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»» Growth and Structure of Public Sector in
India with Special Reference to its
Role in Tertiary Economy

– *Santanu Ghosh*

»» Analysis of Union Budget, 2015-16:
Challenges & Opportunities

– *Yogita Kukreja*



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Ballard Estate, Mumbai 400 001

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From the Editor's Desk

As we go to the press with June issue of Analytique, we all are aware that global recovery is still slow and global financial markets have also been volatile. On the domestic front industrial production has been recovering, but corporate sales have contracted. Capacity utilisation has been falling in several industries. In April, output from core industries constituting 38 per cent of the index of industrial production declined across the board, barring coal production.

However, it is being said that India's economic slowdown could be attributed more to domestic reasons than global economic slowdown. The deterioration in export performance affected economies across Asia as global demand fell and the fall in commodity prices impacted terms of trade for commodity exporters. Notably, the volume of imports has been recording increases, despite the value decline. This is inspite of the fact that Indian manufacturing activity rose at its fastest pace in four months in May, 2015.

The general consensuous has been the priority for government policies, should be to strengthen the domestic economy through sustained development of physical, fiscal, human and financial infrastructure. History taught us domestic growth depends more on strengthening of domestic final demand especially if external markets turn significantly volatile.

Contents

Special Theme

- >> Growth and Structure of Public Sector in India with Special Reference to its Role in Tertiary Economy
Santanu Ghosh 02

Current Affairs

- >> Analysis of Union Budget, 2015-16: Challenges & Opportunities
Yogita Kukreja 34

Editorial Board

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Growth and Structure of Public Sector in India with Special Reference to its Role in Tertiary Economy

Santanu Ghosh *

Abstract

The paper is a modest attempt to examine the role, contribution and structural transformation of the public sector in India with special reference to the tertiary economy. While there have been many studies on different dimensions of India's public sector, there has virtually been no systematic and full length study in the context of the role of the public sector in India's tertiary economy. The tertiary or the service sector has been growing fast in the country and is the single largest contributor to the GDP; again, the public sector, in spite of the increasing dominance of the market forces since mid-1991, is still enjoying a pivotal position in India's economy and is expected to play a crucial role in economic and social development. The role of the public sector in tertiary sphere assumes greater significance because of the fact that while the public sector may be supposed to abdicate its commanding heights in the manufacturing and some other areas (e.g. hotel business), its role in provision of transport, communication and social sector – like primary health care and primary education – has been assuming increasing importance. The

paper has attempted to examine the growth and structural change with respect to tertiary production and employment under the domain of the public sector. The analysis is mostly confined to the heyday of the public sector in India – i.e. the era 1960-61 – 2001-02.

In a free market economy, the role of government in economic activity is considered to be limited. In the Smithian world of *laissez faire*, the presence of government – may be deemed as agent of the state – is primarily required in order to maintain the law and order and ensure, among others, protection of the country and its citizens. However, free market has its loopholes and there are reasons to believe that market fails (the argument of so-called 'market failure') and, as a result, optimal allocation of resources cannot be achieved. In case of market failure, appropriate government intervention, many insist, will ensure (Pareto) optimal resource allocation. On ideological plane, it is the writers with socialist leanings who have predominantly tried to portray the importance of government and, therefore, of public sector in a nation's economy.

* Santanu Ghosh is Professor of Economics, Maulana Azad College, Kolkata. He can be reached at manali.jheelum@gmail.com

The idea of public sector in the modern era – i.e., a government owned-cum-controlled sector – as an active economic agent in a nation's economy, perhaps, owes its origin to the erstwhile Soviet experiment of centralized economic planning; ideologically it owes its origin in the writings of the socialist and Marxist thinkers. Public sector, following the Soviet model of development, is supposed to play a pivotal and catalytic role in low-income and less developed economies by ushering in economic transformation; the public sector is supposed to play the role of “*leading sector*” in many areas of a nation's economy (e.g. infrastructure and social sectors). Almost all the poor / low income countries – especially those which were once under colonial rule – had accepted the importance of public sector in shaping economic development while formulating their long-term economic policy. And, indeed, India was no exception in this trend, though under the onslaught of liberalization and globalization this trend is gradually being reversed.

