

Determinants and Trends in Non-Development Expenditure of Central Government of India

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ABSTRACT

The present study attempts to analyse the trends in non-development expenditures of Central Government of India (NDE) in pre-economic reform and post-economic reform periods (1980-81 to 1990-91 and 1991-92 to 2014-15). Development expenditure accounted for 66.29 percent of total expenditure in 1980-81, compared to 33.71 percent for NDE. This trend changed by 1990-91, when NDE increased significantly to 58.63 percent of total spending, showing mounting fiscal strain and rigidities. The most important drivers of NDE, as shown by econometric estimation, are GDP, fiscal deficit, population, grants to states and union territories which have positive and statistically significant coefficient (1980-81 to 2014-15). This implies that a growth in NDE is directly influenced by fiscal imbalance and population, grants to states and union territories. Public debt and inflation were found to be statistically insignificant in affecting NDE during the study period, despite their theoretical relevance. It is observed that the government's capacity to prioritize developmental investment has been hampered by growing fiscal deficits and interest costs, which has left less money available for growth-oriented expenditures. This disparity is made worse by the growing rigidity of committed liabilities like debt service, subsidies, and defense.

Introduction

All expenditures having direct impact on social welfare and economic development fall in the category of development expenditures (DE). It primarily consists of grants to states, social services (education, health, employment, housing, etc), and economic services (agricultural, industry, energy, communication, transportation, research and technology and environment). While, NDE includes expenditures related to defense services, interest payments, subsidies, and other general services rendered by the government. NDE is expenditure that does not immediately lead to activities that increase productivity or welfare but is frequently necessary to

uphold the state's financial obligations, governance, administration, and security. Despite being categorized as "non-developmental," this type of spending is by no means unnecessary. For instance, interest payments preserve fiscal credibility, defense guarantees national security, and administrative spending makes institutions run more easily.

The patterns and sizes of public expenditure play a significant role in economic growth and inequality reduction in a developing nation like India. The type of expenditures and their effects on society determine how the economy develops. The best way to judge the structure of government expenditure is to look at the allocation of DE and NDE, as the DE have a direct impact on economic growth of a country. However, since the introduction of New Economic Policy, the priorities assigned to different types of expenditure, including development spending, have changed structurally. The state's priorities are reflected in the allocation of funds between developmental and non-developmental spending in fiscal policy.

Concerns regarding the effectiveness of public spending are frequently raised by an increasing share of NDE. This is because, even though they are necessary, such expenditures usually don't directly increase productivity or create new revenue streams. For example, paying interest on debt takes up a significant amount of revenue resources but does not result in the creation of physical assets. Similarly, subsidies that are poorly targeted can lead to fiscal strain and distortions without enhancing long-term welfare. Therefore, analysis of trend and determinants of Central Government of India's non-developmental expenditure presumes substantial policy significance.

Review of Literature

One of the first studies of Indian government spending was done by Premchand (1966), who noted the disparity between non-developmental and developmental components as well as the financial burden brought on by the fast rise in defense and administrative expenses. Chelliah and Associates (1981) expanded on this by looking at the finances of the central government and noting that non-development spending, especially interest payments and subsidies, was increasing at a disproportionate rate to developmental spending, which decreased fiscal flexibility. Rangarajan and Srivastava (2005) conducted a more thorough analysis of the Indian government's financial situation and came to the conclusion that one of the main causes of ongoing deficits was the growing weight of interest payments and payroll expenses. Similarly, Bhatia (2009) pointed out that capital investment was frequently displaced by non-development spending, which still dominated the fiscal structure. The growing proportion of transfers and subsidies has been a key factor in maintaining high levels of non-development spending, according to Mundle, Bhide, and Kumar (2012). In its 2013 report on state finances, the Reserve Bank of India reaffirmed similar findings by highlighting the structural rigidity of committed

expenditures like interest, pensions, and salaries, which left little room for discretionary developmental spending.

Rao and Singh (2014) expressed similar concerns, emphasizing that even in the face of income buoyancy, the burden of non-development expenditures was greatly compounded by expenditure rigidities resulting from subsidies and pensions. Additionally, Shome (2015) noted that the inability to compress interest payments and subsidies regularly hampered efforts at fiscal consolidation. The NIPFP (2015) Working Paper, which evaluated the finances of the central government, also noted that fiscal discipline was still hampered by the predominance of revenue expenditure, especially non-development headings. Lastly, the 2015 Economic Survey of India reaffirmed that the majority of revenue expenditures were committed expenditures, including interest payments, pensions, and subsidies, which limited the government's ability to allocate funds for developmental priorities.

