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AN ANALYSIS OF CLASSIFICATION OF PUBLIC EXPENDITURE IN INDIA

Gurlinagappa*1, Dr. Sunita Devi*2
**1 (Scholar, Department of Economics, Sunrise University, Alwar, Rajasthan, India)*
**2(Research Supervisor,Department of Economics, Sunrise University, Alwar, Rajasthan, India)*
*bhandaribheemappa29@gmail.com*1*

ABSTRCT

Government spending is a crucial part of the budget and is regarded as a key instrument for macroeconomic management as well as for fostering economic growth and development. It is also essential to achieving these objectives. It provides a normative framework for policy formulation and accountability. This chapter's objective is to discuss the precise classification of Indian government spending. Developing policies, allocating funds, keeping an eye on the functioning of numerous government initiatives, holding officials responsible, and investigating the overall economic effects of government operations all depend on the categorization of public spending. It also creates a standardized framework for the formulation and oversight of policies. Finding basic similarities between government processes and classifying each transaction into roughly homogeneous groupings is the main objective of any classification. By doing this, you might learn crucial information about the composition, personality, and importance of these transactions. Expenses are categorized to facilitate analysis and decision-making. Different criteria have been used by numerous economists to classify government spending. C. C. Plehn, for instance, classified public spending according to its benefits. On the other hand, Adam Smith groups public spending according to the main duties of the state. Joan Robinson has organized government spending into productivity-based categories. Public spending was categorized by G. F. Shiraz based on importance. Government spending was split into two groups by A. C. Pigou: non-transferable spending and adaptable spending. Hugh Dalton used an economic/accounting classification approach to group government spending..

INTRODUCTION

The Government of India has categorized and reported its expenditure in several ways, such as Revenue and Capital, Plan and Non-Plan, and Developmental and Non-Developmental expenditure, to reduce ambiguity and inconsistency. Under the general headings of Revenue and Capital Expenditure and Plan and Non-Plan Expenditure, expenses are listed in the budget by major heads. As per the Indian Public Finance Statistics, Budget Surveys, Reserve Bank of India Bulletins etc. There are two sections in this chapter. First section discusses concept of each component of public expenditure in detail. Second section highlights tabular classification of each component of expenditure.

The current system of accounting classification and budgeting was originally put into place in 1974. It replaced the old organization-based classification of transactions with one based on functions and programs. The accounting classification and the plan schemes' classification were largely reorganized in 1987, and the object heads were rationalized in 1994. Although it has undergone modifications to accommodate shifting requirements, the classification system's basic structure has remained largely the same for more than 25 years. One of the primary areas of concern has been the handling of transfer payments, which are combined as Grants-in-Aid in the books of accounts without being scheduled or assigned to any specific purpose.

In a federal system such as ours, these payments make up a significant portion of total government spending. These payments are recorded as expenditures of government revenue regardless of whether the funds are utilized to build assets or not. As such, the government's developmental spending cannot always be determined using the accounts' split of government spending into revenue and capital. (India Public Finance Statistics, 2018).

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Revenue Expenditure and Capital Expenditure

The criteria established by the Mukherjee Committee, a team of reformers in the structure of budget and accounts, in their 1972 report serve as the foundation for the current classification scheme between revenue and capital. Money spent on maintaining the government's complex machinery is included in its revenue expenditures. Revenue expenditure is defined as the amount spent on maintaining governmental services and departments on a regular basis. Stated differently, revenue expenditure is defined as spending that does not add to the economy's assets. Revenue expenditures are ongoing costs that come up year after year. Revenue expenditures include interest payments, transfer payments, subsidies, defense spending, grants to states and UTs, and spending on civil administration. Interest payments, defense spending, and subsidies are the government's committed expenses out of all of these. Expenditures that are committed are ones that the government has limited control over. Almost half of all expenses are allocated to these three things, which are essentially non development expenses. It is highly unlikely that these three items will be kept under control.

