy to stimulate demand. First, for political reasons (vote bank politics), mainly after 1990s when India witnessed political instability with higher frequency of general elections with coalition government structure (communist-regional parties, dominance) in 1991,1996,1998,1999,2004,2009 electons(srinivasan). Second, to stimulate economy to come out from economic slowdown through stimulus packages. Political motivation of successive democratic governments is the main reason behind this structural nature of the fiscal imbalance with cyclical capital mixed economy.

REVIEW OF LITERATURE
A Study by **Ajit Karnik (2002)** titled 'Fiscal Policy and Growth' Explain the importance of fiscal policy in reviving economic growth. Examining the impact of fiscal policy instruments on growth, author opines that there is need to restructure the composition of expenditure in order to make it productive (capital outlay) from the point of economic development. As the availability of public revenue has limited space the only hope is disinvestment policy.

Subra Ramamurthy (2010) tries to examine the reason behind budget deficit (revenue expenditure gap) and also looks at the reason to consider deficit seriously from the point of economic stability. Examining the corrective measures undertaken by the Indian as well as USA, EU governments to sustainable level from the crisis, opine that though there is no appropriate level of budget deficit to GDP, higher level of deficit may have an adverse impact on the fiscal health of the government.

According **to Mr. Narasimham;** Fiscal Policy shouldn't be narrowly interpreted to mean merely levels of Tax Incidence. It should really address itself to meeting the overall resources revilements of the economy, both in public and private sectors, and aim at removing inefficiencies whiteness they exist, so that all sectors of the economy can make a fair contribution to economic progress and, equally importantly, to government revenues. In general, Fiscal policy is all about government expenditure, its composition and it's financing or transfer of recourses.

India adopted the path of planning to accelerate the process of economic development, to achieve an optimum allocation of resources from point of view of the society's welfare. The initial period of planning was based on trickle down paradigm" (second five-year plan). There was a gradual decrease in the trickle down optimism, after 1970, due to the emergence of several economic problems like poverty, unemployment, galloping inflation, and income inequality and wealth distribution. Consequently, the goals of planning changed and diverted towards solving the emerging problems. Totally, the emphasis was shifted from "quantitative" (investment on core industries) dimension to "qualitative" (poverty, nutrition) dimension of growth. The successive governments come with various welfare programmers. In the coming years Indian economy started facing huge fiscal, monetary & trade deficits simultaneously, as the welfare concept developed over the years. The management of "Aggregate demand and Aggregate supply policies become more important for solving the chronic problems faced by the Indian economy.

Inspite of theoretical differences regarding the effectiveness of the policies, one point is common in the development literature from classicalists to Neo-classicalists that development, that is structural transformation of the system, depends on Investment. As already Mentioned above, the key threat to sustainable economic growth and to economic Security is the substantial decline in development oriented investment expenditures made by the government. The main source of investment is savings. But the investment climates as well as saving rate are in deprived condition in our country since the beginning of planning era which has been the main reason for Fiscal imbalances. Besides the massive investment in the public sector during the successive plans, import of huge technologies to promote growth of basic domestic industries, huge public investment in the creation of infrastructural facilities, public policies in the form of price support, procurement, subsidies and concessional credit, rural debt relief scheme all these necessarily as well as unnecessarily created a burden on the fiscal structure of the developing economy. The decade of 1980s could be called as the decade of fiscal deterioration, which leads to external crisis through widening of current account deficit in 1991. Government's ability to make further invest has been declining continuously since the late 1980s because of its deteriorating fiscal situation putting burden and it also started eating the generated resources. This raised the question of sustainability in growth. Government of India for the first time created long-term fiscal policy with specific targets to achieve fiscal balance.

Indian economy is today at important threshold with the severe crises it is undergoing in the fiscal and trade sectors. Our resources are inadequate to meet the many-dimensional challenges of economic planning. As already mentioned above; the key threat to sustainable economic growth and to economic security is the substantial decline in investment/capital expenditures made by the government with rising fiscal deterioration.

TABLE 1

Growth of combined deficits of the centre and states (%) of GDP						AAGR (% change)			Saving & Capital % of GDP				GDCF AAGR (% change)			GDS AAGR (% change)		
Year	Gross fiscal deficit (GFD)	Gross primary deficit (GPD)	Revenue deficit (RD)	GPD/ GFD	RD/ GFD	% of Primary Deficit	% of RD	% of FD	GDS % GDP	GDCF % GDP	S-K GAP	PublicSector /GDS	public sector %	private sector %	household sector %	Public sector %	Corporate Sector%	House hold Sector %
1991-92	7.00	2.27	3.35	32.41	47.79	-7.3	-8.11	-14.29	22.8	26.0	-3.2	-814.50	-9.10	-58.5	24.94	-71.92	-33.90	1.23
1992-93	6.96	2.12	3.15	30.41	45.20	-75.31	-54.21	-35.39	21.5	22.1	-0.5	-4277.94	-10.44	-29.65	-39.99	5.15	1.65	-19.15
1993-94	8.19	3.23	4.22	39.38	51.48	30.9	-1.80	-0.97	21.2	23.1	-1.8	-1255.78	-10.78	-1.10	5.44	35.77	-49.57	-21.26
1994-95	7.05	1.90	3.66	26.96	51.91	3.7	-2.01	-8.42	21.9	22.5	-0.6	-4064.37	-24.83	-43.64	-24.20	-122.27	-18.06	-26.25
1995-96	6.52	1.56	3.18	23.94	48.84	7.8	-28.57	-12.33	24.4	25.5	-1.2	-2180.74	-3.14	-62.73	-40.02	-31.70	-67.76	-6.48
1996-97	6.33	1.24	3.54	19.66	55.90	-89.24	-28.74	-26.93	24.4	26.2	-1.7	-1500.39	-5.53	1.14	16.77	3.07	-5.17	-9.93
1997-98	7.25	2.13	4.11	29.32	56.69	-96.9	-76.19	-41.82	22.7	24.0	-1.3	-1864.96	-4.53	-9.92	-54.49	8.22	-5.72	-22.33
1998-99	8.97	3.65	6.32	40.72	70.43	-16.3	-9.74	-17.68	23.8	25.3	-1.5	1729.93	-13.93	7.81	-21.94	132.33	-4.69	-21.99
1999-00	9.47	3.81	6.22	40.24	65.68	-0.89	-14.34	-8.13	22.3	23.3	-1.0	-2222.57	-17.71	-15.59	-37.81	-74.70	-26.69	-25.10
2000-01	9.51	3.57	6.60	37.55	69.45	-12.0	-14.80	-13.30	24.8	25.9	-1.1	-2302.36	-0.02	24.02	-16.38	-138.04	7.08	-10.26
2001-02	9.94	3.69	6.99	37.12	70.38	9.7	-2.28	-3.78	23.7	24.3	-0.6	-4012.45	-8.23	-13.41	-7.12	-25.23	5.13	-10.84
2002-03	9.57	3.09	6.64	32.31	69.36	25.02	2.20	0.21	23.5	22.8	0.6	3659.12	4.56	-17.66	-20.76	65.50	-29.01	-11.72
2003-04	8.51	2.07	5.79	24.28	67.98	25.5	28.01	-0.09	26.3	25.2	1.2	2169.61	-16.85	-29.42	-13.17	285.25	-28.10	-17.90
2004-05	7.24	1.31	3.54	18.07	48.89	16.10	13.46	-2.06	29.8	27.6	2.2	1237.49	-37.81	-77.87	-24.21	-152.36	-67.21	-15.00
2005-06	6.49	0.96	2.69	14.85	41.46	101.12	44.25	3.81	32.2	32.7	-0.5	-6540.0	-21.93	-49.51	1.12	-19.40	-30.42	-13.81
2006-07	5.37	-0.01	1.29	-0.17	24.03	-131.4	82.61	11.50	33.5	34.7	-1.2	-2891.67	-21.55	-24.67	-18.45	-55.05	-23.50	-14.46
2007-08	4.09	-1.12	0.19	-27.38	4.72	439.44	-2402.2	-131.86	34.6	35.7	-1.1	-3245.45	-23.94	-38.29	-5.40	-80.50	-36.94	-12.56
2008-09	8.47	3.39	4.31	40.08	50.94	-58.75	-55.99	-32.19	36.9	38.1	-1.2	-3175.0	-19.76	25.71	-35.88	88.38	6.47	-18.86
2009-10	9.54	4.59	5.74	48.13	60.11	30.28	19.92	7.75	32.2	34.5	-2.3	1.61	-13.68	-34.85	-4.60	-383.62	-21.22	-15.40
2010-11	7.32	2.66	3.82	36.37	52.18				33.7	36.5	-2.8	6.34						

