

Government expenditure and classification in india



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Classification of Government Expenditure

The welfare of the people of India highly depends on the expenditure of the Government of India (GOI). Government expenditure is a very important aspect of the government's budget presented by the finance minister every fiscal. Through it GOI tries to maximise the welfare of the people by appropriately allocating economic resources to various government activities.

Government expenditure can be broadly classified into four categories:

Functional Classification or Budget Classification: In April 1974, the GOI introduced a new accounting structure in order to serve the requirement of financial control and accountability. Under this structure, a five tier classification has been adopted – sectoral, major head, minor head, subhead, and detailed heads of accounts. Sectoral classification has clubbed the government functions into three sectors, namely, General Services, Social and Community Services and Economic services. In the new structure, a major head is assigned to each function and minor head is assigned to each programme. Each minor head include activities or schemes or organizations as subheads.

Economic Classification: Economic classification of the government expenditure signifies the way of the allocation of resources to various economic activities. It involves listing the government expenditure by significant economic categories, separating current expenditure from capital expenditure, spending for goods and services from transfers to individuals

and institutions, inter-governmental loans from grants etc. This classification provides a record of government's influence in each sector of the economy.

Cross Classification or Economic-cum-functional Classification: Cross classification provides the break-up of government expenditure both by economic and by functional heads. For example, expenditure on medical facilities, a functional head, is split as current expenditure, capital expenditure, transfers and loans.

Accounting Classification: Accounting classification of the government expenditure can be presented under (i) Revenue and Capital (ii) Developmental and Non-Developmental and (iii) Plan and Non-Plan. Each classification of expenditure has an objective associated with it. For instance, Revenue and Capital expenditure indicates the creation of assets by government expenditure and unproductive expenditure. Further, the developmental and non-developmental classification differentiates the government classification as the expenditure on social and community services and economic service from that against general expenditure. Similarly, the Plan and Non-Plan expenditure represents the expenditure on planned schemes of government and non-plan expenditures.

The above classification of the government expenditure serves one or more of the purposes of the government, such as, parliamentary control over expenditure, economic development, price stability etc.

Analysis of Government Expenditure in India

The chart given below shows the division of government expenditure in terms of capital and revenue expenditure for some selected years. The

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percentage share of revenue expenditure in government expenditure has increased over time due to increase in expenditure in society welfare.

A percentage distribution of the plan and non plan expenditure for a representative year of the post and pre reform period each is provided below:

The chart above shows there is a increase in the plan expenditure over a period of a decade from 1989-90 to 2008-09.

Sector wise percentage distribution of the composition of the government expenditure is provided in the table below:

The growth story of the India can be said in terms of five year plans which give an account of government expenditure during the plans. The first five year plan (1951-56) laid emphasis on agriculture, including irrigation and power, wherein the government had spent 36% of its subject on these heads. The second five year plan (1956-61) marks the foray towards industrialization with an increased government spending in transport and communication sector with an contribution of 28. 9% of its expenditure. The urge for industrialization continues even during the third five year pan (1961-66) with 24% and 20% public spending on Industry & Minerals, and Transport and Communication respectively. Fourth to seventh five year plans have social services of education, health, welfare sharing a majority of the pie with 24% and 26% expenditure in fourth and fifth plan.

The eight five year plan (1992-97) commenced the era of fiscal reform and liberalization. There were increased efforts to improve the economic growth

and quality of life of the common man. There were high public spending on the sectors like energy (26. 6%), Transportation and communication (20. 8%) and Social and other services (19. 6%). The Ninth five year plan (1997-2002) focussed on the development of infrastructure by allocating 72% of the funds to irrigation, energy, transport and communication and social service. The tenth five year had an objective of atleast 8% growth rate by providing a boost to power sector spending (26. 56%) and increasing social & Community services sector spending to 29. 27%.

COMPARISON OF INFLATION BASED ON CPI AND WPI

Consumer Price Index (CPI), is defined as the weighted average change over time in the prices of a basket of the good and services consumed by a consumer. While, Wholesale Price Index is defined as the weighted average change over time in the price of a basket of wholesale goods. Inflation rate is calculated based on the CPI and WPI as the percentage in the respective indices over time, generally a year.

The calculation of inflation rates based on CPI and WPI form 1994-95 to 2006-07 is given in the table provided below:

WPI

WPI Inflation rate

CPI – IW

CPI- IW Food

CPI-IW Inflation rate

Food Inflation rate

WPI inflation rate – CPI Inflation rate

1994-95

112. 6

12. 6

284

304

10. 1

11. 8

2. 5

1995-96

121. 6

8. 0

313

337

10. 2

10. 9

-2. 2

1996-97

127. 2

4. 6

342

369

9. 3

9. 5

-4. 7

1997-98

132. 8

4. 4

366

388

7.0

5.1

-2.6

1998-99

140.7

5.9

414

445

13.1

14.7

-7.2

1999-00

145.3

3.3

428

446

3.4

0. 2

-0. 1

2000-01

155. 7

7. 2

444

453

3. 7

1. 6

3. 4

2001-02

161. 3

3. 6

463

466

4. 3

2. 9

-0.7

2002-03

166.8

3.4

482

477

4.1

2.4

-0.7

2003-04

175.9

5.5

500

495

3.7

3.8

1.7

2004-05

187.3

6.5

520

506

4.0

2.2

2.5

2005-06

195.5

4.4

542

527

4.2

4.2

0.1

2006-07

206. 1

5. 4

579

575

6. 8

9. 1

-1. 4

Base Year for WPI is 1993-94

Base Year for CPI for 1994-95 and 1995-96 is 1982 and from 1996-97 onward it is 1986-87

CPI and WPI differ in terms of their weights assigned to their respective constituent basket goods and services. Food has been assigned a higher weight in CPI (46% in CPI-IW) as compared to a weight of only 27% in WPI. As a result, the CPI changes more with the change in the food process as compared to the WPI. Further, the fuel group has a much lower weight in CPI (7% on an average) relative to that in the WPI (14. 2%). Consequently, the variations in international crude process affect the WPI more than CPI. Also, services are not included under WPI, but are included in the CPI to different extents. Hence, the CPIs are influenced by the service price inflation.

Considering the data provided in the table above, it can be inferred that on an average CPI-IW inflation is higher than that of WPI inflation. Also, in terms

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of WPI inflation the period from 1994-95 to 1995-94 was of higher inflation, then the inflation decreases and increases again in 2000-01 and then decreases again. It can be seen that the inflation rate, both CPI inflation and WPI inflation, follows a cyclic pattern.