Objective of the Study

1. To study the trend in non-development expenditure of central Government of India in pre-reform and reform periods
2. To identify the determinants of non-development expenditure of central Government of India.

Discussion and Results

The 1980s decade marked a turning point as the interest payments increased because of growing fiscal deficits, rising borrowing costs and debt accumulation. Subsidies increased dramatically, especially those for food and fertilizer. As a result, growth in NDE started to surpass that of development spending. Table 1 clearly shows a significant and rapid increase in the Central Government's non-developmental expenditure over the decade.

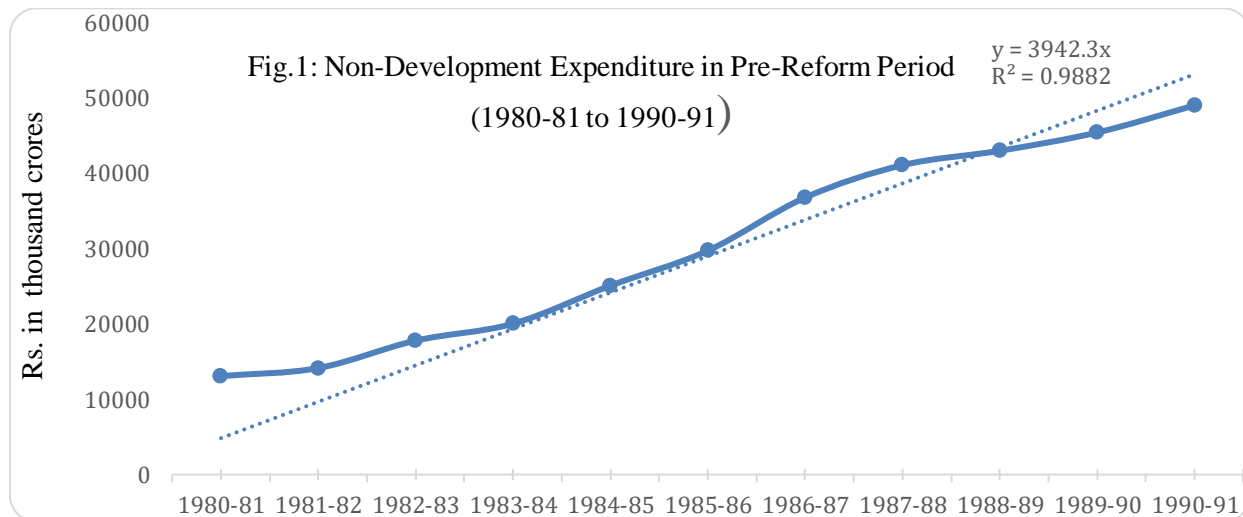
Table 1: Non-Development Expenditure in Pre-Reform Period (1980-81 to 1990-91)

(Rs.in crores)

Years	Non-Development Expenditure	Growth Rate (%)	Years	Non-Development Expenditure	Growth Rate (%)
1980-81	13062	-	1986-87	36747	11.72
1981-82	14133	25.76	1987-88	41052	4.65
1982-83	17774	12.62	1988-89	42960	5.65
1983-84	20017	25.21	1989-90	45388	7.91
1984-85	25063	18.52	1990-91	48979	25.76
1985-86	29705	23.71			

Source: Indian Public Finance and Statistics, Government of India, Various Issues.

In 1980-81, non-development expenditure totaled ₹13062 crore but by 1990-91, it had risen to ₹48979 crores, nearly quadrupling in just ten years. This substantial increase reveals the government's expanding financial commitment to a variety of non-productive yet important activities.



NDE covers a wide range of administrative and obligatory services which include the costs of collecting fees and taxes, auditing systems, and major outlays for interest payments and debt servicing. This category also includes non-developmental grants to states and union territories, and financial assistance to local governing bodies. The Central Government's considerable borrowing contributed significantly to the surge in such expenses. To meet its rising needs, it borrowed from domestic individuals, commercial banks, and financial institutions, as well as from international organizations. In addition, the government raised cash through minor savings schemes, provident funds, and other similar methods.

