RESEARCH ARTICLE

Expenditure on the Rural Economy in India's Budgets since the 1950s: An Assessment

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Abstract: The decline in the rate of growth of Indian agriculture in recent years is in large measure due to the low public expenditure priorities accorded to it in the budgets of the Union and State governments. Since the early 1990s in particular, inadequacy of capital formation has been a major factor contributing to the slackened pace of technological change and infrastructural development in Indian agriculture, with adverse consequences for agricultural productivity and output. Our attempt in this article is to look at the trends and patterns of public expenditure, and the priority accorded to India's rural economy, in different budgets over the years. The core issues we examine here are: trends in the level of public expenditure on the rural economy since the 1950s; the composition and priority of such expenditure under major heads; and a comparative analysis of public expenditure across States since the early 1990s.

Keywords: agricultural finance, political economy, infrastructures, other public investment and capital stock and budget, budget systems.

Introduction

The stress experienced by Indian agriculture in recent years and the decline in its rate of growth are in large measure due to the low public expenditure priorities accorded to it in the budgets of the Union and State governments.[1] Since the early 1990s in particular, inadequate capital formation has been a major factor contributing to the slackened pace of technological change and infrastructural development in Indian agriculture, with adverse consequences for agricultural productivity and output. In 1980–81, the share of capital formation in agriculture in gross fixed capital formation

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[1] For a discussion of the trends relating to public expenditure since the early 1990s, see the contributions in Jha (ed.) 2011.

of the country was 15.05 per cent, which declined to 10.04 per cent in 1990–91 and further to 6.91 per cent in 2000–01. Similarly, public sector capital expenditure on agricultural development in many States of India witnessed varying degrees of decline.

Our attempt in this article is to look at the trends and patterns of public expenditure, and the priority accorded to India's rural economy, in different budgets over the years. More specifically, the core issues we examine here are:

- trends in the level of public expenditure (taking into account the budgets of the Union government and the State governments) on the rural economy since the 1950s;
- the composition and priority of such expenditure under major heads within this broad category; and
- a comparative analysis of public expenditure across the States since the early 1990s.

First, we provide an overview of the data sources and the methodology we have used in this article.

In our analysis, the broad sector defined as "Rural Economy"[2] (henceforth RE) goes beyond the combined "Agricultural and Allied Activities" and "Rural Development" sectors as defined in the accounting classification conventionally maintained in the budgets of the Union and State governments. We take into account the combined budgetary allocations made towards RE by the Union and State governments, which include expenditure under the following heads: agriculture and allied activities,[3] rural development,[4] fertilizer subsidy,[5] irrigation,[6] and

[2] Both the inclusion and exclusion of several budgetary allocations within any definition of RE can be a matter of debate; this is for the obvious reason that it is difficult to draw neat boundaries as regards expenditure items that have an impact on outcomes relating to agriculture and rural development. In an earlier paper, we had defined Total Rural Development (TRD) expenditure as consisting of five items: agriculture and allied activities, rural development, special areas programmes, irrigation and flood control, and village and small-scale industries (see Jha 2007, p. 7) – based on a study by Utsa Patnaik (see Patnaik 2003 and 2011). However, in the present paper, we have made an adjustment in our definition and added two items, namely, fertilizer subsidy and cooperation, to the five items mentioned above.
[3] Public expenditure on agriculture and allied activities includes expenditure on agriculture/crop husbandry, soil and water conservation, animal husbandry, purchase and distribution of foodgrains, and food storage and warehousing; it excludes food and fertilizer subsidies.
[4] Expenditure on rural development includes expenditure on agriculture and rural development (it may be noted that up to the year 1973–74, there was no such disaggregated data available and public expenditure on rural development was a part of agricultural expenditure), area development and community development programmes (up to 1984–85, what are now termed rural development programmes were called community development programmes), and rural self-employment and wage employment programmes.
[5] Expenditure on fertilizer subsidy includes expenditure on distribution of fertilizers, subsidy on imported (urea) and indigenous (urea) fertilizers, sale of decontrolled fertilizers with concessions to farmers, and subsidy given to fertilizer companies. Sometimes, subsidies are opposed by even progressive economists on ecological grounds. But it is elementary common sense that moving farmers away from harmful chemical fertilizers towards organic cultivation itself may necessitate incentives in the form of subsidies.
[6] Expenditure on irrigation includes expenditure on irrigation, on multipurpose and electricity schemes (up to 1973–74, because of lack of disaggregated data), and on minor irrigation only (in later years).

cooperation,[7] and then compile the relevant data on expenditure (under both revenue and capital accounts) since 1950–51. As is well known, comparative analysis of data on budgetary allocations to the "Rural Economy" thus defined is difficult, mainly because of changes in the functional and accounting classifications in budgets of the Union and State governments over the years. While processing data under various heads of expenditure we have followed the functional classification of expenditures in the relevant documents, as such classification permits a better way to examine inter-temporal trends in government outlays on a particular function.[8] However, it should be noted that there have been significant changes even in the organisation of the functional classification from 1950–51 to 2009–10. For instance, the current format of expenditure classification under economic services[9] is available only after 1973–74, and data prior to this year are available only under two broad heads of expenditure, namely, developmental[10] and non-developmental expenditure.[11] Further, in April 1987, a new format of accounting classification prescribed by the Comptroller and Auditor General (CAG)[12] of India was introduced, which resulted in clubbing together some existing heads and introducing new heads within the functional classification of budgets. We have tried to take these changes into account while collating the relevant functional heads to compute the quantum of public expenditure under RE. As regards expenditure data on RE of State governments, we have taken into account all the above-mentioned functional heads except fertilizer subsidy. The reason for this exception is that a large part of the burden of fertilizer subsidy is borne by the Union government (and is hence a part of the Union budget), and State governments make hardly any provision under this head. Accordingly, we have examined the status of and trends in budgetary expenditure on RE by State governments since the early 1990s.[13] Another point that needs to be noted here is that while examining the relevant trends, we have not disaggregated them under heads such as "revenue," "capital," "plan," and "non-plan," basically to ensure that our discussion does not become too cumbersome. Rather, we have taken the combined budgetary expenditure figures, i.e., revenue plus capital in the case of Union[14] and

[7] Public expenditure on cooperation includes expenditure on direction and administration, training, research and evaluation, audit of cooperatives, information and publicity, assistance to multipurpose rural cooperatives, assistance to credit cooperatives, assistance to other cooperatives, agriculture credit stabilisation fund, assistance to public sector and other undertakings, cooperative education, other special areas programmes, etc.