It needs to be stressed that in the developing economies – as in India – presence of public sector in the sphere of tertiary economic activities has a special significance. One of the foremost tasks of any government is to provide general administrative services; in a federal set up, the central or the highest tier of government has the additional responsibility of looking after the national defence. Also, various governments have increasingly taken initiatives in development of human

capital formation; this has led to widespread involvement of government in spheres like education and health.

A nation's economic prosperity significantly hinges – and more so in modern times – on the development and network of its transport, communication and financial systems. In low income countries and during the take off phase, government initiatives in these three areas become extremely important. While government's presence in education and health sectors becomes important in the context of provision of human capital base, its (i.e. government's) initiatives in the above stated spheres assume significance as far as supply of social overhead capital and social infrastructure is concerned. These sectors are characterized by lumpiness of investment, significant economies of scale and, consequently, by externalities. Under such conditions, private provision of these services – especially during the initial stage of economic development – may turn out to be socially inadequate. In India, transport, communication and financial services, among others (e.g. services pertaining to storage, real estate etc.), under the domain of the public sector have quite naturally been an important source of output and employment generation.

Instead of emphasizing the establishment and/or expanding the scope of the public sector as a panacea for free market ills, recently, however, the focus of discussion has been shifting from highlighting the importance

of public sector to the emphasis on governance and delivery of public services, especially essential services like primary health, primary education, public transport, food security and so on. It needs to be asserted that the quality of life of the citizens in a nation depends not only on the overall size of the public sector, but also on the quality of the service provided by the public authorities – i.e. the quality of governance. The emphasis in the paper is, however, not on governance issues as such; rather, the emphasis is going to on the historical and economic aspects of the growth of the public sector with special reference to the contribution of the public sector in India's tertiary or service economy during the period when the Plans were dominant and the market forces were dormant (or, had taken the back seat). While there have been many studies on service revolution in India (i.e. "excessive" growth of the service/tertiary sector) and studies on India's public sector, especially on the various aspects of public sector manufacturing units, there is a dearth of study on role and contribution of India's public sector in the context of her tertiary economy.

Having made the introductory remarks, the rest of the paper is organized in the following fashion: in Section I we present a brief evolution of the public sector in India in historical context and also the concept or coverage of the term "public sector". Section II surveys the major theories explaining the growth of government's economic activities in a modern economy. Section III deals with the broad trend

of growth in production under the domain of the public sector in India while the next section is devoted to the analysis of the growth and composition of tertiary output within the public sector. Section V deals with employment in the public sector. The major thrust of the study is on the four decades of development beginning from the early 1960s – i.e. up to the end of the 20th century, since by that time the omnipresent role of the public sector, on the face of increasing domination of the market forces, started declining. Since we especially concentrate on the developments during this period, we have mostly carried out our analysis on the basis of National Accounts Statistics data at 1993-94 base year prices.

I. Evolution and Coverage of Public Sector

The founding fathers of Indian Constitution dreamt of making India a democratic socialist society. In a country like India, heralding a socialistic pattern of society cannot be possible without the presence of a solid public sector in the economy. In a mixed economy, the task of public sector, possibly, becomes even more delicate and complex as it has to work either in tandem or compete with private sector in many areas of economic activity, unlike in a purely socialist/communist economy (e.g. erstwhile Soviet Union) where public sector enjoys absolute monopoly in every sphere of production. It is worth quoting what the Planning Commission observed in its epoch-making Second

Five Year Plan Document: *“The two sectors (i.e. Public and Private) have to function in union and are to be viewed as parts of a single mechanism. The plan as a whole can go through only on the basis of simultaneous and balanced development in the two sectors ...In fact, it is appropriate to think more and more in terms of an inter penetration of the Public and Private Sectors, rather than of two separate sectors”.* (p. 29, Second Five Year Plan, 1956, Planning Commission, Government of India). The document also stated: *“In the field of modern industry, finance and trade the role of the public sector is likely to expand rapidly... The creation of the State Bank of India, the nationalization of Life Insurance and the proposal to set up a State Trading Organization suggest other fields in which the government is called upon to equip itself with personnel not only for the tasks which are to be undertaken immediately but as preparation for larger responsibilities to be shouldered in the future”.*(ibid p. 53). Indeed, these lines of the Planning Commission’s document contain the germs of many later developments concerning the interest of the public sector (e.g. bank nationalization). We thus find that way back in mid 1950s, the Government of India envisaged a progressively enlarged role of the public sector not only in secondary sector of the economy, but also in the tertiary sector of the national economy.