During the 1980s, the growth rate of NDE varied from year to year. Notably, the years 1987-88 and 1988-89 had relatively low growth rates of 4.65 percent and 5.65 percent, respectively, which could reflect efforts to tighten budgetary discipline or a focus on reducing non-productive spending. Nonetheless, the overall trend throughout this time period reveals a growing burden on government finances due to increase in interest payments, defense spending, and subsidies.

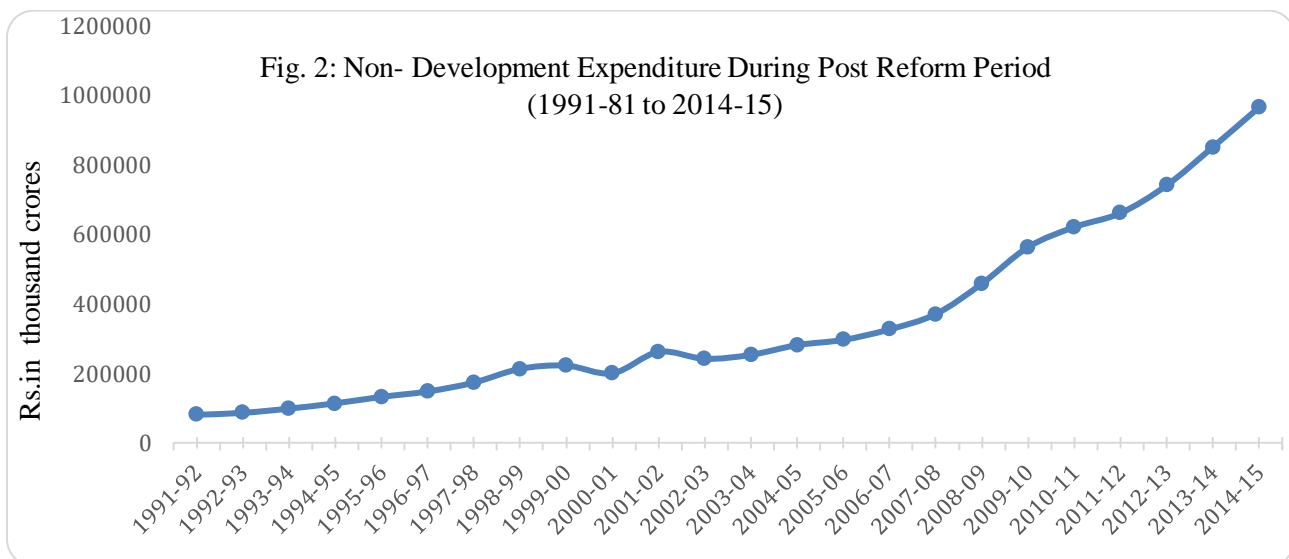
Table 2 and fig.2 show a considerable constant increase in NDE of Central Government over time. In 1991-92, this expenditure totaled ₹80453 crore but in 1997-98, it became more than doubled to ₹172976 crores. By 2014-15, it had risen to a staggering ₹964533 crore, which is a more than sevenfold increase during the study period. Now the role of government is not

confined to conventional tasks like national security or law enforcement, it is onus of the government to ensure the economic and social welfare of the people. Because of this, government now has a wide range of duties and obligations which go far beyond. Ensuring social and economic justice is a priority for modern welfare states, which calls for significant investment across a range of industries. For example, in order to support literacy, skill development, and the creation of human capital, education spending has increased. In a similar vein, healthcare spending has increased dramatically in order to address issues like pandemics.

Table 2: Non- Development Expenditure during Post Reform Period (1991-81 to 2014-15)
(Rs.in crores)

Years	Non-Development Expenditure	Growth rate (%)	Years	Non-Development Expenditure	Non-Development Expenditure	Growth rate (%)
1991-92	80453	-	2003-04	252849	252849	4.70
1992-93	85958	6.84	2004-05	280917	280917	11.10
1993-94	98191	14.23	2005-06	295823	295823	5.31
1994-95	113361	15.45	2006-07	326066	326066	10.22
1995-96	131901	16.35	2007-08	369942	369942	13.46
1996-97	147473	11.81	2008-09	457717	457717	23.73
1997-98	172976	17.29	2009-10	562609	562609	22.92
1998-99	212522	22.86	2010-11	620199	620199	10.24
1999-00	221871	4.40	2011-12	660551	660551	6.51
2000-01	199886	-9.91	2012-13	740381	740381	12.09
2001-02	261259	30.70	2013-14	850437	850437	14.86
2002-03	241488	-7.57	2014-15	964533	964533	13.42

Source: Indian Public Finance and Statistics, Government of India, Various Issues.