Source: Calculated from RBI handbook of statistics on Indian economy

NOTE: AAGR indicate yearly increase or decrease & positive sign indicate percent of increase compared to previous year, negative sign indicate percent of decrease compared to previous year.

In spite of theoretical differences regarding the effectiveness of the policies, one point is common in the development literature from classicalists to Neo-classicalists is a structural transformation of a system mainly depends on Investment. The main source of investment is saving. In India the rate of investment is dismal compared to saving; saving-led growth has been the main feature of the economy. **Table 1** show the overall increase in the savings rate (% of GDP) in reform period from 21.5% of GDP in 1991-92 to 33.7 % of GDP in 2009-10 along with gross capital formation which also increased from 26% in 1991-92 to 36.5 in 2010-11. The last 6 years, 2002/3-2007/8, have witnessed a remarkable transformation in the level and composition of aggregate savings and investment in the economy. The more optimistic trend can be seen from 2005-06, from which both saving and investment even crossed 30 per cent. As per cent of GDP at current market prices private sector saving is 24 percent compared to public sector which constitute 7.8 percent during the year 2010-11. Though the saving investment gap has been larger in the year 1990-91, it gradually reduced in late 1990s, but from 2002 to 2005 it turned positive, means investment rate was lower than saving rate, so that saving investment gap turned surplus during that period. After that the gap exceeded even more than 2 per cent during last two years mainly because of decrease in the saving rate in Household sector (after a long gap of eight years) due to sever inflation. The structure of gross domestic saving gives the real picture. Its structure has been changed significantly over a period of time. The annual rate of growth has been volatile in all the three sectors, mainly in the public sector. Public sector saving raised at slower rate, but it even turned negative from 1998-99 to 2003-04, means its contribution to total saving has been nil. After that it increased (Post-FRBM) but not even exceeded 10% of total saving (except few years). The structure of Gross Domestic Capital Formation also changed significantly over a period of time. The annual rate of growth has been volatile in all the three sectors, mainly in the public sector. Capital formation in private corporate sector (24 % in 2011) showing an optimistic growth, which would be the main engine of growth with downsizing of government activities. AAGR of capital formation shows annual increase in capital. One thing to be noticed that both the sectors have a positive trend (yearly increase) mainly after 2003-04 compared to previous years, (1990s figure) except in the year 2008-09 due to economic recession which ruined private investors confidence. This huge variation is mainly because of steep variation in public and corporate private sectors contribution to domestic saving. The yearly growth of capital formation raised one percent, four percent, seventy percent like these huge variations reveals the unstable nature of the growth pattern. This structural imbalance due to various wrong economic policies adopted during the planning periods has been the main cause for fiscal deterioration.

The above table also reveals the nature of deficits. Whenever the government spends more than its revenue because of saving-investment gap, it ends with deficit finance. In 1991-92 Gross Fiscal deficit to Gross Domestic Product ratio was 7%, which was coexisted with 2.27% of Gross Primary Deficit to Gross Domestic Product

share and 3.35 % of Revenue Deficit to Gross Domestic Product. Over the years the deficits showed an increasing trend, in 1991-92 it was 7 percent, later it increased up to 8 to 9 percent of GDP. After the enactment of FRBM act fiscal deficit gradually reduced to 6.49 percent in 2003-04 and to 4.09 percent in 2007-08. There after again it marks a reversal of fiscal consolidation happened over the last 6 years (2002-03 to 2007-08), primary deficit also revenue deficit are the main culprit behind this deficit. "Between "2002-03 to 2007-08 all the deficits declining, can be a period of fiscal consolidation. When primary deficit turned negative, revenue deficit nearer to zero, fiscal deficit showed a lowest rate of 4.09% to GDP, compared to previous years, which can be noticed in AAGR of Gross fiscal deficit. Whereas Gross primary deficit (GFD-Interest payment) and revenue deficits also showing the same increasing trend, but from 2002-03 moving in a decreasing trend, mainly the Primary Deficit turned negative for two years from 2006-07 to 2007-08, in recent years again it started rising. The main component of revenue expenditure is interest payment. It means government is spending, means borrowing more money to finance its debt services and also to finance current ongoing unproductive expenditure. The ratio of revenue deficit to fiscal deficit rose from 32 percent to 48 percent. Noticeable points are the deficits reduced when the rate of saving and investment raised above thirty percent from 2005-06, and with the decrease of saving and investment the total deficit rate raised again after 2009. (Combined effect of inflation & economic recession). It is like "vicious circle"- the total sectoral dissaving and widening saving-investment gap make market borrowing inevitable and then it ends with fiscal deterioration. (Inter linked).

