

Budget Innovations in India : An Evaluation

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Background

Government budget is an important policy document in all democracies. In a developing economy like India, budget has become the principal instrument of resource mobilization and allocation. It has also been used to facilitate measurement and appreciation of the impact of governmental activities on the national economy. In order to serve these multifarious purposes, the government budget had to evolve according to the needs of the country from time to time. In this process of evolution several innovations have been adopted in the budgetary procedures and practices to accommodate the changed role and the resultant objectives of the government. They include modernization of budget accounts, economic-cum-functional classification of the budget accounts and performance budgeting.

The purpose of this paper is to outline and evaluate critically the budget innovations adopted in India. For the purpose of this paper, we have used the term 'Innovation' to indicate "any idea, practice or material artifact presumed to be new by the relevant unit of adoption. The adopting unit can vary from single individual to a business firm, a city or a state legislature"¹. Such innovations in the budgetary practices are evaluated here from the points of view of saving of time and discomforts, minimising waste, clarity of information and overall improvement in the efficiency of economic management. Innovations may be induced by imaginative organisational environment, and/or the result of imitation originating from organizational 'demonstration effect', and/or forced by crises which cannot be managed with the existing budgetary system. Diffusion of budget innovations by a higher level authority among the lower governments may take many forms such as instructions, advice, persuasion and even imposition. Finally, ".....most

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budget innovations will be hybrid of the new and the old. "Pure" innovation, a substitution of the new for the old, is not a realistic expectation."²

In India the budget innovation of the type which we observe in countries like the U. S. A. have not occurred at the state level.³ The initiative for budget innovation has mostly come from the central government and its diffusion among the state governments has taken the form of advice and persuasion by the central government. Very few budget innovations have emerged from the state government level. Most of the innovations which have been adopted at the state level are either the automatic imitation of the central government budgetary practices or handed down by the central government. This is mainly because according to the Indian Constitution the entire financial system of the country is monolithic in character. There is one Comptroller and Auditor General of India who is the national head in charge of the accounts of the central and state governments and also entrusted with the quasi-judicial responsibility of auditing the government accounts. He is the constitutional authority appointed by the President and he is the head of accounts and audit of both central and state government budgets. There is one uniform accounting system for the entire country as far as the government budgets are concerned.

In India the impetus for the budgetary innovations has come from two sources. The first source is common to most of the developing countries namely, the imminent necessity of adopting the budgetary practices to the changed political status of the country from the colonial status to the independent status. The changed status devolved many socio-economic responsibilities on the government which necessitated review of then existing budgetary practices. But the second impetus is more important and is not as common as the first even among the developing countries. It has come from the the decision to introduce nation-wide economic planning to achieve rapid economic development of the economy. Therefore, we will first examine the budget innovations which have been introduced in India under two impetuses and then evaluate their success or failure. Finally, at the end we will highlight the existing defects in the budgetary system of the Indian states which need particular attention in the immediate future innovative changes.

Planning and Budgeting in India

Economic planning and government budgeting differ in their scope and time horizon. Planning has wider scope and much longer horizon than government budgeting. Therefore, planning agency is mainly concerned with long-term economic situations whereas budget agency cannot escape from the short-term economic realities. In a way, "planning can be described as a "thinking" process...that remains flexible and adoptable to change. Budgeting, on the other hand, is a "doing" process and is precise and definite"⁴. Because of these differences, it is often suggested that planning and budgeting should be carried

out by different agencies. However, in order to make planning and budgeting effective in their end results, they have to be properly coordinated. This has been achieved in India.

India has been experimenting with government sponsored economic planning which has been formulated and implemented within the framework of the federal structure. Though government sponsored development plan was long identified with non-democratic form of government, India for the first time adopted economic planning within the democratic framework. In this process, the government budget has come to be extensively used both for formulation and implementation of development plans. Though post-war reconstruction programs and projects were implemented through the budget, never in the past did any government think of implementing Economic Planning regularly through the annual budgetary process of parliamentary democracy. The political leaders, with varied intellectual background, in collaboration with a highly experienced bureaucracy, developed the innovative method of breaking up medium-term five-year plans into annual plans and integrated annual plans into annual budgets for the purpose of their approval by the legislatures, and facilitated their implementation and monitoring of their annual progress by the bureaucracy. The monolithic system of the country facilitated such integration. This integration has expanded the size of the budget and the number of heads of accounts without restricting the powers of any constitutional authority. This integration of plan and budget is an important innovation in the field of budgetary process of this country. This innovation has been diffused by the central government among the states through advice and persuasion. It may be noted in this context that the plan-budget link documents were started first by some state governments and were later suggested by the Planning Commission in 1965 for uniform adoption by all the state and central governments.