Period	Observations
1991-92 to 1998-99	An era of consistent expansion, with growth rates mostly in the double digits, culminating at 22.86 percent in 1998-99.
1999-00 to 2002-03	Volatile patterns, including severe declines in 2000-01 (-9.91 percent) and 2002-03 (-7.57 percent). However, a huge surge happened in 2001-02 (30.70 percent), most likely due to increased spending on interest payments, subsidies, or defense.
2003-04 to 2008-09	Moderate but consistent growth, culminating in a strong increase of 23.73 percent in 2008-09, most likely affected by the global financial crisis and related stimulus measures.
2009-10 to 2014-15	Continued increase in spending with consistently high levels, including significant increases in 2012-13 (12.09 percent), 2013-14 (14.86 percent), and 2014-15 (13.42 percent). This represents rising subsidy expenses, wage adjustments (for example, Pay Commissions) and welfare programs.

Table 3: Share of Development and Non-development Expenditures in Pre-Reform Period (1980-81 to 1990-91)

Year	Development Expenditure	Non-Development Expenditure
1980-81	66.29	33.71
1985-86	63.60	36.40
1990-91	41.37	58.63

Source: Indian Public Finance and Statistics, Government of India, Various Issues.

The percentage shares of DE and NDE in the total expenditures of the Central Government during the pre-reform period (1980–81 to 1990–91) and post-reform period (1991–92 to 2014–15) are shown in tables 3 and 4, respectively. In 1980-81, NDE, which include interest payments, defense, subsidies, pensions, and administration, made up 33.71 percent of total spending, while DE, which include spending on industries, infrastructure, education, health, and agriculture, made up 66.29 percent. By 1985-86, NDE increased to 36.40 percent while the ratio of DE fell to 63.60 percent. The trend became more noticeable in 1990–91, when NDE increased dramatically to 58.63 percent while DE fell precipitously to 41.37 percent. This showed a considerable change in the pre-reform structure of government expenditures. This tendency does not align with the assumption that a greater proportion of development expenditures should be allocated to this area. During the pre-reform period, the percentage share of DE was approximately 60 percent and the growth rates also indicate a positive trend. The government's primary goal during this period was infrastructure creation and expansion which led to larger spending on developmental projects such rural electrification, irrigation, flood control and rural upliftment.

Table 4: Share of Development and Non-development Expenditures in Post Reform Period (1991-81 to 2014-15)

Year	Development Expenditure	Non-Development Expenditure	Year	Development Expenditure	Non-Development Expenditure
1991-92	38.85	61.15	2003-04	34.69	65.31
1992-93	36.15	63.85	2004-05	33.74	66.26
1993-94	33.46	66.54	2005-06	37.15	62.85
1994-95	49.11	50.89	2006-07	40.20	59.80
1995-96	31.59	68.41	2007-08	45.11	54.89
1996-97	31.61	68.39	2008-09	45.57	54.43
1997-98	32.09	67.91	2009-10	42.40	57.60
1998-99	30.51	69.49	2010-11	45.86	54.14
1999-00	31.19	68.81	2011-12	46.80	53.20
2000-01	31.50	68.50	2012-13	45.69	54.31
2001-02	31.79	68.21	2013-14	49.76	50.24
2002-03	32.78	67.22	2014-15	45.43	54.57

Source: Indian Public Finance and Statistics, Government of India, Various Issues.

The central government has implemented several fiscal sector reforms since 1991 which brought about a significant change in the structure of DE and NDE. Throughout the early 1990s, these reforms had a generally positive effect on spending policy. The overall quality of the government

finances was, however, impaired by the growing percentage of expenditures in the late 1990s and early 2000s without a corresponding growth in the revenue share.