Before embarking on any meaningful discussion on public sector, it is imperative to provide a brief idea about the structural anatomy of the public sector in India. In India, public sector covers a vast area and a variety of

activities – economic as well as non-economic. The term ‘public sector’ is generally used to denote the public enterprises (PEs), which may take different forms – e.g. statutory and non statutory corporations, departmental (railways, post and telegraph etc.) and non departmental undertakings and so on. In other words, this concept covers those activities that are run on commercial objective. It is, therefore, a narrow definition of public sector. Accordingly, services provided by various units and wings of general administration, judiciary etc. do not satisfy this criterion. In the analysis to follow, we would, instead, like to resort to a more comprehensive coverage and, therefore, a broader definition of public sector. That is why, in the current paper, we consider not only public enterprises, but also treat administration side of the government as part of the public sector.

II. Growth of Government Activities: Major Hypotheses and Theories

While there is a rich literature on the rationale of government intervention and its allied issues, the literature on the link, if any, between the size of the government and economic growth is relatively limited. The size of the government, one may note, can be indicated in terms of the magnitude of public expenditure or, say, in terms of output of the public sector. An interesting and significant empirical question is whether the size of the government is influenced by economic growth or it is the other way round,

i.e., whether the size of the government is a determinant of economic growth. Accordingly, one may examine the issue via supply side or demand side theories and, also, attempt to apply Engle-Granzer causality test to resolve the debate.

One of the earliest contributions in this sphere came from the 19th century German economist Adolf Wagner. In the seminal work *Grundlegung der Politischen ekonomie* (The Foundations of Political Economy) [1876], he put forward the dictum – now known as Wagner’s Law – that public expenditure is likely to be influenced by income growth. Apart from economic growth, volume of public expenditure, according to Wagner, is also determined by complexity of economic structure. Over time, as economic activities become increasingly complex, strains, frictions and externalities in an economy rise. This calls for further or increased public spending, including regulatory intervention from government. The expanding role of the local governments, especially in a regime of decentralized governance, would, according to Wagnerian view, also cause growth of public expenditure. In *Gundlegung* (pp. 252-260), Wagner discussed that through the coercive power of state, common needs – like legal order, transport, communication, health, education etc. – can be satisfied. He propounded the historical ‘law’ (Wagner’s Law) of ‘growing public and state activities’ as a corollary of cultural development (the Law of the Expansion of the State). As a proponent of ‘state socialism’, Wagner

envisaged rising expenditures and taxation for a larger administration, military, munitions, factories etc. ‘... till finally the state becomes a state of functionaries...’.

According to Wagner, over time as a result of economic growth and rising population, coupled with pressure for social commitments, governments have to provide a variety of services and on an increasing scale. While he talked of increasing absolute size of the public sector, he, however, was aware that there should be an upper limit to its relative size: i.e. the ratio of public expenditure to national income should not rise above a certain level.

The germs of Wagner’s thesis can, interestingly, also be located in the writings of another contemporary German economist, viz. Ernest Engel. Engel’s famous ‘law of consumption’, following Stigler (1954), can be decomposed into four separate laws: with the rise in income, (a) the share of expenditure on subsistence declines; (b) the share of expenditure on clothing remains roughly stable; (c) the share of expenditure on accommodation and energy (i.e. fuel and light) remains unaltered; and (d) the share of expenditure on sundries or luxuries rises.

