Decoding the Trends and Composition of Public Expenditure in India

A Book Review of "Public Expenditure in India: Policies and Development Outcomes" by Gayithri Karnam

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Public finance is vital to effective governance. It encapsulates the aims and policies of the state, and empowers governments to promote development and progress at the national and sub-national levels (including local governments)[i]. Public revenue, public expenditure, public debt, financial administration, and public budgeting are the major areas that fall under the ambit of public finance. In the domain of public finance, two factors – public expenditure policy and public expenditure management – have a direct role in accelerating economic growth, generating employment opportunities, and fostering inclusive socio-economic development.

The administration of public expenditure remains a significant challenge in developing countries, including India, as policy announcements often do not lead to desired outcomes (Kundu, 2022; Karnam, 2022; Saji, 2023). Despite its significance, public finance – particularly the quality of public expenditure –has largely been overlooked by policymakers and economists in India. This is applicable even to performance budgets (Rao and Rajagopalan, 1990).

In this context, *"Public Expenditure in India: Policies and Development Outcomes"* by Gayithri Karnam, offers an empirical understanding of historical trends and composition of public expenditure in India at the central and the sub-national levels; the effectiveness of public expenditure control systems and accountability issues; the political economy of spending decisions; public expenditure reforms undertaken in India; and international best practices that can guide the course-correction process in India.

The book is organized into 10 chapters, and it offers a thorough and logically-sequenced narrative on public expenditure in India. Chapter 1 offers an overview of the different conceptual frameworks of public expenditure and budgeting, which is essential to understand the public expenditure analysis presented in the book. Chapter 2 outlines the key concepts, nomenclature, classifications of public expenditure practices, and public budgeting practices within the context of the Indian fiscal federal

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framework. The author has succeeded in establishing a historical and practical sense of the Indian experience of public finance, with the support of extensive literature.

The book offers a coherent understanding of the trends and composition of public spending through a historical and chronological perspective, as seen in Chapter 3, with the support of meticulous evidence-based assessment of the transformations in the structure and patterns of public expenditure in India. Chapter 3 explores the theoretical foundations of public expenditure theories, and delves into the framework and trajectory of public expenditure practices in India.

The author offers a chronological overview to identify the structural changes that took place in the Indian economy, and discusses the fundamental principles of public expenditure in the Indian context. For instance, the abolition of the Planning Commission (formation of NITI Aayog), the Fourteenth Finance Commission recommendation on centre-state resource sharing, the reconfiguration of funding structures for centrally sponsored schemes, and amendments to the Fiscal Responsibility and Budget Management Act, all have led to significant transformations in the federal-fiscal arrangement in India, and had both positive and negative implications for the financial health of the states.

Chapter 4 offers an empirical analysis of expenditure trends and patterns at the sub-national level (states in India), the quality of spending across various Indian states, and its influence on economic growth and development outcomes. The author reiterates that the systematic compilation of public finance data is crucial for enhancing the planning and utilization of public resources. The real-time collection, aggregation, and monitoring of development and fiscal indicators are essential for evaluating the potential effects of government expenditure on specific interventions.

Another major challenge addressed in the book is related to the lack of data/data inadequacies in public spending at the local government level. While the author points out that scarcity of fiscal data presents a significant obstacle for all tiers of governance, it is more evident in the case of local governments. The author admits that though the "*study of local government expenditure incurred by the rural and urban local governments have attracted considerable attention of the academic community*", this book "*...does not undertake a detailed analysis of the spending by local bodies ... due to non-availability of consistent and comparable data.*"

The author could have made use of the social audit mechanism, Gram Sabha, Ward Sabha, and Ward Committee meetings, along with public sphere discussions and engagements with elected functionaries, to get a basic understanding of the public expenditure of local governments. Local public action initiatives by citizen-centric forums would also have offered some input on the public expenditure incurred at the grassroots level

Chapter 5 focuses on the management of public expenditure, associated control mechanisms, and challenges faced in this domain. The author has examined various constitutional mechanisms, including Parliamentary Financial Committees such as the Public Accounts Committee (PAC), Estimates Committee (EC), and Committee on Public Undertakings (CoPU). Another important constitutional entity regulating public finance in India is the Comptroller and Auditor General of

India (CAG), and the author has discussed in detail the relevance of the CAG, along with its operational issues and weaknesses.