It may be mentioned here that in pre-independent India the role of the government was confined to maintaining law and order, national security and for undertaking a few public works programs. This limited role was obviously reflected in the small size of the country's budget. The budget account keeping was mainly motivated by the need to maintain control over public expenditure. The preparation of the budget and its execution was a routine matter for the administration. The nature of the budget was the traditional administrative budget, as it was mainly a means of financing the traditional functions.

After Independence and with the advent of planning, though this routine nature of the budget continued, the nature of the budget changed when the five-year plans were integrated into the annual budgets without changing the structure and basis of accounting classification. Though the main objective continued to be control of expenditure under different heads, the budget came to be designed to reflect the national development efforts and to provide an effective instrument for transforming the economic structure of the country in the socially desirable way. With the introduction of the economic-cum-functional classification

of the budget, it also facilitated the evaluation and appreciation of the impact of government activities on the national economy.

However, the integration of annual plans into annual budgets has complicated the financial control over execution of the budget particularly at the state level. Annual plans involve various development programs which are implemented through medium and long-gestation projects. Because of the short time at the disposal of the state governments' finance departments for completing budget discussions in the course of annual budget cycle, all plan projects are not chosen after proper appraisal. Sometimes projects are indentified and approved after the plan programs are integrated into the budget and approved by the legislature. Consequently, every item of plan expenditure when disbursed has to come before the planning department for approval, before it gets clearance from the finance department. Thus under planning regime, in addition to finance department's clearance, the planning department also scrutinises the item of plan expenditure. In other words, if an item of expenditure falls under plan head, that expenditure has to be cleared by both the finance and the planning departments before the bills are paid by the government treasuries. This is so even after the whole budget is approved and appropriation act is passed by the Parliament/state legislatures. This double control of expenditure has complicated financial administration and has created administrative delay in the implementation of plan project at the state level. Therefore, there is need for reducing this delay by preparing, appraising and choosing plan projects quite in advance.

However, at the national level, such double sanction of expenditure is not required in every case. The approval of the Planning Commission and Finance Ministry would be needed during the fiscal year only in cases of changes in project costs, designs, determination of share of central assistance etc.

Innovation in Budget Accounts

The second innovation in the Indian budget has been adopted in the basic structure of the budget accounts. The innovations in the basic structure of budget were evolved over a period of a century. These may be divided into four phases of which the first three phases occurred before Independence. The first phase began with an annual budget of 'imperial income and expenditure' in 1960-61. The civil accounts code was issued in 1878 and it was elaborated in 1881. These documents continue to be the sources of accounts manual in India. There were 30 major heads of revenue receipts and 38 major heads for expenditure. There was no distinction between revenue and capital accounts. The Auditor General of India was redesignated as Comptroller and Auditor General of India (CAG), thereby emphasizing the control of expenditures as the main objective of budgetary procedures.

The second phase started with the Government of India Act of 1919 under which the government functions were classified as central and provincial. From April 1921 a

system of divided heads was introduced in separate columns of receipts and expenditure of central and provincial governments. The number of major heads for receipts increased to 42 and number of major expenditure heads, including the expenditure not charged for revenue, increased to 60. During this phase, the distinction between revenue and capital accounts was introduced.

In the third phase, which started with the Government of India Act of 1935, the provinces acquired separate cash balances and were placed in their accounts with the Imperial Bank of India. All accounts of expenditure including those incurred in England were transferred and kept in India. The number of major heads of revenue receipts increased to 50 and that of expenditure increased to 63. Major heads were divided into sub-major heads, and minor heads. Sub-major heads were numbered by alphabets but minor heads were not numbered. Each minor head was broken into group sub-heads and they were in turn classified into detailed heads.

The accounting and classification systems which were drawn up at the time of introduction of the Government of India Act, 1935, continued in the same form even after the constitution came into force in 1950. According to these, the accounts were kept in three parts namely, 'consolidated fund', 'contingency fund' and 'public account' as envisaged under Article 267 of the Constitution of India. The 'consolidated fund' had three main divisions namely, 'revenue account', 'capital account' and 'debt account'. The revenue account indicated all proceeds of tax and other receipts and the expenditures from that revenue. The 'capital account' dealt with the expenditure met usually from borrowed funds with the object of either increasing tangible assets or incurring or reducing recurring liabilities. The 'debt account' included loans raised by the government and also loans and advances made by the government. The 'contingency fund' included unforeseen revenue account items but not meant for regular expenditure purpose. The 'public accounts' included debt other than that included in the consolidated fund, and public deposit and remittances. In the 'consolidated fund', the receipts were classified under major heads; 'taxes, duties and other receipts'. Taxes were further divided into 'direct taxes and 'indirect taxes' based on the traditional assumption about the shiftability or otherwise of different taxes. On the expenditure side major heads included 'civil administration' and various departmental services.