[8] Functional classification is a detailed classification of the functions that different governmental entities aim to achieve through various kinds of outlays. This is an important classification of government budgets, along with administrative and economic classification.

[9] Items such as agriculture and allied activities, rural development, industries, irrigation and flood control, special areas programmes, etc., are a part of economic services as per budgetary classification.

[10] As per the Reserve Bank of India's classification of developmental expenditure, items under economic services as well as under social services comprise total developmental expenditure.

[11] Items covered under general services in budgetary classifications are normally tagged as non-developmental expenditure as defined by the Reserve Bank of India.

[12] The office of the CAG is the supreme audit institution of India.

[13] Disaggregated, component-wise budgetary expenditure data under RE are not readily available prior to the 1990s and hence our comparative analysis for the States is limited to the period after the early 1990s.

[14] However, the public sector plan outlays of the Union government under RE and the priorities accorded by it to various sub-heads across plan periods have been reported by us in this paper.

State governments together, and revenue, capital, and loans and advances under RE for the States.

The data used in this article have been taken primarily from different publications of the Ministry of Finance (MoF), Government of India, and the Reserve Bank of India (RBI). For information on combined budgetary expenditure on RE, we have used various issues of Indian Economic Statistics, *Public Finance* (earlier version of *Indian Public Finance Statistics*), and *Indian Public Finance Statistics* (*IPFS*), a report annually published by the Ministry of Finance, Government of India. As regards the relevant data for State governments, the RBI's *Handbook of Statistics on State Government Finances, 2010* and *State Finances: A Study of Budgets* have been used extensively. Wherever required, we have also drawn on information provided in the annual *Economic Survey* of the Government of India.

Mapping Budgetary Trends in Allocations to "Rural Economy"

Agriculture and rural development have been important components of India's overall planning framework right from Independence, although the public policies and expenditure patterns relating to these sectors have undergone significant changes over the years. Depending on the particular analytical lens one wishes to use, the entire post-Independence period may be classified into alternative typologies of different phases. We shall not go into details of the existing and potential methods of categorisation, but shall use a three-phase classification of public expenditure policies for agricultural and rural development.

The first phase can be dated from the early years of Independence till the late 1960s, during which there was an attempt to put the agricultural sector on track after the immense damage it had experienced during the British colonial rule. The key components of this phase included policies of land reform, institutional innovations like the Community Development Programme (CDP), substantial expenditure by the Union and State governments on power and irrigation projects, as well as direct public expenditure on agriculture. Large outlays for agriculture, medium and minor irrigation, and power projects, both at the Central and State levels, were included in the First Five-Year Plan; indeed, one may even argue that the major focus of the First Five-Year Plan was on agriculture and irrigation. The plan allocation for agriculture, irrigation, and flood control as a share of total plan expenditure amounted to 37 per cent (which, incidentally, is the highest among all Five-Year Plans and Annual Plans till date).[15]

However, despite all the talk about prioritising agriculture during this period, there were serious lacunae and policy failures in both institutional and technical respects. Consequently, in spite of a significant increase in its growth rate as compared to

[15] For further details, see Bhalla 2007 and Jha 2007.

the period of British colonial rule, the agricultural sector performed well below its potential in the first two decades after Independence. In fact, the mid- to late 1960s were a period of a veritable agrarian crisis, partly due to major monsoon setbacks for two consecutive years in the mid-1960s and also due to systemic policy failures since the early 1950s.

The second phase (from the early 1970s to late 1980s) may be described as a phase of "pulling up" agriculture, a process driven by the adoption of seed–fertilizer–water technology packages associated with the so-called green revolution. Substantial public expenditure was incurred in this phase to promote the green revolution package, which was limited to a few regions and crops in the 1970s, but became much more widespread in the 1980s. The nationalisation of banks in 1969 and the subsequent provision for priority-sector lending in agriculture were of critical importance in enabling farmers to adopt new production processes. Further, subsidised provision of fertilizers and other inputs, substantial public expenditure on research and extension services, and an overall supportive public policy regime were crucial in spreading and deepening the green revolution. The objective of increasing foodgrain production was successfully achieved. In terms of both crop coverage and geographical coverage, the annual average growth of agricultural GDP accelerated to 4.7 per cent in the 1980s, as compared to only 1.4 per cent in the 1970s.[16]

The third phase (from the early 1990s till the present) reflects the ascendance and dominance of neoliberal economic policy. Close observers of the Indian economy take it as an incontrovertible conclusion that for much of this period, the country has witnessed a serious agrarian crisis – the worst, in fact, since Independence. The most gruesome manifestation of the crisis has been farmers' suicides (which started appearing as headlines in the mainstream media in the late 1990s, but now gets only passing mention). The extreme step to which large numbers of Indian peasants have been driven has been reported from several regions of the country, including even prosperous States like Punjab, Kerala, and Maharashtra.[17] Factors such as the substantial reduction of rural development expenditure, increased input prices, vulnerability to price fluctuations in the world market due to greater openness, inadequate (or non-existent) crop insurance, and substantial weakening of the rural credit system (especially credit to small and marginal farmers, who constitute more than 80 per cent of the total farming community), along with governmental apathy towards farmers' demands for remunerative prices for their produce, are among the obvious causes of the present agrarian crisis.

In respect of the focal concern of this paper, a point worth emphasising here is the relative stagnation in overall public expenditure on RE during this phase. There

[16] For further details, see Nachane (ed.) 2011.

[17] According to data provided by the National Crime Bureau Records, between 1998 and 2010, more than a quarter of a million farmers have committed suicide, and, on an average, almost 17,000 farmers commit suicide every year.

has been a noticeable decline in rural development expenditure[18] in the period of economic reform (i.e. since the early 1990s) as compared to the pre-reform period, as has been noted in several studies (see, among others, Patnaik 2003 and 2006, Jha 2007 and 2009, Golait *et al.* 2008, Chand 2010, Mahendra Dev and Sharma 2010).