If government-supplied goods are clubbed into the category of sundries, then that also may serve as a corroboration of Wagner’s hypothesis. According to Musgrave (1978) while some public goods fall into the category of necessities (e.g. legal institutions, general administration) and some

share features of both necessities and luxuries (e.g. education), there are some which clearly belong to the category of sundries, like recreation facilities. It is also to be noted that demand for some of the infrastructure services, especially highways, rises over time and with growth of income. In most of the countries, and particularly in the developing countries, it is the government that is called upon to supply it. Under such circumstances, one would expect an absolute and, to some extent, relative expansion of the public sector (at least up to a certain point of time).

In the Keynesian (1936) framework, on the other hand, public expenditure is usually treated as an exogenously given policy parameter and increase in the volume of the public expenditure causes a multiplier or an expansionary effect on income and output. In the Keynesian world, government demand is an important component of aggregate demand and its variations cause changes in aggregate economic activity.

Of the supply side theories, bureaucracy is considered as responsible for increasing size of the government and public expenditure. In this approach (supply-side), bureaucrats are regarded as maximizers of the budgets of the offices they hold for their private benefits. Mueller (1987) and Brennan-Buchanan (1980), among others, have emphasized this line of argument while explaining the growth of the government sector.

While exploring the 'anatomy of urban crisis', Baumol (1967) tried to trace

the growth of public sector to uneven productivity growth across sectors. To be more precise, he considered public sector as a non-progressive sector – in the sense productivity growth is zero – while private sector is supposed to be a progressive sector, where productivity of labour grows at a constant exponential rate. Using a simple model and relying on some simple assumptions, Baumol established that (a) share of public sector output to total output would tend to diminish over time and (b) if the share of public sector output in total output has to be kept constant, then that would mean continuous transfer of labour from progressive private sector to non-progressive public sector. It is worthwhile to present Baumol's line of argument in algebraic terms. However, we modify Baumol's model slightly: instead of assuming that the productivity growth is zero in the public sector, let us consider a more general and liberal view by assuming positive productivity growth in the public sector. This rate of growth is, however, considered to be lower than the productivity growth of the private sector – a rather reasonable assumption on empirical ground.

Size and Growth of Production in the Public Sector in India:

Some Broad Trends

Let us now make an attempt to present a rough idea about the size and growth of the public sector in Indian economy and some of its salient features. We shall focus on a few key indicators that may help us to understand the magnitude and importance of the

presence of government activities in the economy.

The National Accounts Statistics (NAS) data for public sector are usually available from 1960-61 onwards. As a result our analysis with respect to public sector is confined to post Second Plan period. We may recall here that in India the true development and expansion of the public sector started only after the launch of the Second Plan, i.e. after the mid- 1950's. Accordingly, lack of suitable or disaggregated data relating to the public sector during the first decade of the plan era should not pose a significant handicap; the qualitative assessment and conclusion on the subject, therefore, will not be greatly affected because of the non-availability of the data for the 1950's.

Table -1 contains information on GDP and also GDP originating in the public sector (PSGDP) evaluated at factor cost and at 2004-05 prices (i.e. at constant prices), and also, accordingly, the trend in the share of the PSGDP since the early 1960s. The corresponding Figure 1 indicates