After Independence though a few changes were made in the heads of classification which were existing prior to 1950, they were mainly intended to accommodate transactions relating to the new developmental activities of the government under planning. And no attempt was made to review comprehensively the budgetary classification structure till 1960-61. In 1961-62 and 1962-63 a review of the major heads and minor heads of account was made and some changes were introduced. Even so the changes were effected mostly at the major head level and minor heads remained more or less the same. The traditional

practice of accounting of the receipts and expenditure with reference to the *organisation incurring the expenditure* rather than the *purpose of receipts and expenditure* was not changed.

Further, all the major heads did not correspond with the functional areas of services rendered by the government. There was lack of correspondence between major heads and major spending departments. Furthermore, some of the minor heads under many major heads had become out of date and new minor heads were required for indicating the new activities of certain departments. Then existing minor heads proved inadequate to accommodate new activities. There were also cases where some minor heads covered dissimilar activities of the government. All these defects required a thorough overhauling. The Administrative Reforms Commission, (ARC), examined these aspects and in their *Report on Finance, Accounts and Audit* (1968), made recommendations for reviewing and restructuring of major and minor heads of budget accounts. The commission also recommended for the appointment of a Team of Officers to suggest the appropriate numerical codes for the budget accounts. Accordingly the central government constituted a Team of Officers in March 1969 consisting of Deputy Comptroller and Auditor-General, Joint Secretary, (budget), of the central Finance Ministry and a representative of the Planning Commission.⁵

This Team of Officers recommended for the introduction of five-tier classification structure comprising sectors, major heads, minor heads, sub-heads and detailed heads of account. The first four tiers are common for both "accounts" and "plan". The first two tiers indicate the government functions according to plan classification. Minor heads indicate various plan and non-plan programs under each function. Sub-heads indicate the schemes or organizations under each program. The detailed heads of account indicate the nature and form of expenditure.⁶

Thus all heads of accounts are first grouped into sectors like general services, social and community services. Then under each sector there are major heads which reflect the broad functions of the government such as 'agriculture', 'industry', etc., and minor heads under each major function indicate programs such as 'commercial crops' under agriculture. Each of the minor heads is divided into sub-heads to indicate schemes or organizations such as 'crop development' under minor head 'commercial crops'. Each sub-head is further divided into detailed heads to indicate the exact nature of the expenditure like salaries, wages, travel expenses etc. Besides these, the codification of heads of accounts is done by using three digit classification system which will facilitate computerisation of treasury accounts. Minor heads are not numbered in order to leave some flexibility for the state governments to add or delete any program though such alteration requires the prior approval of the CAG. Inter-departmental transactions are settled through presentation of bills at the treasury instead of book adjustments through the Accountant General. According to the new criterion adopted to classify the expenditure on development projects, those which cost upto Rs. 1,00,000 are included under

revenue account and those which cost above this amount are classified under capital account of the budget.

On the revenue side, the recommendations of the ARC which were also endorsed by the Team of Officers have been accepted. Accordingly, the total revenues are divided into 'revenue receipts' and 'capital receipts'. The revenue receipts include three heads, tax revenues, non-tax revenues and grants-in-aid and contributions, and capital receipts include loans and advances and public account. In the case of the state governments on the revenue account itself, in addition to tax and non-tax receipts, grant-in-aid and contributions are separately grouped. The Team of Officers also prepared a link document to enable the central and state government officers to prepare the new budget accounts by reclassifying the old budget accounts. This new accounting system has been introduced from April 1, 1974, (from the fiscal year 1974-75). In the new budget accounting system the four-fold classification of budget into revenue receipts, revenue expenditures, capital receipts and capital expenditures is dovetailed with the above mentioned five-tier classification of the accounts. Further, by making these classifications common for both budget and plan, the budget accounts are brought in conformity with the system of national accounts. Furthermore, the heads of accounts broadly conform to the functional delineation of performance budgets thereby providing the requisite accounting infrastructure for performance budgeting.