In what follows, we take a close look at the budgetary trends in RE since the 1950s. We begin with the combined budgetary expenditure of the Union and States on this sector. The relevant data show that the shares of budgetary expenditure on RE in total combined budgetary expenditure were 11.4 and 12.0 per cent, respectively, in 1950–51 and 1960–61. There was then a noticeable dip in the mid- to late 1960s (9.9 per cent, annual average for 1966 to 1969), before this share rose during the 1970s and 1980s. From the mid-1970s, the share of budgetary expenditure on RE moved upward, to reach 10.9 per cent in the 1980s (annual average for 1980–81 to 1989–90). Thereafter it declined continuously, until it reached 9.7 per cent in the last decade (annual average for 2000–01 to 2009–10) (Table 1).

Similarly, the share of RE in the country's GDP showed an increasing trend during the 1950s and early 1960s, stagnated during the mid-1960s and 1970s, and then increased again during the late 1970s and 1980s. As may be seen from the relevant tables and figures in the annexure, the share of RE in the country's GDP reached an all-time high (2.9 per cent) in the 1980s (annual average for 1980–81 to 1989–90) before exhibiting a declining trend from the early 1990s. In the last decade (annual average for 2000–01 to 2009–10), the corresponding ratio was distinctly lower than during the 1980s (Figure 1). Further, while examining the priorities of public expenditure under various major heads within RE since 1950–51, it clearly emerged that three components, namely, agriculture and allied activities, rural development, and irrigation and flood control, received a major part of the allocations during the entire period of examination.

The share of combined (both Union and States) expenditure on agriculture and allied activities in total combined expenditure on RE was only 4.1 per cent in 1950–51, and this increased to 25.9 per cent in the 1990s (annual average for 1990–91 to 1999–2000). However, during the next decade, this share came down to 17.1 per cent (annual average for the period 2000–01 to 2009–10, Table 2). As regards the share of budgetary expenditure on rural development programmes in total budgetary spending on RE since the 1950s, the trend was an increasing one: it was 23.6 per cent in 1950–51 and increased to 48 per cent in the 2000s (annual average for 2000–01 to 2009–10). For a decade from the late 1960s, the trend for this component was stagnant (Table 2).

[18] Rural development expenditure, as defined by Utsa Patnaik, is the sum-total of the plan outlays of the Centre and States under five heads: agriculture, rural development, irrigation and flood control, special areas programme, and village and small-scale industry.

Table 1 *Budgetary expenditure on the "Rural Economy" (RE) and its share in combined total budgetary expenditure and GDP, 1950–51 to 2009–10* in Rs crore, at current prices

S. no.	Components of RE	1950–51	1960–61	(1966–67 to 1969–70)*	(1970–71 to 1979–80)*	(1980–81 to 1989–90)*	(1990–91 to 1999–2000)*	(2000–01 to 2009–10)*
I	Fertilizer subsidy	NA	NA	NA	166.7	1,814.5	6,103.1	26,960.7
II	Cooperation	3.9	19.2	31.3	134.1	493.5	1,047.7	3,535.6
III	Agriculture and allied activities	4.2	14.1	41.1	281.2	2,063.4	8,088.1	17,668.6
IV	Rural development	24.6	109.4	244.8	637.9	3,320.1	1,3610.5	49,628.0
V	Irrigation	71.4	166.4	323.4	390.7	847.0	2,376.0	5,673.7
VI	Total expenditure on RE (I+II+III+IV+V)	104.2	309.2	640.5	1,610.6	8,538.4	31,225.4	1,03,466.7
Share of RE in total combined budgetary expenditure (in %)		11.4	12.0	9.9	9.5	10.9	10.8	9.7
Share of RE in GDP (in %)		0.9	1.7	1.7	1.9	2.8	2.7	2.6

*Notes:** Annual average.
NA: Not available
1. This is the consolidated budgetary operations of the Central, State, and Union Territory governments. Inter-governmental transfers like grants and loans to sub-national governments have been eliminated from the consolidation.
2. Total combined budgetary expenditure is equal to total non-developmental expenditure + total developmental expenditure + net loan; and items like self-balancing and transfer to funds have been deducted. Data for the years 2008–09 and 2009–10 are revised estimates and budget estimates, respectively.
3. The budgets of the Central, State and Union Territory governments for the years 1974–75 and 1975–76 have been presented on the basis of revised classification of transactions. In view of this, it has not been possible to ensure correspondence of earlier revenue expenditure items with the items appearing in the new budgetary classification for the years 1972–73 and 1973–74. While every care has been taken to bring about comparability between old and new classifications, a certain amount of approximation has become inevitable where true correspondence between them could not be established for want of adequate details.
4. From 2000–01, the figures under the head Crop Husbandry (within Agriculture and Allied Activities) are taken from *IPFS, 2009–10*, so these figures may not be equal to those given in earlier years of *IPFS*.
5. GDP figures at market prices and current prices, at base 2004–05, are taken from the base data given in the *Economic Survey, 2010–11*, Government of India.
Source: Computed by authors from the base data given in Indian Economic Statistics, *Public Finance*, and *Indian Public Finance Statistics* (*IPFS*), Department of Economic Affairs, Economic Division, Ministry of Finance, Government of India.

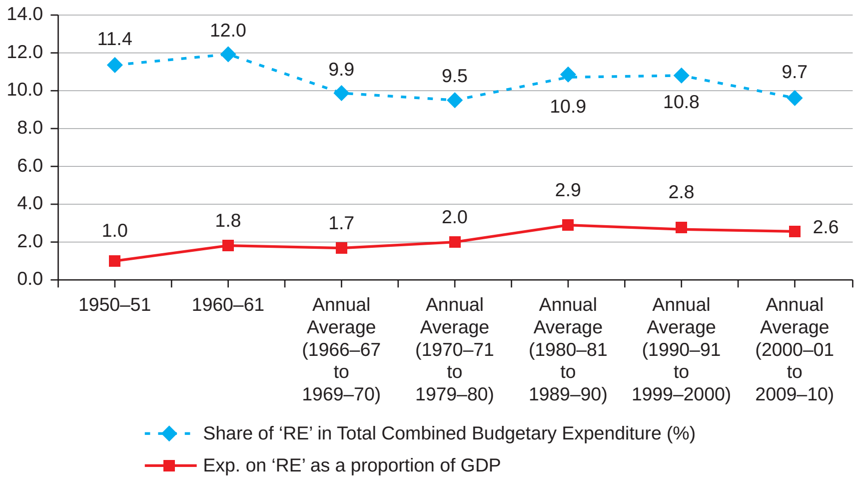

Figure 1 *Share of combined budgetary expenditure on "Rural Economy" (RE) in total combined budgetary expenditure and GDP, 1950–51 to 2009–10* in per cent
Source: Compiled by authors from the base data given in Table 1.