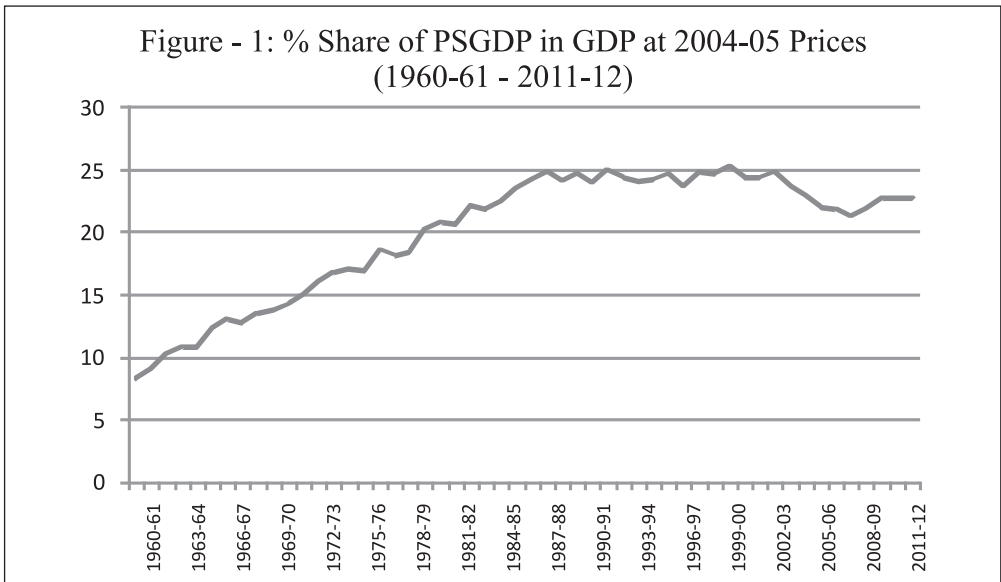
an important, but obvious, trend: the share of the public sector output in national output steadily increased during the three decades from the early 1960s before reaching a plateau, where it remained more or less stable for a decade; from the beginning of the new millennium, there has been a distinct trend towards a declining share of the public sector. This behaviour is consistent with the trajectory of India's economic policy regimes. Since the launching of the Second Plan and till the mid-1991, the economy was highly controlled and dominance of centralized planning was the hallmark of the regime. In that phase, the public sector occupied and enjoyed a commanding position in almost every sphere of economic life. The post mid-1991 era saw a diametrically opposite trend when the dominance of the public sector has gradually been eroding under the onslaught of liberalization and globalization. The hitherto omnipresent government sector has been retreating. As a result, it is quite understandable that the share of the public sector in national output would show a falling trend.

**Table – 1: Trend in GDP from Public Sector (PSGDP) and Share (%) of PSGDP in GDP
(at factor cost in 2004-05 Prices & in ₹ Bn.)**

Year	GDP	PSGDP	% of PSGDP	Year	GDP	PSGDP	% of PSGDP
1960-61	4102.79	341.81	8.33	1986-87	10576.12	2567.48	24.28
1961-62	4230.11	382.48	9.04	1987-88	10949.92	2733.24	24.96
1962-63	4319.60	446.42	10.33	1988-89	12062.43	2919.10	24.20
1963-64	4538.29	490.14	10.80	1989-90	12802.28	3168.88	24.75
1964-65	4882.47	533.65	10.93	1990-91	13478.89	3241.05	24.05
1965-66	4704.02	584.27	12.42	1991-92	13671.71	3425.14	25.05

Year	GDP	PSGDP	% of PSGDP	Year	GDP	PSGDP	% of PSGDP
1966-67	4751.89	620.74	13.06	1992-93	14405.03	3516.56	24.41
1967-68	5138.60	661.62	12.88	1993-94	15223.43	3666.75	24.09
1968-69	5272.70	717.11	13.60	1994-95	16196.94	3945.62	24.36
1969-70	5616.30	774.29	13.79	1995-96	17377.40	4292.15	24.70
1970-71	5897.86	843.79	14.31	1996-97	18763.19	4434.01	23.63
1971-72	5957.41	893.73	15.00	1997-98	19570.31	4876.52	24.92
1972-73	5938.43	951.11	16.02	1998-99	20878.27	5177.85	24.80
1973-74	6208.72	1048.01	16.88	1999-00	22549.42	5714.80	25.34
1974-75	6280.79	1071.83	17.07	2000-01	23484.81	5732.21	24.41
1975-76	6846.34	1166.31	17.04	2001-02	24749.62	6061.89	24.49
1976-77	6931.91	1288.72	18.59	2002-03	25709.35	6384.05	24.83
1977-78	7449.72	1354.43	18.18	2003-04	27757.49	6589.44	23.74
1978-79	7859.64	1453.22	18.49	2004-05	29714.64	6805.19	22.90
1979-80	7450.83	1515.76	20.34	2005-06	32530.73	7186.50	22.09
1980-81	7985.06	1664.92	20.85	2006-07	35643.64	7803.53	21.89
1981-82	8434.26	1750.98	20.76	2007-08	38966.36	8279.64	21.25
1982-83	8680.91	1923.90	22.16	2008-09	41586.76	9121.77	21.93
1983-84	9362.69	2044.86	21.84	2009-10	45161.00	10272.39	22.75
1984-85	9733.57	2190.79	22.51	2010-11	49370.00	11223.97	22.73
1985-86	10138.66	2385.89	23.53	2011-12	52435.82	11966.56	22.82