In spite of these welcome changes, there remains still a self-imposed lacuna in the classification of the budget accounts both in the central and state government budgets. With a view to indicating as also for demarcating the role of the Finance Commission and of the Planning Commission in regard to the recommendations relating to central assistance to the states, the revenue and capital accounts of the budgets have come to be divided into 'plan' and 'non-plan' heads. This is purely administrative classification and has nothing to do with economic or national accounting principles. 'Plan' heads include those programs and projects financed or assisted by the central government on the recommendations of the Planning Commission and 'non-plan' heads include these functions which are taken into account by the Finance Commission while recommending financial assistance from government to the states.⁷ It should be mentioned here that 'plan' and 'non-plan' heads do not correspond to 'development' and 'non-development' categories respectively because we find both these types of expenditure under 'plan' and 'non-plan' heads. The expenditure related to new projects/programs becomes plan expenditure during the period of a five-year plan. If the projects/programs are completed within the five-year plan period, then their maintenance will be brought under non-plan expenditure during the next plan period, which will be taken into account by the Finance Commission while recommending central assistance to the states. Non-plan expenditure is a committed expenditure on completed schemes of earlier plans and/or is a spill over from the earlier plan and/or is outside the plan allocation agreed to by the Planning Commission. Thus an item of plan expenditure during a parti-

cular five-year plan becomes non-plan in the following plan if it is shifted on to the responsibility of the state governments, as in the case of centrally sponsored and central sector schemes, and/or if the expenditure spills over from the previous plan to the next plan (as in the case of projects whose implementation is spread over more than one five-year plan), and/or the expenditure is agreed to be incurred outside the plan outlay of the state governments approved by the Planning Commission. This type of heads of accounts used for demarcating the relative scope of recommendations of the Finance and the Planning Commissions has created analytical anarchy into the state governments budgets in India. No effort has been made to overcome this lacuna.

Secondly, the capital expenditure met from revenue receipts are not distinctly classified. The classification of the items of expenditure into revenue expenditure and capital expenditure based on the amount of outlay involved is arbitrary. This is based on the questionable assumption that projects upto Rs. 1,00,000 can be undertaken with non-loan revenue receipts of the state governments whereas above that amount requires loans. Or that the development projects which are financed by revenue receipts are not commercial nor self-liquidating though they may serve some productive purpose and others are self-liquidating or developmental, is again arbitrary. This classification is based mostly on administrative convenience and not on national accounting principles. In this context John Toys has observed that "The allocation of items between the two accounts follows no single, clear-cut principle. It is true that the bulk of government consumption spending falls into the current (revenue) account, while the bulk of government investment falls into the capital account. But there remains an important minority of items which have been officially allocated to the 'wrong' accounts, from the point of view of the consumption/investment distinction. Doubtful items have, from time to time, been allocated to one account or the other by the Comptroller and Auditor General of India on the basis of an administrative case law which does not lend itself to any kind of logical reduction. Nevertheless, simply because the primary budget documents are drawn as double accounts, many analysts of Indian public finance continue to treat the existing distinction with great respect, as if expenditure on revenue or on capital account did have a precise economic meaning."⁸ However, this type of classification is dispensed with while preparing the economic and functional classification of the budgets for which the national accounts methodology and concepts are used. Even so, the economic logic required in the classification of such budget accounts need to be established on a more rational basis.

Notwithstanding these two important defects, the government budget in India provides uniform accounts and the contents are fairly comprehensive so as to include all the revenue and expenditure activities of the government other than the public undertakings. The budgets of the public undertakings of the central and state governments, except railway budget (which is prepared separately and which follows the usual budget cycle), are separately

prepared and their net financial results are incorporated into the general budgets of the respective governments.

Economic-cum-functional Classification

The third budgetary innovation introduced from the early days of Independence has been the economic-cum-functional classification of the budget. This innovation was the result of the world wide awareness and recognition of the role of government budget in maintaining economic stability. The budget came to be used as a macro economic stabilisation policy tool after the Keynesian revolution. The influence of this change in the role government had to be translated by changing or reorganising the traditional budgetary to evaluate the economic impact of the budget in its aggregate results namely, deficit or surplus budget. Later, because of the conflicting objectives of fiscal policy in developing countries, the economic impact of different components of the budget not only in the way suggested by *functional finance* such as taxation, expenditure, government borrowing and lending, but also the disaggregated items like direct and indirect taxes, consumption and investment expenditures, from the public and from the central bank, came to be analysed with a view to designing appropriate 'policy mix' to achieve multiple objectives of fiscal policy. This necessitated economic classification of the traditional budget accounts and this budget innovation was a world wide phenomenon which was transmitted to all the countries through the efforts of the United Nations which prepared a manual of economic and functional classification of the budget accounts.⁹