In respect of irrigation and flood control, as mentioned earlier, substantial attention was paid to irrigation and flood control and a major chunk of resources directed towards the sector in the early decades after Independence. The share of expenditure on irrigation and flood control in total budgetary spending on RE in 1950–51 was 68.5 per cent. However, in subsequent decades, particularly after the mid-1970s, that share declined sharply. As may be seen from the relevant data, during the 2000s, it went down to as low as 5.5 per cent (annual average for 2000–01 to 2009–10, Table 2). Although a clear division of responsibilities between Union and State governments is envisaged in the Constitution of India, and subjects like overall development and maintenance of irrigation projects are largely the responsibility of State governments, their neglect in the Union government's budget over the years is a matter of serious concern.

We now move to an examination of the trends relating to the share of public sector plan expenditure on RE in total public sector plan expenditure of the country. Here, we find a pattern similar to the trends in combined budgetary expenditure over the years. The share of public sector plan expenditure on RE was 23.3 per cent during the period of the Third Five-Year Plan, and it increased to 25.7 per cent in the Sixth Five-Year Plan. The point worth noting is that between the late 1960s and mid-1980s, almost a quarter of the total public sector plan expenditure was allocated to RE. In the succeeding Five-Year Plans, however, that share was consistently lower than during the Sixth Five-Year Plan; the ratios were 23.5 per cent, 23.7 per cent, 21.6 per cent, and 20.1 per cent, respectively, during the Seventh, Eighth, Ninth, and Tenth Five-Year Plans. In the Eleventh Five Year Plan period, the share dipped further to an all-time low of 18.5 per cent (Table 3 and Figure 2). As noted earlier, for two decades from the early 1970s there was significant prioritisation of plan expenditure towards this sector in order to pull it out of the near-crisis situation witnessed in the 1960s.

Table 2 *Priorities of budgetary expenditure on major components within "Rural Economy" (RE), combined, 1950–51 to 2009–10* in per cent

Components of RE	1950–51	1960–61	1966–67 to 1969–70*	1970–71 to 1979–80*	1980–81 to 1989–90*	1990–91 to 1999–2000*	2000–01 to 2009–10*
Cooperation							
Share in total budgetary spending on RE	3.7	6.2	4.9	8.3	5.8	3.4	3.4
Share in total combined budgetary spending of the country	0.4	0.7	0.5	0.8	0.6	0.4	0.4
Agriculture and allied activities							
Share in total budgetary spending on RE	4.1	4.6	6.4	17.5	24.2	25.9	17.1
Share in total combined budgetary spending of the country	0.5	0.5	0.6	1.6	2.7	2.7	1.8
Rural development							
Share in total budgetary spending on RE	23.6	35.4	38.2	39.6	38.9	43.6	48.0
Share in total combined budgetary spending of the country	2.7	4.2	3.8	3.7	4.3	4.6	4.9
Irrigation							
Share in total budgetary spending on RE	68.5	53.8	50.5	24.3	9.9	7.6	5.5
Share in total combined budgetary spending of the country	7.8	6.4	5.0	2.3	1.1	0.8	0.6

Notes: *Annual average.
NA: Not available
Source: Computed by authors.

Table 3 *Share of various heads of development in plan expenditure* in Rs crore, at current prices

Plan period	Agriculture and allied activities	Irrigation and flood control	Village and small industries	Rural development	Special programmes	Total "Rural Economy" (RE)
1	2	3	4	5	6	7 = (2+3+4+5+6)
Third FYP (1960–61 to 1965–66)	1,088.9	664.7	240.8	NA	NA	1,994.4
Percentage of total plan expenditure	12.7	7.8	2.8	—	—	23.3
Annual Plans (1966–67 to 1968–69)	1,107.1	471	126.1	NA	NA	1,704.2
Percentage of total plan expenditure	16.7	7.1	1.9	—	—	25.7
Fourth FYP (1969–70 to 1973–74)	2,320.4	1,354.1	242.6	NA	NA	3,917.1
Percentage of total plan expenditure	14.7	8.6	1.5	—	—	24.8
Fifth FYP (1974–75 to 1978–79)	4,864.9	3,876.5	592.5	NA	NA	9,333.9
Percentage of total plan expenditure	12.3	9.8	1.5	—	—	23.6
Annual Plan (1979–80)	1,996.5	1,287.9	255.7	NA	NA	3,540.1
Percentage of total plan expenditure	16.4	10.6	2.1	—	—	29.1
Sixth FYP (1980–81 to 1984–85)	6,623.5	10,929.9	1,945.1	6,996.8	1,580.3	28,075.6
Percentage of total plan expenditure	6.1	10	1.8	6.4	1.4	25.7
Seventh FYP (1985–86 to 1989–90)	12,792.6	16,589.9	3,249.3	15,246.5	3,470.3	51,348.6
Percentage of total plan expenditure	5.8	7.6	1.5	7	1.6	23.5
Annual Plan (1990–91)	3,405.4	3,974.1	877.9	4,149.9	986.3	13,393.6
Percentage of total plan expenditure	5.8	6.8	1.5	7.1	1.7	22.9
Annual Plan (1991–92)	3,850.5	4,231.9	941.2	4,141.6	1,067.3	14,232.5
Percentage of total plan expenditure	5.9	6.5	1.5	6.4	1.6	21.9
Eighth FYP (1992–93 to 1996–97)	22,467.2	32,525.3	6,334.2	34,425.4	6,750.1	1,02,502.2
Percentage of total plan expenditure	5.2	7.5	1.5	7.9	1.6	23.7
Ninth FYP (1997–98 to 2001–02)	42,462	55,420	8,088.7	74,686	3,649	1,84,305.7
Percentage of total plan expenditure	4.9	6.5	1.1	8.7	0.4	21.6
Tenth FYP (2002–03 to 2006–07)	58,933	1,03,315	NA	1,21,928	20,879	3,05,055.0
Percentage of total plan expenditure	3.9	6.8	—	8.0	1.4	20.1
Eleventh FYP (2007–08 to 2011–12)	1,36,381	2,10,326	NA	3,01,069	26,329	6,74,105
Percentage of total plan expenditure	3.7	5.8	—	8.3	0.7	18.5

Note: NA: Not Available. FYP= Five-Year Plan.
Source: Compiled by authors from the base data given in the *Economic Survey, 2010–11,* Government of India, Statistical Appendix, A 40–46.