TABLE 2

	Combined share in GDP& Total expenditure & AAGR					Central share in total expenditure &AAGR				State AAGR	
YEAR	development %GDP	Non development %GDP	Development % Total expenditure	development	Non development	Development	Non development	AAGR of Development expenditure	AAGR of Non development expenditure	Development expenditure	Non development expenditure
1991-92	-69.6	-24.8	51.81	-8.07	-14.49	51.81	48.19	-10.40	-9.81	-8.02	-8.0160348
1992-93	-69.1	-25.1	51.94	-8.67	-20.90	51.94	48.06	-10.67	-21.46	-10.21	-10.207653
1993-94	-67.5	-26.9	49.62	-15.73	-18.61	49.62	50.38	-14.27	-11.98	-15.58	-15.584913
1994-95	-66.3	-28.3	50.12	-13.23	-13.23	50.12	49.88	-1.96	-19.70	-10.00	-9.9961999
1995-96	-64.5	-30.8	46.12	-11.81	-14.67	46.12	53.88	-11.57	-13.77	-14.59	-14.594111
1996-97	-64.6	-31.2	45.63	-8.58	-15.27	45.63	54.37	-17.83	-13.90	-9.97	-9.9742585
1997-98	-64.9	-30.8	46.48	-20.63	-20.63	46.48	53.52	-23.66	-17.59	-13.31	-13.308872
1998-99	-63.5	-31.6	47.73	-14.51	-19.14	47.73	52.27	5.91	-18.38	-13.86	-13.858561
1999-00	-61.7	-32.6	42.06	-12.17	-7.95	42.06	57.94	-7.92	-10.98	-12.06	-12.057317
2000-01	-59.6	-35.2	41.38	-10.73	-10.73	41.38	58.62	-14.33	-9.11	-2.63	-2.6333447
2001-02	-60.5	-34.2	42.52	-7.99	-10.45	42.52	57.48	-15.58	-12.67	-5.08	-5.0751826
2002-03	-57.3	-36.8	43.14	-16.41	-9.49	43.14	56.86	-6.10	-0.23	-23.02	-23.015884
2003-04	-54.1	-36.5	44.54	-11.93	-11.93	44.54	55.46	-9.99	-8.06	-4.99	-4.9936228
2004-05	-53.1	-32.4	44.98	-16.25	-6.58	44.98	55.02	-6.56	-10.56	-15.21	-15.209461
2005-06	-51.8	-33.33	44.07	-15.41	-25.61	44.07	55.93	-11.64	-17.41	-18.82	-18.822036
2006-07	-58.8	-33.8	42.83	-6.62	-6.62	42.83	57.17	-27.36	-17.42	-18.44	-18.435352
2007-08	-59.7	-32.2	44.83	-32.87	-8.07	44.83	55.17	-44.75	-6.84	-22.10	-22.095241
2008-09	-61.7	-31	52.40	-17.99	-22.53	52.40	47.60	-12.06	-20.08	-21.06	-21.064001
2009-10	-64.3	-28.9	50.92			50.68	49.32	-26.51	-10.47		

Source: Calculated from RBI handbook of statistics on Indian economy

Fiscal deficit increased due to rapid rise in the revenue deficit. Revenue deficit means government is borrowing money to finance current expenditure, to meet day to day expenditures, which are more often unproductive and inflexible in nature. Capital deficit means government is borrowing to make investment towards developmental activities, which are productive in nature, leads to further development in future. The expenditure pattern of the Government shows that, revenue expenditure widening over revenue receipt in successive years, whereas capital revenue has been higher than capital expenditure. FRBM targets are reached by compressing capital expenditure. In order to clearly understand the nature of Fiscal deficit it is necessary to examine the volume and pattern of Government expenditure and revenues made by the central and state Governments over the period of years. Fiscal policy is all about government expenditure, its composition and its financing. Fiscal policy influences aggregate demand for goods and services in an economy in several ways. AD =C+I+G+ (X-M) There are three main components of fiscal policy; they are taxation, public expenditure, public debt. All the three are examined.

Government expenditure is nothing but expenditure made by the government in order to undertake social and economic activities for overall development of the country, which is the prime duty of the welfare oriented Governments. Public expenditure used as a tool to accelerate economic growth. All Such activities require huge public expenditure. Government expenditure is broadly classified into two parts: Revenue expenditure and Capital expenditure. It can be classified as below **(Table 2**) -Combined Developmental and Non-Developmental Expenditure. When we look at the expenditure scenario in the below table, one can notice a sharp rise in the share of non-developmental expenditure as a percent of total expenditure (subsidies, interest rate, salaries, transfer payments etc) compared to developmental expenditure (centrally-sponsored programmes, economic, social services and flagship schemes).

TABLE 3

combined revenue expenditure of centre and states					Non developmental expenditure developmental expenditure									capital expenditure of centre & states	
YEAR	interest payments	pension	social & community services	Education	health	Labour & UE	social security	urban development	economic services	Agriculture & allied	power & irrigation	transport & coms	Public works	economic services	agriculture
1990-91	38.85	8.05	50.58	29.24	10.42	1.27	2.50	1.26	7.41	19.21	46.96	4.58	1.57	4.43	4.05
1995-96	41.28	8.52	53.66	30.60	10.85	1.20	3.33	1.29	20.18	20.07	8.38	4.67	1.51	-0.63	4.26
1996-97	43.92	9.38	53.29	29.81	10.55	1.13	3.47	1.42	1.80	18.20	11.12	4.92	1.52	-0.38	3.52
1997-98	42.50	10.03	55.53	30.86	11.36	1.20	3.47	1.58	1.76	18.41	8.92	5.16	1.60	2.85	5.57
1998-99	41.80	11.86	56.24	32.12	11.40	1.12	3.22	1.64	1.92	19.28	8.37	4.98	1.38	0.25	7.23
1999-00	41.81	14.06	56.68	34.03	10.98	1.14	2.52	1.73	15.78	18.51	7.81	5.79	1.52	2.92	7.11
2000-01	42.95	13.58	54.90	32.08	10.59	1.07	3.40	1.62	1.64	16.12	9.83	8.20	1.58	2.80	9.02
2001-02	43.98	12.59	54.24	31.56	10.40	0.09	3.24	1.78	9.95	16.61	10.98	8.80	1.54	3.82	10.25
2002-03	43.88	12.23	52.45	30.76	9.86	0.87	2.90	1.83	1.27	15.51	9.93	8.77	1.29	-0.13	4.04
2003-04	46.07	11.81	49.55	28.23	9.41	0.84	3.25	1.71	13.58	15.21	13.71	7.45	1.25	0.67	3.64
2004-05	45.29	13.05	55.74	31.42	10.36	0.94	3.89	2.08	1.93	15.74	7.52	7.54	1.30	2.96	5.57
2005-06	44.77	13.20	53.85	29.66	10.13	0.91	4.71	1.69	16.63	16.50	7.93	8.79	1.18	4.15	5.68
2006-07	45.30	13.43	52.11	28.46	8.95	1.10	4.58	2.60	1.96	16.04	8.89	9.28	1.28	7.47	5.88
2007-08	44.33	13.81	52.74	27.40	9.04	0.87	5.51	3.09	20.81	17.20	7.76	8.73	1.23	27.35	5.10
2008-09	40.93	13.96	49.52	25.28	7.67	0.76	5.56	3.23	1.79	17.81	6.84	6.95	1.01	5.47	7.61
2009-10	38.52	15.09	54.12	27.29	8.41	0.80	7.58	3.27	34.90	16.13	5.61	7.49	1.19	7.84	6.04

Source: Calculated from RBI handbook of statistics on Indian economy

The development expenditure as percent of GDP declined from 69.6% in 1991-92 to 51.8% in 2005-06, but later on there has been slight increasing trend with 64.3 % in 2009-10. Whereas the non-developmental expenditure as a percent of GDP increased continuously from 24.8% in 1991-92 to 36.8 % in 2002-03, but there after showing a slightly decreasing trend with 28.9% in 2009-10.