As we are all aware of the traditional budget documents which were prepared to meet the requirements of budget cycle were drawn up mainly for getting the legislature's authorisation for the government's annual expenditure and taxation proposals and at the most to check whether the expenditure incurred and the taxes raised were in accordance with the approved norms. But this type of classification of budgetary accounts did not help or provide required information for economic management. In India, before Independence, even the traditional budgetary accounts were not elaborate enough to provide adequate information for the public. This was mainly because there was no democratic legislature wanting to know about the fiscal activities of the government let alone scrutinising the functioning of the government. This lacuna was removed after Independence and though the Indian Parliament and state legislatures became very active in their scrutiny of the government budget, "the bureaucracy retained a deep respect over the formal conventions of British style budgeting, guarding them brahminically as a sacred inheritance at the very time that they came to lose their relevance to actual conditions more rapidly than ever before."¹⁰ Therefore, there was an imminent need to force the financial bureaucracy to discard its faith in the traditional classification and the only way which was found effective was to force it to accept the worldwide innovation of economic classification of the budget. This budgetary innovation was diffused in India by the pioneering efforts of non-government agencies namely the Pun-

jab University and the National Council of Applied Economic Research, (NCAER).

In India economic classification of government budget was prepared in the late 1950's by the Punjab University and NCAER and then in early 1960's by the central finance ministry. The ministry of finance at the Centre, started preparing the economic classification of the budget from 1957 and converted into economic-cum-functional classification from 1967 and has since been continuing it. At the state level, though many state governments budget departments started economic classification of the budget during 1960's, they passed on this responsibility to the respective state Statistical Bureaux. But all the states' Statistical Bureaux did not take to this task seriously. The work was sporadic and disconnected. More than that the concepts and methodology used in this classifications differed widely between states. In 1968 realising the limitations of such documents, which did not permit meaningful cross-section comparisons, the Central Statistical Organisation, (CSO), circulated a standardized methodology based on the 'Madras model' and this model has since been used by all the states' Statistical Bureaux. Though the standardization of methodology has been achieved, the preparation of the economic -cum-functional classification of the state budgets has not been continuously done by all the state governments. Further, even in this standard methodology, certain overlapping and mutually not exclusive classifications were detected.¹¹ It has been observed by John Toye that this lack of continuity and quality of the work may be attributed to the inadequate resources at the disposal of the state Statistical Bureaux.¹² This is far from true. It has been found from the existing number of personnel employment in the Statistical Bureaux of the states in India that they are over-staffed. What Toye has failed to observe is that the quality of the personnel employed in these Statistical Bureaux, in terms of training and experience is inadequate for the task of preparing meaningful and standardized economic-cum-functional classification of the state government budgets.

In addition to these economic-cum-functional classification of the budgets, the CSO has been undertaking estimates of capital formation in India by using the methodology adopted in the United Kingdom. This methodology has been questioned on several grounds though these data have been used extensively in India for economic analysis of the government activity.

It may be observed here that the economic classification of the budget which originated from the Keynesian revolution emphasized the macroaggregate expenditure which is intended to stabilize the economy. For this purpose there was no need to distinguish between consumption and investment expenditure both of them would serve the same purpose. Probably such distinction is necessary in developing countries where they are more concerned with development than with stability. And development requires more investment than consumption. However, even this point of view has been questioned by Gunnar Myrdal¹³ who has argued that at the national level economic classification of the budget has no

relevance in the developing countries because increase in consumption also adds to production by increasing the productivity of under-nutritioned labour whereas the national income accounts classification of the budget treat consumption as unproductive expenditure by using the logic of neoclassical growth theory. Though this point of view may be true for the country as a whole, it is not relevant for the classification of government accounts. The government's consumption expenditure cannot be considered productive, (if not a waste), even in developing countries. On the contrary, the role of government in developing countries has been identified as one of promoting capital formation in the public sector to fill the gap left by the private sector. Therefore, the economic classification of the budget on the basis of United Nations manual is justified. Even if we bring in the idea of government expenditure on education as investment in human capital, in the context of unemployment of the educated persons and irrelevant educational system in India, even that argument cannot be used against economic classification of the government budget.