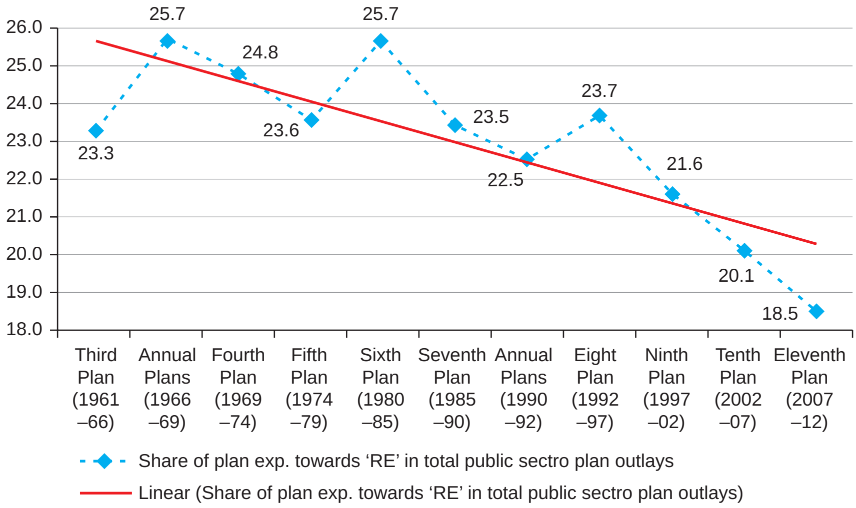

Figure 2 *Share of public sector expenditure on "Rural Economy" (RE) in total public sector plan outlay since the Third Five Year Plan* in per cent
Source: Compiled by authors from the base data given in Table 2.

On examining plan expenditure on different components of RE, it emerges that agriculture and allied activities was an area of concern for a much longer period, and one may argue that it did not receive adequate attention even in the pre-reforms period.[19] After an initial spurt in its share during the first two decades after Independence, there was a deceleration, particularly from the late 1970s. The share of agriculture and allied activities was 16.7 and 14.7 per cent during the 1966–67 and 1968–69 Annual Plans (average for 1966–69) and Fourth Five-Year Plan (1969–74) respectively, and that share declined to 3.9 per cent in the Tenth Five-Year Plan (2002–07) and, further, to as low as 3.7 per cent in the Eleventh Five-Year Plan (2007–12) (Figure 3).

Significant allocations were made towards irrigation and flood control during the early decades after Independence, and much of this was under "plan" heads. A rising trend in the share of irrigation and flood control continued up to the Sixth Five-Year Plan (1980–85), but there was a subsequent reversal. As may be seen from Table 3, by the end of the Eighth Five-Year Plan (1992–97) the share of this component had come down to 7.5 per cent, as compared to 10 per cent during the Sixth Five-Year Plan (Figure 4). The share of expenditure on rural development in total public sector plan expenditure on RE increased from 7 to 8.3 per cent between the Seventh Five-Year Plan (1985–90) and Eleventh Five-Year Plan (2007–12).[20] On the other hand, the share of plan expenditure on village and small industries in total plan expenditure

[19] In absolute terms and at current prices, a ten-fold increase was seen in plan expenditure on agriculture and allied activities in the period between the Seventh FYP (1985–90) and Eleventh FYP (2007–12).
[20] The increased share was largely because of various kinds of rural development programmes, including community development programmes, initiated during the late 1970s, and the implementation of the recent Rural Employment Guarantee Scheme.

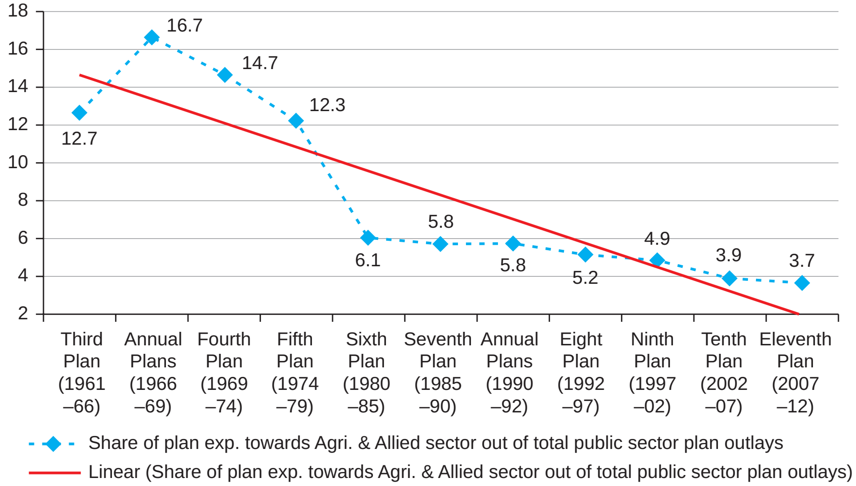

Figure 3 *Share of expenditure on agriculture and allied activities in total public sector plan outlay since the Third Five Year Plan* in per cent
Source: Compiled by authors from the base data given in Table 2.

has shown a marked decline in recent years; it came down from about 2 per cent during the Sixth Five-Year Plan (1980–85) to about 0.7 per cent during the Eleventh Five-Year Plan (2007–12) (Table 3).

Expenditure Trends in the States from the Early 1990s

In terms of the functional distribution of responsibilities between the Union and State governments, agriculture falls under the purview of State governments.