It means non developmental expenditure such as interest payments, defence expenditure; Transfer payments (subsidies, pensions) show a positive trend. The developmental and non-developmental expenditure may be of revenue or capital in nature; but development oriented expenditure directly and quickly leads to faster and sustainable economic growth. The basic structural imbalance lies in mismatch between revenue receipt and revenue expenditure. The successive Democratic Government's upward moving revenue expenditure and major cutback in capital expenditure to limit the growth of expenditure and lower capital outlay are the main factors behind the expenditure pattern. That is needed to be analysed in FRBM Act limelight. Public expenditure is one of the main concepts in fiscal management. Since from independence, government is spending lump sum amount of money primarily to provide infrastructural base to the economy as well as to finance Government popular programmes. It is using as a means of creating aggregate demand. In an attempt to accelerate the growth rate through heaver investment, the total expenditure outlays were raised over the years through plan as well as non-plan expenditure. The combined revenue component of developmental expenditure recorded higher growth rate compared to capital component over the years. The above **table 3** reveals the pattern of combined revenue as well as capital expenditure. Under the revenue part Interest payments, defence, pension, food security comes under non-developmental expenditure. The share of Interest payments debt servicing (i.e. principal repayment plus interest payment) obligations constitute largest component with 38.85 percent in 1991-92 to 38.52 percent, it also maximised 46.07 in 2003-04, there after it showed a decreasing trend. The Other component like pension, administrative expenses also rising in successive years. For instances successive pay commissions mainly the Fifth as well as sixth Pay Commissions salary revision, various pension schemes and increase in the retirement age of state government employees in many states and salary revision of ministers and administrators (president monthly salary cost to the exchequer), Increase in the off-balance sheet liabilities due to oil, fertiliser, food (2% of GDP) subsidies etc also contributing to deficit. Whereas the developmental expenditure part (revenue) recorded dismal growth compared to non-developmental part. The above table reveals that the social, economical, agricultural, power etc sectoral allocation has been declined and huge variation (less than 2%, 13%) in allotment of funds over the years. The share of labour & unemployment, public works, social security's which are the sub components of social & community services showing dismal growth with less than 7 to 8 % per year allotment. So there has been huge variation in the revenue part itself in developmental and non developmental expenditures. The capital component also recorded lower growth, mainly economic services allocation also turned negative in few years. In total out of total expenditure unproductive expenditure has grown faster than the developmental expenditure. Addition to this imbalance, 2007 mid economic recession had an adverse impact on the economy. In order to stimulate demand in the two preceding years, 2008-09 and 2009-10 Government provided three fiscal stimulus packages of Rs 1.86 lakh crore (3.5% of GDP, which helped the economy to achieve a growth of 8 per cent in 2009-10, against 6.8 per cent in 2008-09.) to overcome from such impact and to boost private business confidence towards investment. The package included Tax cuts, export concessions, social services & rural development etc. The adverse effect of three stimulus packages was a sharp rise in interest rates, crowd out of private investment with rising interest rate, decrease in revenue receipt collection as well as inflationary pressure in the economy. This inflationary pressure further added fuel to fiscal deterioration. Prior to this crisis, the Indian economy had a recorded growth rate of over 9 per cent over a four-year period. With the new entry of UPA government, it introduced nearly eight flagshipprogrammes-NREGS, JNNURM, MIDDAY-MEALS, RAJIVE GANDHI VIDYUTIKARAN YOJANA, NREGA, SANITATION PROGRAMME etc. All these programmes added income in the hands of the poor. They started demanding more & more goods. Due to this mismatch between demand and supply economy faced core inflation, which initially started in the agriculture sector as food inflation later on it wide spread over other sectors. This is because of the much larger responsibility of the central government for macro stabilization as a result of which, its fiscal and revenue deficits increased considerably in 2009-10.

The Government need revenue to run its expenditures to reach its goal of economic welfare. The Government revenue and capital receipts compared to its total expenditure remained unaltered during the same period. The main components of revenue receipts are tax revenue (Direct and Indirect Tax) and non tax revenue. The share of direct tax increased from 13.98% in 1991-92 to 39.32% in 2009-10, in the mean time indirect tax share decreased from 86.02%in 1991-91 to 60.68% in 2009-10. This changing trend shows a structural change in the tax structure towards a progressive way. The below table explains various components of combined revenue receipts of both state and central government. Combined revenue and capital receipts of the central and the states (**Table 4).**

TABLE 4

Share in Total Revenue Receipt			Direct & Indirect Taxes AAGR		Direct and Indirect Taxes Components Share In Total direct tax and indirect tax									Share in Non- tax revenue	Share in capital receipt	
Year	Tax Receipt	Non tax Receipt	Direct % AAGR	Indirect % AAGR	Corporate	personal income	% AAGR Agriculture	Agriculture	Hotel receipts	Land revenue	Customs	Excise duties	Service	Public undertaking	Market loans	External debt
1990-91	88.36	12.38			43.52	43.86		1.38	0.01	4.92	27.36	32.49	1.14	-3.69	24.62	8.67
1995-96	84.60	15.87	-14.77	-13.99	46.08	43.58	-1.90	0.40	0.02	3.71	25.64	28.81	0.76	10.39	71.19	0.57
1996-97	85.47	14.13	-4.59	-7.00	45.22	44.41	10.34	0.25	0.03	2.62	26.95	28.31	1.00	5.12	34.45	4.04
1997-98	82.59	14.34	-14.38	-8.10	46.61	39.82	-3.49	0.42	0.03	2.54	23.63	28.19	1.15	27.36	81.96	2.25
1998-99	84.81	15.06	-23.91	-16.22	49.94	41.21	-2.28	0.49	0.02	2.10	22.11	28.95	1.16	15.79	46.61	1.12
1999-00	83.95	14.97	-17.91	-9.28	50.43	42.15	-5.10	0.25	0.02	1.76	22.66	28.96	1.22	16.73	40.81	0.58
2000-01	87.24	14.10	-1.88	-10.91	49.74	44.26	1.11	0.11	0.01	1.92	20.36	29.34	1.41	21.43	43.43	3.80
2001-02	87.55	16.43	-19.12	-11.23	50.07	43.77	3.29	0.03	0.02	2.35	15.55	34.81	1.59	25.50	30.61	5.05
2002-03	84.31	16.08	-25.78	-5.70	53.02	42.33	10.57	0.02	0.01	1.98	15.57	28.57	2.74	28.72	54.00	-5.13
2003-04	83.37	15.69	-25.15	-17.32	58.02	37.78	4.58	0.01	0.01	1.97	15.97	29.81	4.66	29.88	51.43	-5.10
2004-05	84.11	14.72	-22.28	-17.57	60.31	35.94	-0.83	0.02	0.01	1.85	16.12	27.74	6.45	18.07	21.91	4.69
2005-06	84.40	14.28	-38.02	-20.30	60.42	36.24	4.11	0.01	0.02	1.61	15.49	26.48	8.95	26.28	55.83	15.77
2006-07	84.63	14.17	-37.80	-9.13	62.37	34.75	-0.92	0.01	0.01	1.43	17.08	23.27	10.15	26.17	91.57	6.11
2007-08	86.41	13.99	-2.87	-6.52	60.50	35.07	7.78	0.01	0.01	1.03	18.88	22.41	11.05	23.81	71.91	3.72
2008-09	86.96	13.01	-18.38	-2.00	65.06	32.34	0.46	0.49	0.01	1.32	17.00	18.49	9.87	25.14	108.60	3.52
2009-10	83.42	13.48			65.69	32.19		0.41	0.01	0.95	14.10	17.02	11.35	23.68	83.55	2.64

Source: Calculated from Indian public finance statistics 2004-05 and 2010-2011**.**