However, though the Indian practice fits into the overall framework of the manual prepared by the United Nations, because of the constitutional requirement under Articles 112 and 202 to further divide the government accounts into revenue account and capital account, certain anomalies have remained. Further, the CSO classification of the capital formation in India has also used some concepts particularly with reference to defence items which cannot be justified in the Indian context.

Therefore, the economic-cum-functional classification of the budget has become another routine budgetary practice in India. Though ARC recommended that economic-cum-functional classification should be integrated with the budgetary process itself, the central government rejected it as not necessary. ARC further recommended that economic-cum-functional classification should be extended to all state governments and to all non-departmental undertakings. But the progress in this direction has not been encouraging. It has not been used at the state level for the analysis of the role of government in capital formation or in guiding any allocation of public sector funds between different sectors. This is mainly because of the resistance of the traditional bureaucracy to any analysis of the government. Ignorance and indifference of the legislators has also contributed to the perpetuation of such fruitless exercises.

Performance Budgeting

The fourth budget innovation which has been introduced in India is the performance budgeting. The demand to modernise the budgetary structure through introducing performance budgeting was made in Indian Parliament as early as 1954. This demand was supported by the recommendations of the Estimate Committee in its 20th report on budgetary reform in 1958, which was reiterated in 1959 and 1960. The Estimates Committee also recommended for the introduction of performance-cum-program budgets for the public undertakings. Though the Government of India accepted these recommendations, very little progress was made in this direction. In 1964, as a part of its efforts in the

preparation of the Manual on Performance and Program Budgeting, the UNO sent Frank W. Krause, an expert from U. S. A., to examine the need and the resource required for introducing performance budgeting in India. He made a case study of the three departments, i. e., central board of revenue, central public works department and national small industries corporation and recommended the adoption of a comprehensive and clearly phased plan of action to introduce performance budgeting in all the central ministries and their related enterprises. He also emphasized the need for decentralized accounting and for a single purpose functional classification at all levels of financial administration. Later, Planning Commission also made some pioneering efforts in converting the traditional budgets of quite a few public undertakings namely, the central mechanised farm, (Suratghar), the national highways and the telephone and communications. The ARC recommended that all government departments and organisations which are in direct charge of development programs should introduce performance budgeting. Further, ARC recommended that the central finance ministry should devise a scheme of training for the persons who would be entrusted with the task of preparing performance budgets and a manual should be prepared for their guidance. The central government accepted these recommendations. Action was taken by the central ministry of finance in 1968-69 by preparing a document entitled 'Performance budgets of selected organisations, 1968-69' which was placed before the Parliament. This document covered four central ministries, 16 organizations and services in all. Subsequently during 1969-70, the scheme was extended to five more ministries. In 1970-71 two more ministries prepared performance budgeting, and by 1973-74 most of the ministries prepared performance budgeting.

At the state level some of the departments in several states started preparing performance budgeting. But by and large it has not been diffused widely at the state government level.

Though impressive progress has been achieved considering the number of documents prepared, it has been noticed that these performance budgets have not achieved the intended objectives. Most of these documents are descriptive. Though the documents give both financial and physical targets they lack analysis of the progress or performance. These documents do not provide critical analysis of the true performance. This is mainly because of the failure to develop performance indicators for each activity for which the performance budget has been prepared. This is a common problem faced by the personnel engaged in preparing performance budgets in developing countries. The performance indicators are closely related to the objectives of programs/schemes/projects/activities. They may be macro or micro and quantitative or qualitative in nature. Clarity of objectives is important to make them amenable to measurement. It is difficult to develop stable and mutually exclusive performance indicators for qualitative budgeting.¹⁴ The difficulty is further compounded in that many of the outputs of government programs/schemes/projects are of the nature of intermediate goods and infrastructure facilities like medical facilities,

roads, irrigation tanks etc. The need to use social cost-benefit analysis further complicates the development of appropriate performance indicators.¹⁵ All these factors have in some degree contributed to the slow progress of performance budgeting as well as its analytical quality in India.

Though the recent changes in the classification of budget accounts, (which was introduced from April 1, 1974), were supposed to improve the preparation of the performance budgeting, the basic lacuna still remains. It has been observed by John Toye that "there is very little evidence of experiments of innovations, even unsuccessful ones. One is tempted to conclude that, from their inception, performance budgets have been prepared in the spirit of routine document compilation rather than of administrative pioneering. Like an abbreviated version of each department's obligatory *Annual Report*, Indian performance budgets embody description not analysis, of the projects that generate government development expenditure. Most of the government officials who are concerned in their preparation readily admit or are easily prepared to concede that this characterisation is correct".¹⁶ Toye has maintained that this failure has been mainly due to the inadequate resources devoted for preparing the performance budgeting and secondly due to lack of trained manpower and the resultant failure to develop performance indicators. Lack of trained manpower was not really a major impediment. What was missing perhaps was a definite commitment to make the performance budgeting fully operational.