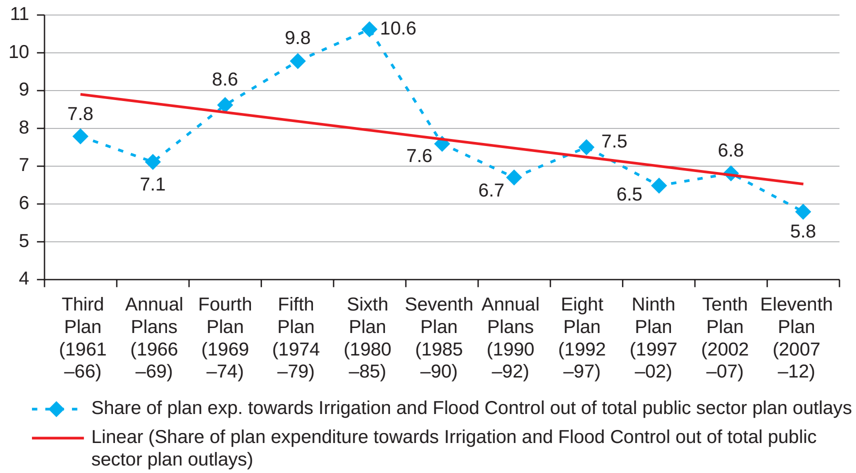

Figure 4 *Share of expenditure on irrigation and flood control in total public sector plan outlay since the Third Five Year Plan* in per cent
Source: Compiled by authors from the base data given in Table 2.

However, given the importance of this sector in the economy, the Union government provides budgetary support in the form of grants-in-aid to the States from time to time. Besides providing such grants, the Union government also makes direct or indirect interventions in this sector, within and outside State budgets. In what follows, we state some of the important features of budgeting for RE by State governments.

As mentioned earlier, we have restricted our analysis of State budgets for RE to the period from the early 1990s because disaggregated data across States for the period prior to the 1990s are not available. The trend for all States taken together is a declining one, similar to the case of combined budgetary expenditure. The share of RE in the combined total budgets of all States was 21.9 per cent in 1990–91; it declined to 19.4 per cent during the 1990s (annual average for 1991–92 to 1999–2000) and further to 14.9 per cent during the 2000s (annual average for 2000–01 to 2009–10) (Table 4). In other words, relative provisioning for RE declined substantially, by 47.3 per cent, between 1990–91 and 2009–10 (Table 5).

Another major finding as regards expenditure on this sector is the wide divergence across States. For instance, in 1990–91, expenditure ranged from 13 to 27 per cent, and the annual average for the period 1991–92 to 1999–2000 was in the range of 7 to 26 per cent; for the subsequent decade, the relevant shares fell to a range of 7 to 22 per cent (annual average for 2000–01 to 2009–10) (Table 4). Such wide divergences clearly indicate a high degree of horizontal imbalance in expenditure behaviour across States.

In 1990–91, the States that accorded high priority to RE included Maharashtra (27.1 per cent), Uttar Pradesh (25.9 per cent), Madhya Pradesh (25.6 per cent), and Orissa (25.0 per cent). The worst performer in this respect that year was Sikkim (12.9 per cent). During the decade 1991–92 to 1999–2000, in terms of annual average spending, States that accorded high priority to RE were Maharashtra (26.01 per cent), followed by Karnataka (23.3 per cent) and Gujarat (22.9 per cent), and Sikkim (6.8 per cent) continued to be at the bottom. For the period 2000–01 to 2009–10, the annual average allocations for this sector put Andhra Pradesh (21.9 per cent) at the top, followed by Maharashtra (20.3 per cent) and Chhattisgarh (20.1 per cent), and Goa (7.6 per cent) was at the bottom (Table 4). It is worth noting that during the period under review, industrially advanced States like Maharashtra and Gujarat consistently accorded high priority to RE in their budgets, as compared to the BIMARU (Bihar, Madhya Pradesh, Rajasthan, and Uttar Pradesh) States, or even agriculturally advanced States like Punjab and Haryana. West Bengal, Kerala, Punjab, and Tamil Nadu emerge in a poor light in this respect, as their ratios declined by 80.2 per cent, 71.2 per cent, 58.2 per cent, and 53.7 per cent, respectively (Table 5).

As regards expenditure on various components within RE, taking all States together, irrigation and flood control, rural development, and agriculture and allied activities

Table 4 *State-wise annual average share of expenditure on the "Rural Economy" (RE) in aggregate expenditure of respective States* in per cent

State	1990–91	Annual average share 1991–92 to 1999–2000	Annual average share 2000–01 to 2009–10
Andhra Pradesh	23.41	21.27	21.88
Arunachal Pradesh	19.10	19.02	16.26
Assam	18.66	15.47	13.30
Bihar	19.82	18.05	16.27
Chhattisgarh	NA	NA	20.13
Goa	15.19	9.15	7.62
Gujarat	23.62	22.88	14.96
Haryana	19.78	14.58	12.11
Himachal Pradesh	17.74	11.46	8.47
Jammu & Kashmir	14.56	13.20	11.38
Jharkhand	NA	NA	18.91
Karnataka	21.89	23.32	17.83
Kerala	15.89	18.11	10.58
Madhya Pradesh	25.56	18.36	15.31
Maharashtra	27.14	26.01	20.26
Manipur	20.68	15.68	13.86
Meghalaya	19.30	16.09	14.94
Mizoram	15.91	19.25	14.36
Nagaland	18.28	15.04	13.09
Orissa	25.00	19.78	13.29
Punjab	14.66	12.53	7.92
Rajasthan	19.71	17.48	12.30
Sikkim	12.99	6.78	7.88
Tamil Nadu	18.31	17.73	11.53
Tripura	19.34	17.03	12.23
Uttar Pradesh	25.98	20.46	14.13
Uttarakhand	NA	NA	16.65
West Bengal	19.39	16.34	9.07
All States	21.93	19.35	14.89

Notes: Data for 2008–09 and 2009–10 are revised estimates and budget estimates, respectively.
NA: Not Available.
Source: Compiled by authors from data provided in the *Handbook of Statistics on State Government Finances, 2010*, RBI.

(in that order) accounted for most of it, while the shares of agricultural research and education, and cooperation were negligible. Across States, however, there was substantial divergence with respect to prioritisation, as may be seen from Table 6. This is not surprising, given the wide divergences across States in terms of agroclimatic zones and specific needs. Nevertheless, it is worrisome to see how little attention was paid across States to agricultural research and education over the years (Table 6).

