

GOVERNMENT FINAL CONSUMPTION EXPENDITURE

- 23.1 The role of governmental agencies in the overall social and cultural development of the country hardly needs any emphasis. These activities, the objectives of which are determined largely by the overall policies of the government, differ widely in their cost structures and sources of finance and hence studying the behaviour of macro-economic parameters assumes great significance in the evaluation of these programmes. With this end in view, the Central Statistical Organisation (CSO) brings out estimates of gross domestic product, government final consumption expenditure (GFCE), savings, capital formation etc. for public sector every year.

=total current expenditure of the administrative departments for producing government services.
 =compensation of employees (wages and salaries + pensions) + net purchase of goods and services + consumption of fixed capital (CFC).

Estimates at Current Prices

- 23.2 Producers of government services, that is, the administrative departments of the government include bodies and departments of central, state, union territory governments and urban and rural local authorities engaged in administration, defence and regulation of public order; health, educational, cultural, recreational and other social and welfare services; promotion of economic growth and technological development. The legislature, executive, judiciary and other bodies like public services commission, general research and survey organisations are also included under administrative departments. The activities of producers of government services are largely financed by the government itself and consequently they are considered to be the final consumers of most of the services and goods, which they produce. Their cost structure does not contain an element of operating surplus and is made up, to a substantial extent, of compensation of employees and purchase of goods and services. A very minor part of the gross input of the producers of government services, sometimes referred to a "Public Goods" is sold of in the market as sale of commodities and services (for example the sale of entry tickets to monuments). The receipts are adjusted against the expenditure on purchase of goods and services and only the net purchase of commodities and services is considered for estimating the final consumption expenditure. The government final consumption expenditure is worked out as under:-

GFCE= Gross output of administrative departments

- 23.3 **Wages and Salaries:** Remuneration of general government employees such as pay of officers, pay of establishment and allowance and honorarium other than traveling and daily allowances and contributions to provident fund by the government, if any are included. Cost of liveries and uniforms, rations supplied to police and defence personnel and provisions are treated as wages and salaries.

- 23.4 **Purchase of goods and services:** All current expenditures such as office expenses, materials and supplies, rent, rates and taxes, fuel & light, printing, travel expenses, telephone & telegraph charges and purchase of other commodities and services for current operations are included, beside the expenditure on current repairs and maintenance. Also included are all payments/charges for services rendered for other agencies/departments.

- 23.5 **Sources of data**
 The main source of data for preparation of GFCE is the budget documents of central and state governments and of local authorities. According to the provisions of the constitution, before the close of every financial year, the Government of India and each State Government have to lay before the Parliament and the State Legislatures respectively a statement of estimated receipts and disbursements for every new financial year. This statement titled "Annual Financial Statement" is the main budget document. Apart from the Speech of the Finance Minister, the other important documents which are laid before the Parliament / State Legislature along with the Annual Financial Statement include Budget at a Glance, Finance Bill, Receipt Budget, Expenditure Budget, followed by detailed demands for grants for each Ministry/department. The Annual Financial Statement, Receipts and Expenditure Budget and the Demands for grants and the "Finance accounts" published by the Comptroller and Auditor General of India are the main sources of data for preparation of the economic accounts of administrative departments and

departmental enterprises and the estimates of GFCE of administrative departments.

Analysis of Data

- 23.6 The system of classification adopted for presentation of data on financial transactions appearing in the budget documents is designed to ensure that receipts are collected in the manner and form authorized by law and expenditures are incurred by the specific authorities and on special items sanctioned by Parliament/legislature. For understanding the economic impact of government transactions, details of item-wise accounts scattered over a number of sub heads/minor heads are, therefore, reclassified and regrouped into meaningful economic categories. The current transactions of the departmental commercial undertakings are at par with those of producers and of the purely administrative departments with those of consumer. Current receipts of the former constitute sale proceeds of goods and services supplied to the rest of the economy while purely administrative departments have little or no income of their own and largely draw upon the incomes of other sectors to meet their expenditure. Current expenditure of commercial undertakings like working expenses of productive enterprises are intermediate expenses that go to form prices of goods and services produced. These are different in character from the current expenses on wages and salaries and goods purchased by the administrative departments which are in the nature of consumer outlays and represent demands for goods and services for final consumption.
- 23.7 The economic classification of government annual expenditure following the SNA guidelines provide sufficient details for working out, the components of GFCE. The expenditure as well as receipts pertaining to the administrative departments are segregated from those of the departmental commercial undertakings and the economic accounts are prepared.
- 23.8 The final consumption expenditures of 'public services in quasi government bodies', are also included in the GFCE estimates. For these units, firstly GVA estimates are prepared on the basis of data on employees in these bodies and the estimated VAPW obtained from the annual reports of the research and scientific institutions. For arriving at the value of GFCE in the case of Quasi-Government Bodies, the ratio of GDP to GFCE at National level (i.e. by combining Centre, States and Local Authorities) has been applied on GDP estimate of quasi-government bodies.
- 23.9 Besides preparing the GFCE estimates at National Level, an attempt can also be made to compile the estimates at State level in respect of quasi government bodies.
- ### Estimates at Constant Prices
- 23.10 Estimates of government final consumption expenditure at constant prices are prepared separately for compensation of employees, net purchase of commodities and services and consumption of fixed capital (CFC). The constant price estimates of compensation of employees are prepared by deflating the estimates of compensation of employees at current prices by the Consumer Price Index of industrial workers. Estimates of purchase of commodities and services net of sales at constant prices are obtained by deflating current price estimates by the corresponding weighted price indices of items of expenditure. For Commodities, the WPI is made use of, while for services, the implicit price deflators in the GDP estimates are used.
- 23.11 The price indices of different commodities and services are combined to obtain overall indices separately for Central and State Government Expenditure.
- 23.12 To construct indices, data available from Input-Output Tables on item wise government expenditure on goods & services for Central Government (including defence and Union Territories) and State Governments has been used. Data as obtained from Input-Output table (1998-99 table) has been grouped and weights have been assigned to each of these groups by considering the proportion $E_i/E*100$ where E =Total expenditure on goods & services (all the groups). E_i = Expenditure within a group.
- 23.13 For the items Travelling Allowance (TA) and other allowances, CPI Index for Industrial Workers has been used. For items like Food, Beverages & Tobacco, Textile Products, Wood and Wood Products etc., Wholesale Price Indices have been used. Implicit indices have been used for groups like Electricity charges, Repair and maintenance charges of capital goods, Railways, Communication and Banking and insurance. A combined index has been prepared to deflate the current price estimates of 'Net purchase of commodities & services' by taking the weighted average of the indices (of each of

the group) separately for Centre and States. For the estimation of consumption expenditure of Local Authorities the indices used for the State Governments are used.

23.14 The GDP for quasi-govt. bodies at constant prices is prepared by deflating its current prices series by Consumer Price Index for Industrial Workers. The methodology as adopted for preparing the estimates of GFCE in the case of quasi-govt. bodies at current

prices remains the same for constant series also.

23.15 The constant price estimates of CFC are obtained by following the procedure of PIM, details of which are given in the chapter on capital stock and CFC.

23.16 A more detailed write-up on GFCE, including the purpose classifications adopted for the GFCE, is given in the Chapter on public sector.