Deficiencies in State's Budgeting Process

The processes of budget preparation, presentation for legislative sanction and implementation have become routine as these are inherently routine operations. In other words, the budget cycle is as routine in a planned economy as it is in any unplanned economy. It is true that in any democratic country where bureaucracy is strongly entrenched in financial administration, changes are difficult to introduce. This is more so in a country with a colonial past where large part of the bureaucracy is more motivated by private gains rather than by public service. Though there is no law requiring the strict observance of sequential stages of budget cycle, they have become almost a part of the traditional functions of the financial administration in India which cannot be easily dislocated. Therefore, control continues to be the major objective and management is yet to become a major objective of the government budget. Incrementalism is a well-known budget tradition in modern democracies. This incrementalism has also come to be rationalised by policy analysts like Aaron Wildavsky¹⁷ as a pragmatic approach to public policy making. Consequently incremental budget is accepted as inevitable. But this incrementalism itself has become an obstacle to budget innovation as provides a rule of thumb method for the preparation of the budget.¹⁸

One of the drawbacks of the state level budgetary process is that the budget speeches of the finance ministers have become administrative reports on plan programs, devoid of policy statements. Traditionally most of the major policy statements of the government

used to be made through the budget at the time of presenting it to the legislature for approval. Likewise most of the new expenditure programs and new tax policy measures used to be unveiled only while presenting the budget. But because of the weakening of the legislature's influence over the executive in the context of monolithic nature of party politics, this effective use of budget for policy statements has been disrupted.

Another inadequacy in the existing states' budgetary system is the lack of adequate information for the legislature and for the public on the budget. While voluminous documents are supplied at the time of presenting the budget, (which includes besides *budget speech* of the finance minister, *annual financial statement*, *detailed estimates of revenue*, *demands for grants*, (plan and non-plan), *public accounts*, *explanatory memorandum* on the budget, and a few additional documents relating to public works, irrigation works, government commercial undertakings etc.), not-so-educated legislators and ordinary public fail to understand the economic, financial, political and social implications of the budgetary policies programs and the amounts allocated. The explanatory memorandum gives explanation only for variations in the budgeted amounts. It does not explain the economic implications of the variations. Further, there is no attempt either at the central or at the state government level to analyse the budget in terms of their overall economic impact on prices, employment, production, distribution, etc., as it is done in USA. No doubt the finance minister at the centre presents an *economic survey*, before presenting the budget. It reviews the economic situation of the past one year. This pre-budget *economic survey* only summarises and puts together economic facts and figures for the entire year. Even so it serves the purpose of informing the public and the Parliament about the economic circumstances against which the finance minister has to formulate his budgetary policies. But unfortunately this innovation has not been adopted at the state level excepting by a few states like West Bengal and Andhra Pradesh, where the *economic review* of the year has been prepared and presented to the legislatures. In Karnataka, the state planning department started preparing economic survey from 1979-80. But this document presents only a summary statement of prices, production, state income and plan outlay. It is yet to reach the status of an economic survey of the state.

The finance departments at the state level are illequipped for the task of innovation in budgetary practice. No doubt at the central government level the number of technically trained personnel has increased enormously in recent years to undertake such a task. Even with all this trained manpower the central finance ministry is not preparing any special analysis of the budget annually comparable to those prepared in U. S. A.¹⁹ As soon as the budget is presented, the economic impact, particularly the price impact of the budget, is *guessed* and ruled out to the press. Even if we assume that appropriate analysis of the budgetary policies is made in the central finance ministry, they are not released to the public. At the state government level there are no experts to do the job. In fact the state

government finance departments have been manned by only officers of the Indian administrative service (who are generalists) and even though recent years the state governments have created the posts of additional secretaries to look after the work relating to the Finance Commission, there are no economists to assist the finance departments in the analysis of the budget. Though the state planning departments have been strengthened by inducting experts, the planning departments hardly devote any time for the analysis of the budget. The weakest link in the state level planning is the inability to estimate the financial resources of the states. With these organisational defects, we cannot expect budget innovations at the state level. Therefore, the immediate need of the state finance department is to induct experts in the field of economics and public finance to analyse the budgets, prepare background papers for the preparation of budgetary policies, and initiate innovations for further improving the budgetary procedures and practices.