The empirical evidence shows that the share of the total tax revenue compared to non-tax revenue and the share of the indirect tax (86% in 1991 to 61 % in 2009-10) to direct tax (14% 1991 to 39% in 2009-10) as percentage of GDP as well as to total tax revenue increased over the years. In 1990-91 the total share of tax receipt as percent of GDP was 88.4 % in 1990-91, later on it continued to rise with slight variations and it remained above 82%, mainly after 2009-10 it declined due to global economic recession. Global recession had its adverse impact on private investment. Many private companies downsized their employee's strength. So the share of personal income tax reduced from 43.77% in 2001-02 to 32.19% in 2009-10, which was lower compared to decadal growth of personal income tax. Income tax base has been progressively widening with the inclusion of large number of employment opportunities in private sector and the emergence of corporate companies except during the period of recession (2007-08 mid). Similarly, corporate tax also showed a positive trend over the years with increase in the large number of companies. It constitutes a largest share among direct tax contribution. Its share in the total direct tax increased from 43.52 % in 1990-91 to 65.69% in 2009-10, but it declined in 2007-08 and also in 2011-12 up to 22.85% which is lower compared to corporate aggregate rate (55%). The main reasons behind this variation in tax revenue are global economic recession, inflationary tendency and also government tax concessions to attract private investment. Whereas the share of other components of direct tax are negligible compared to corporate and personal income tax. The share of agriculture, hotel receipts, and land revenue reduced budget after budget due to Government tax consational policy towards land lards as well as its vote bank policy towards large number of farmer section. The agricultural taxation was not popular in India though the large number of people still depending upon agriculture; its share to total direct tax has been less than 1%. It was 1.38% in 1990-91. Since from 2000-01 it further declined," between" 2202-03 to 2007-08 its contribution to total direct tax was just 0.01 percent.

There has been a successive decline in the AAGR of Agricultural sector since 2000-01, the positive sign indicates this. Similarly, the share of Land revenue has been declined from 4.92% in 1990-91 to 0.01 % in 2000-01, slightly increased to 0.95% in 2009-10. Hotel receipts share remained almost stagnant, though the hotels are expanding their role with the emergence of tourism sector as well as service sector.

The share of the components of indirect tax customs and excise duties has been decreased over the years. The share of customs and excise declined respectively from 27.36%, 32.49% in 1991-92 to 14.10%, 17.02% in 2009-10. The present emerging component service tax contribution to total GDP is around 65%, where as its contribution to the indirect tax only 14.10% in 2009-10. Due to increased liberalised policy the customs as well as excise duty share has been declined whereas service sector share failed to show progressive trend due to unorganised nature of that sector.

The structure of Non-tax revenue contribution reversed from negative to positive in 1990s, although compared to tax revenue its contribution is negligible with slight changes from 12.38% in 1991-92 to 16.43% in 2001-02 i.e. net contribution of public undertakings dividend payments which progressively increased over the years, nearly up to 30% (2003-04) of nontax revenue, but later non-tax receipts share declined to 13.48% in 2009-10. The main source of capital receipt is market borrowing/ loans and external loans. Market loans had the largest share with 24.62% in 1990-91 to 83.55% in 2009-10 compared to other components like external loans, small savings, provident funds and disinvestment receipts. Disinvestment policy which started in 1991 revenue about 3038 Rs crores of income from it and it was used to meet revenue expenditure rather than capital investment. The disinvestment policy was not succeeding as expected due to coalition Governments with divergent agenda. AAGR of disinvestment reveals huge variation and also a turned negative for many years. Tax-GDP ratio as a measure of tax payers' contribution to the Government has been steadily rising over the years. It increased from 6.22% in 1950-50 to 15.40% in 1990-91 and further rose to 17.45% in 2007-08 after that it declined slightly to 15.08% in 2009-10 due to some cyclical factors and also due to Government tax consational policies. In 1950-51 the share of direct tax and indirect tax was respectively 2.29%, 3.93%. In 1990s and also in 2000s both achieved an increasing trend, but the share of indirect tax was lower compared to direct tax, in 2009-10, direct tax share raised to 5.93% due to increased share of corporate tax as well as personal income tax. The indirect tax share raised to 9.15%, with the fall in the contribution of excise, custom duties. Over all the structure of taxation is progressive with the rising share of direct taxes and falling share of indirect tax.

Public Debt: Whenever the Government expenditure more than its revenue, it leads to deficit financing, it means the existing gap between spending and income could be filled by internal or external borrowing. The combined budgetary transactions, the total expenditure higher than total revenue ends with deficit, the persistent rise in the primary and revenue deficits, the borrowing requirements of the Centre had remained significantly high, which in turns financed by various financial sources.

TABLE 5

		Key External as Well as Internal Debt Indicators									
Year	Gross Total Debt	AAGR of External debt	Concessional Debt as % of Total Debt	Short Term Debt As % of Total Debt	Debt Stock - GDP Ratio	Debt Service Ratio(%)	Value of Exports (crore)	Interest on foreign debt as % of Value of Exports	Market borrowing	Loans from the centre to States	Budgetary Deficit
1991	163001		45.9	10.2	28.7	35.3	44041	6.3	23	12	15
1992	252910	-55	44.8	8.3	38.7	30.2	53688	6.7	14	10	24
1993	280746	-11	44.5	7.0	37.5	27.5	69751	5.4	46	7	18
1994	290418	-3	44.4	3.9	33.8	25.4	82674	4.9	36	5	-3
1995	311685	-7	45.3	4.3	30.8	25.9	106353	4.2	50	0	33
1996	320728	-3	44.7	5.4	27.0	26.2	118817	3.6	31	3	15
1997	335827	-5	42.2	7.2	24.6	23.0	130100	3.2	36	1	54
1998	369682	-10	39.5	5.4	24.3	19.5	139752	3.1	51	1	-1
1999	411297	-11	38.5	4.4	23.6	18.7	159561	2.8	45	1	-89
2000	428550	-4	38.9	4.0	22.0	17.1	203571	2.2	44	4	-1
2001	472625	-10	35.4	3.6	22.5	16.6	209018	2.1	46	3	28
2002	482328	-2	35.9	2.8	21.1	13.7	255137	1.8	54	-5	1
2003	498804	-3	36.8	4.5	20.3	16.0	293367	1.1	58	-6	-5
2004	495459	1	35.8	3.9	18.0	16.1	375340	0.7	27	6	-33
2005	586305	-18	30.7	13.2	18.1	5.9	456418	0.7	46	3	12
2006	620522	-6	28.4	14.0	16.8	10.1	571779	0.7	58	4	37
2007	751402	-21	23.0	16.3	17.5	4.7	655864	0.6	90	5	-6
2008	897290	-19	19.7	20.4	18.0	4.8	840755	0.5	74	2	32
2009	1142125	-27	18.7	19.3	20.5	4.4	845534	0.4	83	2	-8
2010	1179096	-3	16.8	20.0	18.0	5.5	949278	0.3	77	4	-2
2011	1366117	-16	15.6	21.2	17.3	4.2			80	1	14

Source: Calculated using the data from Indian Public Finance Statistics Various Issues.

The main source of financing fiscal deficit among budgetary deficit, market borrowing and other liabilities is Market Borrowing. As a proportion to total deficit financing it rose from 19.6% in 1990-91 to 83% in 2009-10, with slight decrease in years mainly in 1996 (31%), 2004(27%). According to the report of World Bank's international Debt Statistics 2013, India's position was fourth in terms of absolute external debt stock to GNI ratio, after China, Russian Federation and Brazil in 2011. As per the latest report of QEDS (Quarterly external debt statistics data base, jointly developed by the World Bank and International Monetary Fund) India ranked at third position among other debtor countries. India's external debt has remained within manageable limits compared to Internal debt due to prudent policy of the Government of India. India's debt composition is shown in the above Table 5.