Although the proportion of NDE in total government expenditures fell during the planning period, absolute expenditure on these goods increased substantially. NDE is frequently considered as necessary and unavoidable in administrative circles. It often rises in unison with demographic expansion and rising per capita income—trends that India has undoubtedly seen. During this time, the country's population grew by approximately 2.5 times, but per capita income more than doubled. A closer look at the expenditure components reveals those four key categories—defence, interest payments on public debt, tax collection costs, and police administration—accounted for approximately two-thirds of total non-development spending. While each of these categories plays a crucial role in sustaining national security, governance, and fiscal integrity, the sheer volume of funding for these areas raises problems. An increase in NDE was both expected and justified. However, the extent of the growth significantly exceeded what could be explained alone by these variables. A sevenfold increase in real terms appears disproportionate, especially in a growing country like India, where fiscal resources are naturally restricted and should be focused toward developmental activities that promote growth and social welfare. In an era of limited resources, such substantial non-developmental spending requires careful analysis and strategic rationalization to ensure that developmental priorities are not jeopardized.

Trend Analysis

To analyse the trend pattern of growth in the Central Government's non-development expenditure from 1980-81 to 2014-15 the following linear model has been used.

Where,

$$Y = a + bt + Ut$$

Y = Non-Development Expenditure t = Time trend variable,

a = Intercept, indicating the baseline value of Y.

b = Regression co-efficient showing the annual growth or the declining rate in the concerned variable.

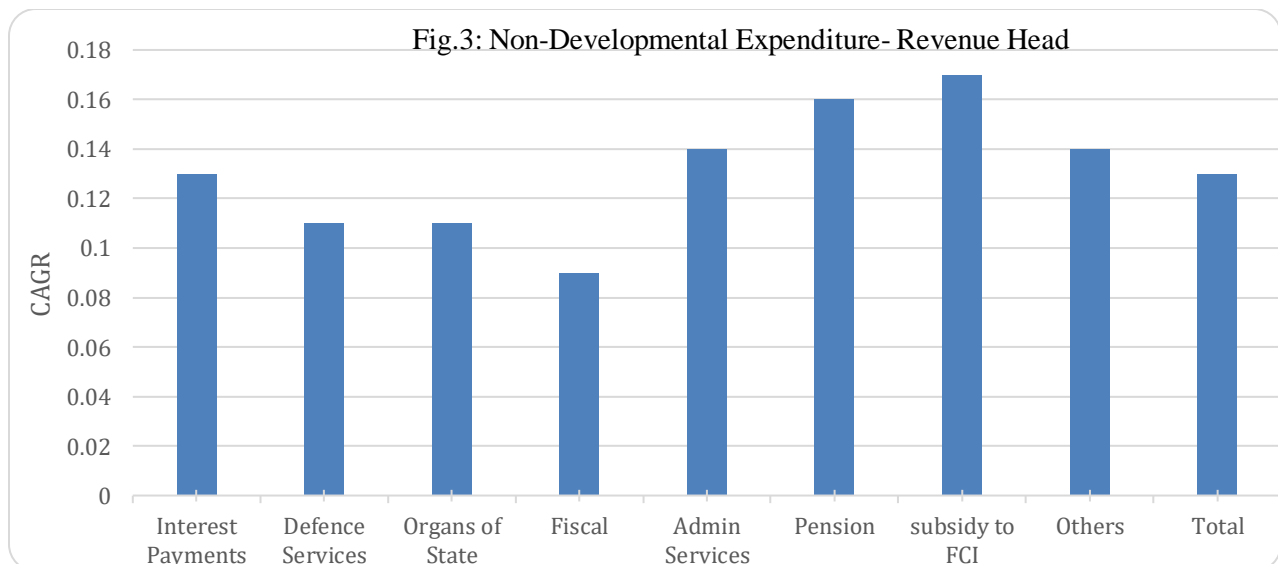
Compound growth rate in per cent (r) was thus estimated as under:

$$r = (b - 1) \times 100$$

Table 5: Non-Developmental Expenditure- Revenue Head (Rs crores)