In spite of all our efforts to adopt the traditional annual budgeting for the purpose of planning, it still continues to be an instrument of control of expenditure and means of raising financial resources rather than an effective tool for managing the finances and the economy as a whole. There is no long-term perspective in the annual budgets. Though long-term plan outlay is envisaged in the five-year plans and financial resources are indicated, long-term budgetary policies are not contemplated. There is absence of long-term perspective in financial policies.

The budget sections of the state governments do not prepare cash—flow statements to know the variations in the flow of revenue funds and outflow of funds on account of payments. Though it may be difficult to prepare cash—flow statements below state level, it is possible at the state level to keep watch on inflow of revenue receipts and outflow of funds on monthly basis. Absence of this has been creating financial stringencies which have compelled many state governments to resort to unauthorised overdrafts with the Reserve Bank of India, (which is the banker to both central and state governments). Even the economically better off states like Gujarat, Haryana, Maharashtra and Punjab have not managed their liquidity properly mainly because of the absence of cash—flow statements. Therefore, preparation and analysis of cash—flow statement on monthly basis is necessary to escape from frequent financial stringencies.

Thus the budgetary innovations have never been an integral part of the financial administration at the state level in India. Whatever innovations we had in the recent past originated at the central government level and either they have been imitated at the state level or passed on in the form of suggestions and at times instructions to the state governments. There is no organisational set-up for initiating budgetary innovations at the state level. Whatever little innovations that have been attempted are only periphery and have not altered significantly the core of the budgetary practice. This is perhaps because budget is such a tradition oriented practice that it is very difficult to change it substantially. Even so

constant review of the existing budgetary practices, identification of the weaknesses and then initiating efforts for changing them are badly needed in this country in order to keep abreast of time.

Notes and References

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2. John C. Beyer, *Budget Innovations in Developing Countries : The Experience of Nepal* (New York : Praeger Publishers, 1973), p. 11.
3. See Allen Schick, *Budget Innovation in the States* (Washington, D. C.: The Brookings Institution 1971).
4. UNO, *Government Budgeting and Economic Planning in Developing Countries* (New York, 1976), p. 48.
5. Government of India, Ministry of Finance, *First Report of the Team on Reforms in the Structure of Budget and Accounts : Demand for Grants of the Government of India* (New Delhi, 1971) and *Second Report of the Team on Reforms in the Structure of Budget and Accounts: Classification of Government Transactions in Accounts and Plan* (New Delhi, 1972).
6. M. J. K. Thavraj, *Financial Management of Government* (New Delhi : Sultan Chand and Sons, 1978).
7. In India the Planning Commission, which is an extra-constitutional body, recommends central assistance in the form of block grants and loans for states' plans under Article 282, whereas the Finance Commission, which is a constitutional body, recommends quinquennially central assistance in the form of tax shares and statutory grants under Article 275 (1) to the states' non-plan requirements.
8. *Public Expenditure and Indian Development : 1960-1970* (London : Cambridge University Press, 1981), p. 64.
9. *Manual for Economic and Functional Classification of Government Transactions* (New York, 1958).
10. John Toye, *Op. Cit.*, p. 51.
11. They can be traced to United Nations Manual. For details about its defects see Russel Mathew, "Budget Structure and Organisation in Developed and Developing Countries" in Wilfred L. David (ed.) *Public Finance, Planning and Economic Development* (London: Macmillan, 1973), p. 233-39.
12. *Op. cit.*
13. *Asian Drama : An Enquiry into the Poverty of Nations* (London: Pelican , 1981).
14. For further details see UNO, *A Manual for Programme and Performance Budgeting* (New York, 1965).
15. See UNO, *Government Budgeting and Economic Planning in Developing Countries* (New York, 1966).
16. "Public Expenditure Reform in India and Malaysia", *Development and Change*, January 1981, p. 126.
17. *The Politics of the Budgetary Process* (Boston: Little Brown and Co., 1964).
18. However, it has been found to be ambiguous to guide the policy makers. For a comprehensive review and evaluation of various alternative interpretations of incremental budgeting see James N. Danziger, *Making Budgets : Public Resources Allocation* (Beverly Hill : Sage Publication, 1978).
19. See for instance the document prepared by the Office of Management and Budget, *Special Analysis : Budget of the United States Government : Fiscal Year 1978*.