The External gross total debt shares of the centre and state Government as percent of GDP has become progressively more comfortable. It is evident from the fact that debt stock GDP ratio has declined from 28.7 percent in 1991 to 18.1 percent in 2008, but due to Macro economic imbalances it further raised to 18.9 percent. In absolute terms, External debt rose from 163100 crore Rs in 1991 to 13, 66,117 crore Rs in 2011. The AAGR depicts the declining trend, which again reached double digit in 2007 onwards. In successive years mounting debt burden except in the year 2003-04(positive), showed a negative trend. The concessional component of the external debt as percent of total debt had declined from 45.9 percent in 1990 to 15.6 percent in 2011-12. Over the same period the short term debt as well as debt stock- GDP ratio also showing declining trend. But the share of short term debt increased to double digit since from 2005 till 2011. The debt service ratio has a downward trend and also the interest on foreign debt as percent of value of exports falling from 6.3 percent in 1991 to 1.1 percent in 2003, and further to 0.3 percent in 2010. So the overall ratio of external debt reduced compared to internal debt, in which market borrowing share rising consistently from 23 percent in 1991 to 80 percent in 2011, nearly fivefold rise in two decades. Whereas the total share of loans from centre to states decreased to nearly 1 percent. The budgetary deficit also turned negative since 1998 except few years (2001, 2005, 2006, and 2008). India's private sector external borrowing also raised the burden beyond Government debt service. It is important to know that the external borrowing by India's private sector has increased as a share of GDP in recent years, and also the share of long-term private non-guaranteed debt and the short term external debt in total external debt has increased. The selected indicators reveal that the external debt position significantly changed over the years with the fall in the debt service ratio and consistent rise in the volume of export as a percent of interest share. The rising debt burden is contributing to the unsustainable fiscal policy, which in turn have adverse impact on Investment and growth. To achieve debt sustainability, either revenues has to be raised or cut in public spending should be the remedy.

The Central Government enacted the Fiscal Responsibility and Budget Management Act in 2003. The act aimed at elimination of revenue deficit by 2009 and fiscal deficit is to be reduced to 3 percent of the GDP by 2009. Fiscal consolidation is a policy aimed at reducing government deficits and debt accumulation. FRBM is an important step towards reforming Indian public finance which aimed at expenditure reduction and revenue maximisation through altering the pattern of expenditure so as to ensure sufficient utilisation of resources. In the initial period the fiscal situation of India from 2003-04 to 2007-08, has shown a considerable improvement. The central government drastically reduces the revenue and fiscal deficit in the first two years by a cut back on expenditure, particularly non-plan expenditure. The fiscal outcomes like deficit financing, expenditure pattern, Tax-GDP ratio, Liabilities, savings, gross capital formation, market loan, and external debt showed a progressive trend. Between 2003/04 and 2007/08 the fiscal deficit declined markedly from 8.51 percent to 4.09 percent of GDP and public capital formation also raised with increased in the rate of saving.

TABLE 6

Gross Domestic Saving and Capital Formation					Sectoral contribution			Foreign Investment	
YEAR	GDP at FC	GDS % GDP	GDCF % GDP	Private sector	Public sector	public sector	private sector		Disinvestment
2003-04	12.2	29.8	27.6	4.6	1.3	6.7	17.9	69042	15881
2004-05	13.4	32.2	32.7	6.6	2.3	6.9	21.8	94981	534
2005-06	14.1	33.5	34.7	7.5	2.4	7.3	23	135080	36125
2006-07	16.6	34.6	35.7	7.9	3.6	7.9	23.4	249921	10165
2007-08	15.9	36.9	38.1	9.4	5	8	24.9	110123	-

Source: RBI reports.

The above table:6 shows the growth rate of Gross Domestic Saving and Gross Domestic Capital Formation, Foreign investment and well as generated income through disinvestment policy. As said above saving are the essential perquisite for the growth of GDP, It directly depends on income growth, which is the main source of capital formation. The figure shows overall rise in the saving as well as capital in the fiscal consolidation period due to increase in the income. The structure of GDS and GDCF has also undergone significantly mainly in the public sector saving and private sector contribution to investment. The higher growth rate with substantial progress in the manufacturing and service sector growth contributed to the rise in tax revenues.

There are two ways in which fiscal deficit can be reduced, that is either by reducing expenditure or through raising revenue. A deep analysis into the pattern of revenue and expenditure reveals that revenue generation contributed more than the expenditure reduction methods in fiscal consolidation. During the fiscal consolidation period the Tax-GDP ratio witnessed an increasing trend with reform in the tax structure. The improvement in the tax revenue mainly due to the expansion of professionals, technical services, corporate sector as well as service sector contribution, then the growth in the excise and custom (**Table 7).**

TABLE 7

Year	tax-gdp	ID/T	Tax Receipt	Non tax Rcecipt	Public sector undertaking	Corporate	Excise duties	Service
2003-04	15.25	73.54	83.37	15.69	29.88	58	30	5
2004-05	15.92	72.27	84.11	14.72	18.07	60	28	6
2005-06	17.16	71.48	84.40	14.28	26.28	60	26	9
2006-06	17.45	68.59	84.63	14.17	26.17	62	23	10
2007-08	16.4	63.37	86.41	13.99	23.81	61	22	11

Source: Authors calculation.

Whereas the expenditure pattern during fiscal consolidation period is depicted in the below table reveals that though the revenue as well as capital expenditure increased there is a huge gap nearly a fivefold rise in revenue expenditure mainly due to rise in the interest payment which was higher than any other expenditure except combined expenditure on community services. Capital expenditure also increased; there was a huge hike in the economic service from 1 to 27 percent and also in community services from 49 to 53 percent in total revenue expenditure. At the same time in revenue expenditure the share of pension and food subsidy allotment was continued to be higher compared to economic, agriculture, urban developments. Th expenditure on agriculture and economic services vary with respect to revenue and capital expenditure. considerably larger commitment on social sector expenditure also implies larger expenditure with growing population. This growing trend depicts rising revenue expenditure at the cost of capital expenditure, which is rigid in nature.

TABLE 8

	GDP							Revenue and Capital Expenditure - Non developmental and Developmental expenditure											capital expenditure	
YEAR	GDP at FC	Revenue E/TE	CapitalE/TE	overall surplus \ defici	Interest paymnt	**Pension**	**Food subsidy**	social & CS	Education	health	labor& UE	socil securoty	URB DPT	ECO SEV	Agri & allied	Power & irrigaton	T & C	Public works	economic services	agriculture
2003-04	12.2	87.37	12.7	0.46	46	12	6.8	49.55	28.2	9.41	0.84	3.25	1.71	14	15.21	13.71	7.45	1.25	1	4
2004-05	13.4	84.9	15.2	2.36	45	13	5.8	55.74	31.4	10.4	0.94	3.89	2.08	1.9	15.74	7.52	7.54	1.30	3	6
2005-06	14.1	84.4	15.6	-0.75	45	13	5.3	53.85	29.7	10.2	0.91	4.71	1.69	17	16.50	7.93	8.79	1.18	4	6
2006-07	16.6	84.4	15.7	-1.92	45	13	4.9	52.11	28.5	8.95	1.10	4.58	2.60	1.9	16.04	8.89	9.28	1.28	7	6
2007-08	15.9	81.2	18.8	0.25	44	14	5.8	52.74	27.40	9.04	0.87	5.51	3.09	21	17.20	7.76	8.73	1.23	27	5

Source: Authors calculation.