This is particularly important in the present-day scenario, as states (including Kerala) have been locking horns with the CAG. For instance, the Kerala government dubbed the CAG as a "hunter dog" of the Central government instead of "watch dog" of public finances, when the 2018-19 audit report of the CAG had a remark saying that Kerala Infrastructure Investment Fund Board (KIIFB) violates Art. 293(1) of the Indian constitution, and the CAG further added that state government's off-budget borrowing tactic to raise funds was "unconstitutional" (Unnithan, 2020).

The examination of various constitutional frameworks (including the CAG) is informative and is crucial in generating awareness regarding these control mechanisms in the public domain. Politicians and leading policymakers can use this chapter as a textbook to learn more about the CAG, PAC, CoPU, and EC, and thereby attempt to clear their misunderstandings and misgivings. There are also expenditure control mechanisms at the sub-national level in India. For instance, Karnataka has *Sakala*[ii], *Avalokana*[iii], SDG Barometer, Karnataka Evaluation Authority, and Karnataka Development Programme (KDP). The author of the book has not seriously considered these 'new institutional surveillance mechanisms on public expenditure' at the state and/or sub-state levels in India. The author largely looks through a traditional lens of public expenditure analysis.

A comprehensive analysis of public expenditure is incomplete if it is not placed within the context of political economy (Saji, 2023). Chapter 6 looks into the electoral impacts of changes in government spending, drawing on evidence from 14 states in India, which are classified into low, middle- and high-income categories. The author has applied William Nordhaus's concept of *'electoral business cycle'* across different expenditure categories in the Indian context. Elections in India are one of the most expensive electoral events in the world. It is estimated that around Rs. 1.35 lakh crore was expended during the 2024 general election cycle, while the 2020 US election expenditure stood at Rs. 1.20 lakh crore (Paliwal, 2024). The author has pointed out that the "government spending composition in the election years many a time also depends on the party system[iv]," (Karnam, 2022).

Meanwhile, the "very high cost"[v] of conducting elections in the country also falls under the domain of public spending/expenditure. For instance, deploying officials and armed personnel to set up polling booths, procuring EVMs, and purchasing indelible ink, along with administrative costs (including remuneration to officials and observers for their poll-related work, including training and travelling) is all public expenditure. The author has not made an attempt to cover the expenditure for orchestrating elections in the sphere of public spending. This electoral expenditure should also be placed within the purview of the control mechanism.

The concept of public accountability is explored in Chapter 7, which analyses the internal and external control mechanisms designed to monitor spending behaviours. The book looks at heuristic strategies employed by the Indian government, particularly performance auditing and performance budgeting done by the CAG. Chapter 8 looks into issues that need to be addressed in reforming the public expenditure framework and systems in India.

Chapter 9 offers a comparison between the performance evaluation and outcome budgeting practices in India with the performance review process employed in Organisation for Economic Co-operation and Development (OECD) countries. Chapter 10 is the most unique one in the book, as it discusses the context of public spending during the Covid-19 pandemic in India. The author suggests the need to address the ineffective conversion of expenditures into outcomes through more efficient public spending.

This book is a valuable addition to the literature on public finance in India. For a comprehensive and up-to-date insight into Indian public expenditure, this book is indispensable.

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[i] Public finance encompasses the analysis of how governments and public authorities manage their financial resources including income, expenditure, and debts, to fund the public programs and initiatives of the respective governments. It offers an empirical analysis relating to aspects such as economic stability, income distribution, and the allocation of resources.

[ii] *Sakala* assures timely delivery of public services to citizens by the different departments of the government of Karnataka, as guaranteed by the Karnataka Guarantee of Services to Citizens Act, 2011. Since public expenditure is manifested at the local level in the form of public goods and services, in many cases *Sakala* works also as a control mechanism to ensure and assess the quality of the delivery of the public goods and services at the grassroots level. The reviewer of the book has witnessed comments from the local communities on the quality of the expenditure on public goods and services, based on the information gathered by *Sakala,* during field visits in many Gram Panchayats in Karnataka while evaluating the performance of *Sakala.*

[iii] *Avalokana* is a software that made all the data for budget allocation and integration available with an external MIS system, for release and expenditure to the lowest drawing-cum-disbursing officer (DDO) of the Taluk /Gram Panchayat. *Avalokana* provides physical and financial data /reports for the review meetings of KDP and review and analysis at all levels from CM Dashboard to citizens.

[iv] Though the Election Commission has set expenditure limits for individual candidates, there is no cap on the expenditure by political parties. Despite measures to monitor spending, much election expenditure remains unaccounted for (Paliwal, 2024).

[v] The government data shows that expenses for conducting elections have increased from Rs.236.6 crore in 2018-19 to Rs. 340 crore in 2023-2024 (Singh, 2024)