Table 5 *Comparison of State-wise priorities accorded to "Rural Economy" (RE) during the past two decades*

State	Percentage difference of average share between 1990s and 2000s	Percentage difference of average share between 1990–91 to 2000–01, and 2009–10
Andhra Pradesh	2.8	−7.0
Arunachal Pradesh	−17.0	−17.4
Assam	−16.3	−40.3
Bihar	−10.9	−21.8
Goa	−20.1	−99.4
Gujarat	−53.0	−57.9
Haryana	−20.4	−63.4
Himachal Pradesh	−35.2	−109.3
Jammu & Kashmir	−16.0	−27.9
Karnataka	−30.8	−22.8
Kerala	−71.2	−50.2
Madhya Pradesh	−19.9	−66.9
Maharashtra	−28.4	−34.0
Manipur	−13.1	−49.2
Meghalaya	−7.7	−29.2
Mizoram	−34.0	−10.7
Nagaland	−15.0	−39.7
Orissa	−48.8	−88.2
Punjab	−58.2	−85.1
Rajasthan	−42.1	−60.2
Sikkim	14.0	−64.9
Tamil Nadu	−53.7	−58.7
Tripura	−39.2	−58.1
Uttar Pradesh	−44.8	−83.9
West Bengal	−80.2	−113.8
All States	−30.0	−47.3

Note: Data for 2008–09 and 2009–10 are revised estimates and budget estimates, respectively.
Source: Compiled by authors from basic data provided in the *Handbook of Statistics on State Government Finances, 2010*, RBI.

We conclude this section by making a note of the per capita real expenditure trends in RE. Taking all States together, the figure for 1994–95 was Rs 320, which declined to Rs 318 in 2000–01 and rose to Rs 616 in 2009–10. Not surprisingly, the performance of the BIMARU (Bihar, Madhya Pradesh, Rajasthan, and Uttar Pradesh) States was worse than others, both in terms of absolute levels as well as changes over time. Further, from 1994–95 to 2000–01, 7 out of 25 States were spending less than the average for all States taken together, while in 2009–10, the number of such States increased to 10. The annual average growth rate of per capita real spending in this sector, taking all States together, was 5.8 per cent, and the corresponding proportions for 14 States was less than the combined States' average; in some cases, the story

Table 6 *Priorities of budgetary expenditure on various components within "Rural Economy" (RE), all States* in per cent

States	Agriculture and allied activities		Agricultural research and education		Rural development		Cooperation		Irrigation and flood control	
	Average share in 1990s	Average share in 2000s	Average share in 1990s	Average share in 2000s	Average share in 1990s	Average share in 2000s	Average share in 1990s	Average share in 2000s	Average share in 1990s	Average share in 2000s
Andhra Pradesh	11.8	9.5	1.8	1.4	30.4	22.1	3.6	1.7	52.6	65.3
Arunachal Pradesh	54.0	39.5	1.6	0.3	27.5	35.2	2.0	4.9	15.0	20.1
Assam	31.6	20.9	3.6	3.5	29.6	48.4	4.2	2.3	31.0	24.8
Bihar	17.1	10.7	2.0	1.5	47.3	51.4	3.9	2.3	29.7	34.0
Chhattisgarh	NA	32.8	NA	0.9	NA	33.4	NA	2.6	NA	30.2
Goa	26.5	19.6	0.7	0.6	21.4	24.5	2.8	4.0	48.6	51.3
Gujarat	13.9	16.4	1.9	2.4	20.7	19.3	2.8	1.3	60.8	60.6
Haryana	18.1	11.1	4.1	5.7	13.4	22.9	5.8	3.4	58.6	56.9
Himachal Pradesh	43.8	37.3	6.8	7.8	23.5	23.6	6.7	2.6	19.2	28.8
Jammu & Kashmir	33.2	39.2	2.2	4.1	41.3	30.3	1.9	1.4	21.4	24.9
Jharkhand	NA	11.5	NA	1.4	NA	59.5	NA	3.7	NA	24.0
Karnataka	21.3	24.4	1.8	2.1	24.0	19.4	2.9	5.9	50.0	48.2
Kerala	34.3	33.2	3.3	3.6	35.1	40.2	5.6	5.2	21.7	17.9
Madhya Pradesh	21.9	20.2	1.3	1.4	37.4	37.1	6.3	2.3	33.1	39.0
Maharashtra	26.6	19.0	2.0	2.1	21.2	20.1	6.7	12.2	43.5	46.5
Manipur	32.3	27.3	1.5	0.6	24.3	33.8	4.3	3.2	37.6	35.1
Meghalaya	43.4	38.2	1.5	1.4	40.8	48.9	3.8	4.0	10.6	7.5
Mizoram	43.4	48.8	0.1	0.0	50.1	41.0	3.4	2.6	3.0	7.5
Nagaland	34.8	35.0	1.2	1.5	49.4	47.3	8.7	6.5	5.8	9.7

(Continued on next page)

Table 6 *Priorities of budgetary expenditure on various components within "Rural Economy" (RE), all States* in per cent *(Continued)*

States	Agriculture and allied activities		Agricultural research and education		Rural development		Cooperation		Irrigation and flood control	
	Average share in 1990s	Average share in 2000s	Average share in 1990s	Average share in 2000s	Average share in 1990s	Average share in 2000s	Average share in 1990s	Average share in 2000s	Average share in 1990s	Average share in 2000s
Orissa	24.4	24.6	1.2	1.2	28.7	29.1	5.5	2.9	40.2	42.2
Punjab	−5.2	21.4	7.8	7.0	11.1	11.6	6.5	4.5	79.7	55.5
Rajasthan	17.5	15.7	1.7	1.8	23.0	33.2	4.8	2.3	52.9	47.1
Sikkim	62.5	42.3	1.8	0.5	23.1	38.9	3.8	4.2	8.8	14.2
Tamil Nadu	48.9	33.0	2.7	2.9	27.5	31.3	5.8	12.5	15.1	20.2
Tripura	34.5	37.9	0.1	0.6	47.9	41.6	3.9	3.2	13.6	16.8
Uttar Pradesh	20.9	23.6	1.4	1.1	38.8	38.0	2.3	1.4	36.6	35.8
Uttarakhand	NA	25.4	NA	6.0	NA	34.9	NA	1.9	NA	31.9
West Bengal	30.5	22.4	1.5	1.8	42.0	49.6	1.7	2.0	24.3	24.1
All States	24.3	20.6	2.0	2.1	29.6	30.5	4.4	4.8	39.7	42.0

Notes: Data for 2008–09 and 2009–10 are revised estimates and budget estimates, respectively.
NA: Not Available
Source: Compiled by authors from basic data provided in the *Handbook of Statistics on State Government Finances, 2010*, RBI.

was one of near-stagnation or even negative change (e.g. Punjab: −0.9 per cent) (Table 7).