This indicates that the fundamental of expenditure remains the same as it was in 1991 except the improvements in the foreign exchange reserves which were less than $1 billion in June 1991, compared with today's $295 billion reserve. At the same time India undertook few tax reform policies, but later on it also failed to mobilise resources due to its tax concessional policies (**Table 8,9,10).** For example, according to the Parliamentary Standing committee estimation the total sum of corporate tax rebate was 1.02 percent of GDP in 2005-06, and it gradually raised in each year, it reached 0.62 percent of GDP in 2011-12 as shown in the below table. In terms of crores the estimated sum of total revenue foregone of central government raised from 65,587 crores in 2006 to 1, 38,921 crore rs in 2010-11. In the total revenue forgone the share of corporate sector is higher compared to non corporate sector. Is India following USA? Is it capitalistic economy? The question arises**.**

TABLE 9

REVENUE FOREGONE			
sector	corporate sector	non corporate sector	total
2006-07	50075	15512	65587
2007-08	58655	42161	100816
2008-09	68914	39553	108467
2009-10	79554	40929	120483
2010-11	88263	50658	138921

Source: Vivek s Raj

TABLE 10

year	Revenue forgone as % of GDP
2005-06	1.02
2006-07	1.14
2007-08	1.36
2008-09	1.27
2009-10	1.19
2010-11	0.81
2011-12	0.62

Source: RBI

TABLE 11

	fiscal consolidation				
financial year	fy2009	fy2010	fy2011	fy2012	fy2013
centre	6	6.4	4.9	5.8	5.1
states	2.4	2.9	2.7	2.2	na
consolidation	8.4	9.3	7.6	8	na

Source: vivek s Ra

As compared to India other emerging market economies have done relatively better compared to India in fiscal deficit management. For example, china deficit was just 1.2 per cent in 2011 and Brazil less than 3 percent, South Africa 5.7 per cent in 2012.

The FRBM act targets are deferred a number of times. The Government steps towards fiscal consolidation not providing adequate results. There are several reasons like huge amount of tax concessional policies, Global economic recession (stimulus packages), inflationary tendency (devaluation) in the domestic economy; general elections (vote bank policies), lack of political will, and also the unstructured pattern of fiscal consolidation is behind the reversal of fiscal consolidation. The successive Democratic Government's policy to control expenditure through rising revenue expenditure and major cutback in capital expenditure to limit the growth of expenditure and also lower capital outlay are the main factors behind the expenditure pattern. The expenditure commitment controls are not effective in India. Where as its taxation policy not free from structural weakness. There has been a widespread tax evasion in case of formal as well as informal sector. This structural mismatch between expenditure pattern as well as taxation policy should be corrected.

When we look at the volume and pattern of expenditure by the central and the state governments, there is a successive increase in the ratio of unproductive and non-developmental expenditure which are not directly supporting in the creation of public assets compared to capital expenditure which facilitate both social as well as physical infrastructure development. The Government contribution to capital formation in the country has declined proportionately at all the levels. The capital outlays which are characterised as Developmental expenditure showing declining share in GDP. The share of development activities like economic and social services declined over the years. For instance, on social services like education, health capital outlay declined from 0.7 per cent in 1990-91 to 0.3 percent in 2003-04 and it remained constant till 2010-11 at the same level. In the mean time on economic services also declined from 15.2 percent in 190-91 to 10 percent in 2000-01 and it further declined to 6.7 percent in 2010-11. Whereas on General services remained the major component of the total expenditure, it increased from 5.5 percent in 1990-91 to 6.1 percent in 2000-01, further increased to 6.3 percent in 2010-11. This shows that Government expenditure on developmental activities declining compared to its day to day services, which are rigid in nature. This type of spending gave rise to huge and unsustainable liabilities in both central as well as state Governments. The combined liabilities increased from 65.23 per cent in 1991-91 to 81 percent in 2002-03, and it slightly decreased to 65 percent in 2008-09. The major weakness of Government has been its inability to curtail revenue expenditures. The current expenditures are mainly driven by consumption expenditure, subsidies (1.88% in 1990-91 to 2.20 % in 2009-10) and transfer payments, on the other hand social expenditure showing deterioration and discretionary cut in productive investment further raising the interest burden and also likely to hurt long term growth. Infrastructure bottlenecks are considerably more severe inspire of rising private involvement in filling the infrastructure gap. The quality of expenditure also matters in the developmental process. For instance, public sector plan outlay and its sources of financing public sector plan can be examined. In public sector plan outlay compared to other sectors energy sector share gradually increased up to 2004-05, after that there is a great fall can be noticed, mainly in 2005-06 it turned negative, which can be noticed in AAGR of energy, there after slightly raised, but compared to previous years its share reduced to a large extent. The main reason for specifying its share, because of energy crisis many state governments spending lump sum amount of money and also suffered from huge loss to their exchequer. The share of industry is comparatively low because of many reasons and also the share of transportation is moderate. The improvements in rural development can be traced only after 2005-06, when UPA government introduced several rural development programmes like BHARAT NIRMAN, NRHM, Energy sector oriented several programmes for BPL category, NREGS, PURA project etc. (positive trend).

TABLE 12

Public Sector Plan Outlay (At Current Prices)							Financing of Public Sector Plan								
	Share In Total			AAGR			AAGR					Share In Total			
Year	Industry	energy	Transportation	energy	rural development	irrigation & food	Domestic borrowing	own resources	market loans	Net capital inflowfrom abroad	Contribution of Public Enterprise	Own resourecs	Domestic borrowing	Market loans	Public Enterprise share
1991-92	8	30	14									7	81	19	21
1992-93	9	28	15	-3	-22	-11	-3	-285	33	-18	-13	21	67	10	24
1993-94	8	31	14	-33	-32	-14	-46	54	-2	0	-12	8	82	9	27
1994-95	8	28	12	-2	-21	-14	-6	2	-10	-9	0	8	82	9	27
1995-96	8	25	13	2	-2	-19	-7	-194	-9	27	-11	19	75	8	30
1996-97	10	23	14	-2	3	-10	5	16	-9	-76	22	16	72	9	23
1997-98	8	25	14	-16	-9	-24	-36	64	-7	49	-4	5	89	9	24
1998-99	5	23	13	-12	-11	-9	-38	569	5	8	1	-24	119	8	24
1999-00	5	22	15	-1	-5	-31	-31	-63	-2	-18	18	-32	127	7	20
2000-01	4	20	14	-2	15	5	-9	23	-13	23	11	-21	118	7	18
2001-02	4	20	16	-1	-39	-8	-11	-33	-12	-37	-7	-26	122	7	19
2002-03	4	21	17	-20	-37	18	-16	-7	-35	228	20	-25	130	9	15
2003-04	3	22	16	-12	-7	-8	0	23	11	47	8	-18	120	7	14
2004-05	5	31	20	-21	6	-47	4	57	-2	381	5	-7	101	6	13
2005-06	3	9	16	64	-43	-38	-6	315	9	-6	-2	11	78	4	13
2006-07	3	10	17	-34	-19	-21	13	-356	-718	33	-115	41	57	29	29
2007-08	3	9	16	-15	-14	-20	9	-64	-60	-16	-1	54	42	38	29
2008-09	3	8	14	-17	-61	-7	-96	23	-98	-2	-2	33	64	59	30
2009-10	5	19	17	-264	-13	-19	-37	40	-30	-59	2	18	78	69	29
2010-11	6	21	16	-36	-7	-12	7	-140	7	-25	-4	35	61	53	31

Source: Indian Public Finance Statistics Various Issues.