Conversely, a cost that is unrelated to the day-to-day operations of any government function is classified as a capital expense. A large amount of money is spent all at once, with the advantages being felt later on when significant physical assets like infrastructure are created for the economy. It is a one-time event that contributes to a more productive economy. Capital expenditures are expenses that are typically covered by borrowing money and are intended to increase the government's physical assets. Small savings accounts are a significant source of funding, while larger domestic market borrowings account for the majority of the Central Government's deficits. The Mukherjee Committee defined capital expenditure as money spent on purchasing tangible, long-term assets. Extinguishing a recurring liability is also considered a capital expense. Capital expenditure is defined as "Expenditure incurred with the object of increasing concrete assets of a material and permanent character" by both the Government Accounting Rules and the General Financial Rules (GFR). Capital expenditures, loans, and advances to the state and other organizations are also included.

Developmental Expenditure and Non-Development Expenditure

Developmental expenditure : has an obvious growth implication in the sense that expenditure classified as developmental should be such as can be considered to promote growth. It is inclusive of all items of expenditure that boost economic development and public welfare. Developmental expenditure includes all major heads of expenditure that boosts development and welfare. Generally, this expenditure help to inflate and improve, the resources of the economy, enhance knowledge, skills and productive efficiency of the people, and also assure competency of the system of the economy. This expenditure has three components; revenue developmental expenditure, capital developmental expenditure and developmental loans and advances. Developmental expenditure broadly includes expenditure on socio-economic services, grants to States and Union Territories. Education, Medical and Public Health and Family Welfare Housing, welfare, Social Security and Welfare, Agriculture and Allied Activities, Rural Development, Irrigation and Flood Control, Energy, Industry and Minerals Transport and Communication, Science, Technology and Environment, Loans and Advances by State Governments for Development Purposes are some heads of development expenditure in India.

Expenditures which do not result in any increase in national income constitute

Non Developmental expenditure : In India. Non developmental expenditure on Revenue Account such as expenditure on Interest Payments and Servicing of Debt, Organs of State, Administrative Services, Fiscal Services, Pension and Miscellaneous General Services and Non developmental expenditure on Capital Account such as. Loans for Non-Development Purposes, Government Servants (other than housing) are some heads of Non developmental expenditure. The largest two components of non-development expenditure on revenue account have been defense services and interest payment on public debts. Classifications of developmental and non-developmental of central and state government are discussed combined.

CONCLUSION

The main objective of any classification is to recognize basic similarities in government activities and categorize each transaction into comparatively homogeneous categories, which may provide meaningful information on the composition nature, and impact of these transactions. The objective to classify expenditures is to facilitate analysis and decision-making. "No single scheme of classification can possibly satisfy the divergent information requirements for different classes of stakeholders. Most governments, therefore, classify their expenses on a set of different and mutually exclusive schemes." Government of India has classified the major heads under the broad heading of Revenue and Capital expenditure and Plan and Non-plan expenditure. As per the Indian Public Finance Statistics, Budget Surveys, Reserve Bank of India Bulletins etc. Revenue Expenditure can be stated as, expenditure on normal functioning of public departments and services. In other words, we can say that revenue expenditure is that which does not create any assets in the economy. Revenue expenditure is recurrent in nature which incurs year after year. Interest payments, transfer payments, subsidies, defense expenditure etc. On the other hand, Capital Expenditure A major portion of expenditure is made at one point of time and the benefits are realized later in creation of substantial assets. Expenditure made on those programmes and projects financed by government as per the recommendations of the planning commission is considered as Plan expenditure. It includes all the expenditure of the government which is included in the plan. Non Plan Expenditure includes those functions which are taken into account by the finance commission while recommending financial assistance from the Central Government to the state. Non-plan expenditure is a dedicated expenditure on completed schemes of earlier plans. Developmental expenditure has an obvious growth implication in the sense that expenditure classified as developmental should be such as can be considered to promote growth. It is inclusive of all items of expenditure that boost economic development and public welfare.

Expenditures which do not result in any increase in national income constitute Non Developmental expenditure in India. Non-developmental expenditure on Revenue Account such as expenditure on Organs of State, Fiscal Services, Interest Payments and Servicing of Debt, Administrative Services, Pension and Miscellaneous General Services and Non developmental expenditure on Capital Account such as. Loans for Non-Development Purposes, Government Servants etc.

"Although, there is no uniform definition of developmental and non-developmental expenditure, an analysis of expenditure based on these classifications is useful in judging the quality of government spending. Different institutions/organizations use more or less same major heads to de-compose developmental and non-developmental expenditure; difference arises mainly on account of some minor heads. Irrespective of definitional issues, there is significant improvement in quality and composition of expenditure in the post-FRBM period at both Central and States level.

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