It has been argued by many observers that there is a clear imbalance between the powers of the State governments and the Union government to raise revenues (an imbalance heavily biased towards the latter), particularly when considered in relation to their expenditure requirements. The problem has worsened over the years, particularly during the last two decades, creating huge difficulties for the State governments. The neoliberal economic framework has made matters much worse, as State governments have been compelled to compress their expenditure in order to reduce budget deficits.

Table 7 *State-wise per capita real expenditure on "Rural Economy" (RE) since 1994–95* in Rs

State	1994–95	2000–01	2009–10	Annual average growth rate between 1994–95 and 2009–10 (%)
Andhra Pradesh	337	394	1,335	18.5
Arunachal Pradesh	*1,298*	*1,105*	*1,772*	*2.3*
Assam	239	225	729	12.8
Bihar	139	201	362	10.0
Goa	549	562	1,278	8.3
Gujarat	*474*	*603*	*594*	*1.6*
Haryana	*438*	*536*	*569*	*1.9*
Himachal Pradesh	*430*	*530*	*799*	*5.4*
Jammu & Kashmir	*525*	*533*	*830*	*3.6*
Karnataka	*444*	*452*	*694*	*3.5*
Kerala	*301*	*391*	*340*	*0.8*
Madhya Pradesh	235	283	471	6.3
Maharashtra	593	415	1,428	8.8
Manipur	569	420	1,164	6.5
Meghalaya	477	530	1,161	9.0
Mizoram	1,541	1,086	1,815	1.1
Nagaland	*905*	*728*	*1,500*	*4.1*
Orissa	241	273	564	8.4
Punjab	*454*	*508*	*389*	*−0.9*
Rajasthan	*331*	*231*	*403*	*1.4*
Sikkim	742	1,082	2,053	11.0
Tamil Nadu	*366*	*318*	*513*	*2.5*
Tripura	*509*	*608*	*871*	*4.4*
Uttar Pradesh	*239*	*241*	*352*	*3.0*
West Bengal	*209*	*261*	*310*	*3.0*
All States	320	318	616	5.8

Notes: To obtain per capita spending for the year 1994–95, population figures for the year 1991 have been used; similarly, for the year 2009–10, population figures (provisional) for the year 2011 have been used for the respective States. States and figures in italics denote performance below the all-States average.
Source: Computed by authors.

Furthermore, increased centralisation (through the proliferation of centrally-sponsored schemes, often with stringent conditions attached) has limited the policy-making space of State governments in respect of their specific requirements, including appropriate institutional infrastructure, personnel, and so on. The poorer States especially have suffered greatly during this phase in terms of provisioning for development in general, and in particular as regards their expenditure on the "Rural Economy". In addition, there were often significant cuts in final allocations (as evident in the revised estimates), compared to the amount initially provisioned in the budgets (as budget estimates). Further, as several researchers have pointed out, funds allocated for a particular scheme under budget estimates were not infrequently underutilised (as reflected in the actual expenditure data).[21] This was for several reasons, including constraints built into fund-flow mechanisms across different tiers of government. These issues call for the urgent attention of policy makers.

Concluding Remarks

The performance of India's rural economy, in particular agriculture, has been a subject of serious concern in recent years. Our evidence shows that one of the important reasons for the disappointing outcomes in this sector is the inadequacy of public expenditure by successive governments at different levels.

In the early years of India's planned economic development, particularly during the First Five Year Plan, public policy appears to have held out significant promise in respect of meeting the desired levels of expenditure on RE. However, in the following decade and a half there was a slackening of expenditure priorities as far as the rural economy was concerned, until a revival in the mid-1970s and a further consolidation in the 1980s. As a proportion of GDP, the expenditure on RE increased from around 1.9 per cent in the 1970s to 2.8 per cent in 1980s. From the early 1990s, however, with the onset of neoliberal economic reforms, the rural economy has once again suffered relative neglect and the expenditure allocated to it (as a proportion of GDP as well as combined expenditure) has shown a declining trend. It is worth emphasising that although agriculture is a State subject, much of what happens in the rural economy is conditioned by the overall macroeconomic policy regime, in which the Union government clearly has the controlling hand.

Indian agriculture is in dire need of a "big push" with respect to public expenditure (which in turn can also attract private expenditure). Given the crisis of declining or stagnant productivity in agriculture, and the increasing demand for foodgrain to feed an ever-growing population (as well as other demands on agricultural output), it is crucial to prioritise allocation of public expenditure towards this sector. Further, to bridge the gap between demand–supply mismatches, there is a need to increase

[21] For a discussion of trends relating to public expenditure since the early 1990s, see the contributions in Jha (ed.) 2011.

productivity through technological advancement, which largely depends on a greater quantum of public expenditure. The role of the public sector in this regard is critical, particularly in respect of distributional considerations.

Since development of the agricultural sector is primarily the responsibility of State governments, additional central assistance to the States should be accompanied by greater flexibility in the use of resources (while ensuring that funds are not diverted to other purposes). In addition, States should prioritise their expenditure in favour of agriculture and rural development. Attention should not be focused only on increasing crop yields, but adequate provision should also be made to develop allied sectors such as animal husbandry, fisheries, and other sectors of production. There is a great need for investing more in agricultural research and education in the country, which in turn will help in developing appropriate and advanced technologies suited to different agroclimatic zones. Apart from primary expenditures, funds should also be allocated for the proper management, continuation, and upgradation of existing infrastructure such as medium and minor irrigation projects.

Finally, we may note that efficient and timely utilisation of funds is crucial to enhance the productivity of this sector. Allocating funds through budgets is not adequate for better outputs or outcomes. Proper monitoring of how these allocated funds are put to use is very important to achieve goals and objectives.

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