The main sources of financing Public sector is for financing public sector government mainly depending on Domestic Borrowing, which includes market loans, deficit financing, small savings and other liabilities. It means for funding public sector mainly depending on borrowing rather than extracting income from its investment, means the share of public undertaking very low, it is within 30 percent in total, even lower than net capital inflow. Capital inflow also turned negative

for few years in mid 2000s; later on it is in progressive trend. The proportion of domestic borrowing and market loans reduced in between 2003-04 to 2004-05 due to improved GDP growth as well as governmental disinvestment policy bring revenue to the government, which helped in the reduction of dependency on borrowing. (fiscal consolidation period). This fiscal consolidation remains effective only up to 2006-07, there after the share of borrowing raised to a large extent due to increase in the Government popular programmes as well as larger share of central sponsored schemes and also the role of Global recession and domestic inflation cannot be neglected (**Table 12**).

MAJOR OUTCOMS AND CONCLUSION

To sum up the above trend, the step by step analysis with respect to public expenditure, Government taxation policies and revenue receipts reveals the fact that the existing structural rigidities are mainly responsible for rising debt burden with lower returns form capital investments, which in turn leads to fiscal deterioration. A rising public debt burden is contributing to the unsustainable fiscal policy, which in turn may have adverse consequences for investment and growth.

The 1991s post- reforms have succeeded in encouraging higher levels of private investments in to the economy. But further increases are constrained by declining public investment on basic infrastructure, which is the base for private investment. With declining trend in public investment the current phase of increasing private investment will not be sustained of a long term. The consequence will be the slow down on economic growth in near future. The best example was 2007 mid economic recession which had an adversely impact on Indian economy. In order to stimulate demand in the two preceding years, 2008-09 and 2009-10 Government of India had provided three fiscal stimulus packages worth of Rs 1.86 lakh crore (3.5% of GDP, (Economic survey) which helped the economy to achieve a growth of 8 per cent in 2009-10, against 6.8 per cent in 2008-09.) to overcome from such crisis and mainly to boost private business confidence, towards capital investment. The package included Tax cuts, export concessions to companies, export promotion measures (textile, leather products, etc), social services & rural development investments; etc. This again reminded that public investment is pre request for continuous development. Government should also consider the quality of Expenditure with the quantity. The recent report of Standard &Poor with regard to India regarding credit rating raises question about the quality of expenditure by the respective Governments. The successive increase in the ratio of unproductive and non-developmental expenditure not directly supporting in the creation of public assets compared to capital expenditure which facilitate both social as well as physical infrastructure development. The share of social sector expenditures in total expenditure for Central government is relatively low, which is prerequisite for Human capital development to have a sustainable growth in future. One thing to be noted, that the above mentioned expenditures are committed with little room for flexibility in near future in a popular democratic country like India. So the main sufferer in this process is the government capital expenditure. The debt service (i.e. principal repayment plus interest payment) burden of the government would not rise as a proportion of total expenditure if the investments made by the government from borrowings yield adequate returns either through the tax revenue or through non-tax revenues. As the government borrows to make investment in real assets, tax revenue would raise a reward for initial investment, which would lead to reduce the mounting burden in future. Tax revenues should rise through additions to public assets. Improvement in public infrastructure should lead to improvement in efficiency and in aiding new private investment. If, however, resources are borrowed for investment in activities which do not yield adequate returns, debt service payments will rise continuously as a proportion of total revenues. This is what seems to have happened in India over the last 20 years. The return from public sector enterprises, except some petroleum companies (ONGC, IOC, and BPL) is negligible. The return from public sector enterprises, except some petroleum companies (ONGC, IOC, and BPL) is negligible. In the budget the so called non-tax revenues such as revenue from 3G, 2G spectrum auction reduced revenue deficit up to some extent and also for the short time. Due to wrong pricing policies, functioning of inefficient public sector enterprises with very low returns and unproductive committed current expenditures all contributing to further deterioration in the economy and also leads to yet higher and higher borrowing to correct future fiscal imbalance. The Kelkar Committee report (GOI, 2012) has put forward a strong case for fiscal discipline since "high fiscal deficits tend to heighten inflation, reduce room for monetary policy stimulus, increase the risk of external sector imbalances and dampen private investment, growth and employment". The committee strongly suggested the linkage between fiscal deficit and growth. The government Disinvestment process reduced the need of current borrowing, but its impact on future revenue generation will be negative. The current lump sum earning ends with loss to the exchequer. The government has been disinvesting only profit making ones, not loss making companies come under disinvestment process. In the mean time that huge revenue used to incur budgetary deficits; mainly on popular and short term oriented government programmes. So it is not used to create capital asset. There is a clear message that government expenditures will be beneficial only if the revenue accumulated through tax or disinvestment process should be directed towards infrastructure investment, then only cost recovery and productivity gains can be possible.

- Tax reforms-DT, GST, wealth tax etc
- Imposition of Agriculture Tax with proper Agricultural price policy, supporting price with scientific fixing of price without leading to inflation
- Qualitative expenditure policy
- Promote Capital spending
- Human capital development with social sector spending.

The central Government of India once again formed a committee under the chairmanship of Vijay L Kelkar. The committee submitted its report on fiscal consolidation in September 2012. It recommends a roadmap for the Central Government from 2012-13 to 2014-15. Its indicators as follows -bring down fiscal deficit from 5.1 to 3.9 per cent, revenue deficit from 3.4 to 2.0 percent and primary deficit to 1.9 to 0.9 percent and also the public Debt from 45.5 to 42.9 percent. The democratic Government cannot suddenly change its expenditure pattern and also taxation policies by overemphasizing the need of fiscal consolidation. If the Government does it by force Growth will fall because growing economy needs lump sum amount of money in terms of investment. But due to the corporate lobby government has been retaining most of the stimulus measures which are initiated in 2008-09. The revenue forgone on account of numerous tax concessions to the wealthy amounted to a 4.82 lakh crore Rs in 2009-10 and it even continued to 2010-11 with the amount nearly 5.11 lakh crore Rs, despite the voice for withdrawal of stimulus measures (budget 2011-12).

In fact, central plan outlay for key areas like agriculture, rural development, electricity, community development taken together has been increased marginally. This shows that on the one hand government is providing numerous tax concessions to the gigantic corporate sector and also increasing the share of centrally sponsored schemes from year to year with dual intension which is actually increasing the purchasing power among the mass without creating any fruitful working environment and capital asset. So the consequences would be what India facing today. With partial development and entirely neglecting and missing the role of supply side factors, without boosting the farm productivity and rural infrastructure with marginal increase in the central plan outlay, government is creating unending structural fiscal distress situation. At the mean time, it should try to rise non-tax revenue and also look at mandatory cut in non-plan expenditure, excluding spending on interest payment, debt payment, defence capital, salaries, pensions and grants to states. Reduction in foreign travel of government officials and ministers and complete ban on holding meetings in five star hotels and unnecessary creation of new posts in government level as well as ministry level should be banned and also capping the food and LPG subsidies should be implemented. if no action is taken, economy will likely to face worse situation and it finally collapse. So, without deferring from the FRBM act targets which are deferred a number of times, through step by step corrective measures and with responsible long term oriented plans Government should bring down fiscal burden and can move towards sustainable Growth.

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