Year	Interest Payments	Defence Services	Organ s of State	Fiscal Services	Administrative Services	Pension	subsidy to FCI	Others	Total
1990-91	21498	10874	376	1161	2868	2138	2450	2562	43615
2000-01	99314	37238	1603	3030	13401	14220	12060	2641	185667
2007-08	169179	54219	2166	3827	22185	24261	31328	28025	328123
2008-09	192204	73305	2964	5271	31124	32941	43751	39588	410338
2009-10	213093	90669	4193	6535	38754	56149	58443	34684	500226
2010-11	243022	92061	3588	6633	41469	57405	63844	38787	540370
2011-12	273150	103011	4302	7251	47828	61166	72822	23796	581670
2012-13	313170	111227	4424	7880	53509	69478	85000	26407	655573
2013-14	374524	124374	5097	8605	60635	74896	92000	30768	753795
2014-15	411354	140405	5617	10100	69266	81705	122676	63569	863721
CAGR	0.13	0.11	0.11	0.09	0.14	0.16	0.17	0.14	0.13

Source: Indian Public Finance and Statistics, Government of India, Various Issues.



The table 5 presents India's non-developmental expenditure under the Revenue Head from 1990-91 to 2014-15. Key spending categories include interest payments, defence services, subsidies (FCI), and pensions. Total expenditure increased from ₹43615 crores (1990-91) to ₹863721 crores (2014-15), with a 13 percent CAGR. It is evident from the fig.3 that the fastest-growing components is subsidy to FCI and which is followed by pensions reflecting rising welfare and social security commitment obligations. Interest payments remained the quite high expense item with 13 percent CAGR showing huge fiscal deficits and debt servicing costs. Defence services

also expanded consistently, focusing security priorities. The sharp increase in total expenditure indicates that fiscal commitments are growing, driven by subsidies, pensions, and debt, posing problems to fiscal sustainability.

The estimated trend coefficients and compound growth rate of NDE for pre-reform, post-reform, and overall periods are presented in table 6. The trend analysis of non-development expenditure from 1980-81 to 2014-15 reveals notable differences between the pre-reform and post-reform periods. In the pre-reform period, the value of slope coefficient of linear model is ₹3944 which indicates an average annual increase of ₹3944 crore in NDE. The R² value of 0.97 suggests that 97 percent of the variation is explained by the model, and the coefficient is statistically significant. The log-linear model for the same period showed a slope of 0.152, with an R² of 0.97, resulting in a high compound growth rate of 15.41 percent, reflecting a strong and consistent upward trend. The Central Government’s expenditures have heavily been influenced by the need to prepare for national security in response to external threats. However, defense and development spending often had contradictory impacts on the economy, as scarce resources were diverted toward defense, slowing the pace of development.

Table 6: Trend Analysis of Non-Development Expenditure

Model	Period	Year	a	b	t	R ²	Absolute Growth	CGR (%)
Linear	Pre- Reform	1980-81 to 1990-91	6743.58	3942.33*	22.311	0.98	3944	--
	Post- Reform	1991-91 to 2014-15	-64541.09	33464.69*	11.442	0.849	33236	--
	Whole Period	1980-81 to 2014-15	-148751.04	22461.42*	11.422	0.819	22564	--
Log Linear	Pre- Reform	1980-81 to 1990-91	9.86	0.152*	16.380	0.968	--	15.410
	Post- Reform	1991-91 to 2014-15	13.68	0.106*	32.319	0.971	--	10.768
	Whole Period	1980-81 to 2014-15	9.11	0.124*	41.628	0.980	--	12.961

* Significant at 5 per cent level.

In more recent years, the government has also faced mounting pressures from rising subsidies and administrative costs. During the post-reform period, although the CGR declined to 10.76 percent, the absolute annual increase surged to ₹33236 crore. Across the entire period, the average annual increase stood at ₹22564 crore with a compound growth rate of 12.96 percent, implying the sustained growth. These findings suggest that while reforms moderated the rate of growth in relative terms, the absolute burden of non-development expenditure continued to rise sharply, highlighting ongoing fiscal challenges. Defence, interest payments, general services, and

subsidies accounted for roughly 70 percent of the Central Government's current NDE. Unless, it is rigorously managed and controlled, the Government will be compelled to borrow more at a growing rate to close the revenue deficit and risk falling into a hopeless debt trap. Throughout the research period, NDE remained a significant fraction of total expenditure.

For the study period, the liner model gives the absolute growth of 22564.13 and b' is positive and statistically significant with R² of 0.819 which implies that the independent variable accounted for approximately 82 percent of the variation in NDE. The semi-log model has a b value of 0.12 and a goodness-of-fit of 0.98. During the whole study period, non-development expenditure climbed at a significantly slower rate than public revenue. For several years, the government had been successful in reducing the fiscal deficit. Every year, revenue increased, while the government's spending exceeded the targets. Unless the increment in DE and NDE are confined in limit, the budget deficit will surpass the targets, harming overall economic growth. A strong decision needs to be made to reduce all items of needless expenditure incurred by the government at all levels.

The following multiple regression equation has been fitted to identify the factors affecting the NDE:

$$Y_t = \beta_0 + \beta_1 X_{1t} + \beta_2 X_{2t} + \beta_3 X_{3t} + \beta_4 X_{4t} + \beta_5 X_{5t} + \beta_6 X_{6t} + U_t$$

Where,

- Y = Non-development Expenditures.
- X₁ = GDP at market prices
- X₂ =Fiscal deficit
- X₃ = Public Debt
- X₄ = Population
- X₅ = Inflation rate
- X₆ = Grants to States and Union Territories
- U= Stochastic disturbance term
- β₁, β₂, .. β₆ are regression coefficients.

Table 7: Determinants of Non-Development Expenditure (1980-81 To 2014-15)

Variables	Co-efficient	Standard error	't' Value
Constant	-35432.66	47369.87	-0.748
GDP (X ₁)	0.109*	0.0318	3.431
Fiscal Deficit (X ₂)	0.477*	0.2008	2.376
Public Debt (X ₃)	56.49	79.6756	0.709
Population (X ₄)	0.109*	0.2088	0.522

Inflation rate (X ₅)	0.105	0.3079	0.341
Grants to States and Union Territories (X ₆)	0.158*	0.2476	0.638
R ²	0.93		
F-Value	205.49		

Source: Computed data. *Significant at 5 per cent

The regression results in Table 7 show the main factors affecting NDE of Centre Government from 1980–1981 to 2014–2015. NDE and fiscal deficit (X₂) are positively correlated because larger deficits result in greater borrowing, which raises the expenses of debt servicing, including interest payments, salaries, pensions, subsidies, and defense spending. Public debt (X₃) similarly indicates a positive correlation since rising debt stocks result in higher principal and interest payments, which over time make NDE increasingly burdensome. GDP, fiscal deficit, population growth, and grants to states and union territories are the variables that are statistically significant at 5 percent level. With an R² of 0.93 and a significant overall fit (F-value 205.49), the model indicates very high explanatory power. This suggests that grants to states and union territories, growing populations, and widening fiscal deficits have all been significant drivers of non-development expenditure. While, factors like the inflation rate and public debt had statistically insignificant, indicating that their direct impact on non-development spending was either weak or non-existent. The structural rigidity of India's fiscal system in the years prior to and following reform is highlighted by the positive and significant role of GDP and fiscal deficit, which show that as the economy grew and fiscal imbalances widened, the burden of committed expenditure (such as interest payments, subsidies, defense, and pensions) also increased.

Conclusion

The analysis of the factors which impacted the non-development expenditure of Indian central government shows the intricate relationship between fiscal policy, economic growth and macro-economic variables. Over the years, NDE has become a considerable component of total public expenditure with a significant effect on the government's expenditure structure, fiscal health, and the scope of developmental activities. Both historical patterns and econometric data make it evident that NDE has been affected by macroeconomic factors like GDP, fiscal deficits and public debt. The findings underscore that the significant rise in subsidies, pensions, and interest payments contributes to mounting fiscal pressure, reflecting the structural rigidity of India's revenue expenditure, where a substantial portion is locked in committed, non-discretionary spending, thereby constraining fiscal space for developmental priorities. The FRBM Act's introduction in 2004 put the economy on a recovery path by reducing the percentage of non-development spending and increasing the ratio of development spending. It is possible to draw a

conclusion that total expenditure has been rising rapidly during the study period based on trends in central level expenditure.

The main cause of this increase in overall spending is the steadily rising percentage of non-development spending, which has resulted in a significant fiscal imbalance in the economy. Due to reform initiatives, non-development spending increased more slowly throughout the Reform era than during the Pre-Reform era.

The study emphasizes the necessity of fiscal consolidation through better non-developmental expenditure efficiency, rationalized subsidies, and careful deficit management. Increasing revenue collection, especially through tax reforms and improved compliance, may reduce budgetary strains and enable spending to be reallocated to priorities for development.

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