Source: RBI & Author's Calculation



In order to estimate the compound annual rate of growth (CARG) of output (at constant prices), we may fit the standard semi log linear equation of the following form:

$$\text{Ln}Y_t = a + b$$

where $\text{Ln} Y_t$ is the log value of real output and t is time period. Our estimates of the CARG for the GDP and the PSGDP over the period 1960-61 – 2011-12 and sub periods are shown in Table 2 below:

Table – 2: Compound Annual Rate of Growth of Real Output (at 2004-05 Prices)

	GDP	PSGDP
1960-61 – 2011-12	5.02	6.72
1960-61 – 1990-91	3.87	7.47
1991-92 – 2011-12	6.93	6.29

Source: Calculated on the basis of figures in Table 1

The estimates clearly indicate that when one considers the five decade period since the early 1960s, PSGDP records a higher growth rate than the GDP; it is also evident that in the pre reform era, GDP growth rate was quite modest while that of the PSGDP was almost the double of the GDP rate. This is corroborated by the rising share of the public sector in the GDP. The situation in the post reform era is different: the GDP growth rate has picked up appreciably and has exceeded the rate recorded by the public sector. The public sector is, indeed, in the recent decades on the retreating mode under the onslaught of the market forces.

Public Sector in India's Tertiary Economy

a. Public Sector vis-à-vis National Economy

We have thus far discussed the public sector production as a whole and covering the period 1960-61 – 2011-12, i.e. a span of five decades since the early 1960s. Let us now proceed

in evaluating and examining the performance and role of India's public sector in output/income generation at sub sectoral level. From now on we shall, however, confine our analysis to the developments in the four decades since the early 1960s. The reason for this is that after the launching of economic reforms from mid-1991, public sector has gradually been losing its importance in many spheres. So, not much insight will, perhaps, be lost even if one concentrates on the period up to the end of the 20th century. And since we shall concentrate on the four decades from 1960-61 onwards, it will not be imprudent even if we carry out our analysis on the basis of output data at 1993-94 prices.

While Table – 3 contains information on major components of public sector gross domestic product, PSGDP (at factor cost and at 1993-94 prices), in Table – 4, some important ratio indicators pertaining to public sector output have been furnished. It should be recalled here that the National Accounts Statistics (NAS) data for

public sector are usually available from 1960-61 onwards. As a result most of our analysis with respect to public sector will mainly be confined to post Second Plan period.

Between 1960-61 and 2001-02 – i.e. over a four-decade period – public sector gross domestic product at constant prices increased by more than seventeen times. This is indeed a big increase, at least in absolute terms. This huge expansion of the public sector can be compared and contrasted with that of the aggregate GDP, which increased by only six times during the same period. Output generation from tertiary activities under the domain of the public sector, on the other hand, increased by nearly seventeen times. From Table – 4, it is found the share of public sector in GDP steadily rose – from around 9% in the early 1960s to around 26% in the closing stages of the 20-th century (see Figure 1). It

corroborates our earlier contention that the growth rate of real output under public sector has exceeded the over all GDP growth rate. In column 3 of Table – 4 we have presented the ratio of tertiary output in public sector to that in the private sector. We observe that this ratio almost smoothly increased till the late 1970s or the early 1980s and thereafter it started fluctuating within a small range. Stabilization of this ratio may be construed as a sort of attainment of maturity in terms of composition of tertiary production between the private and the public sectors. While the output share of the tertiary sector in the national economy has grown over the years, in case of public sector output, the corresponding share, however, shows a declining trend and a considerable degree of fluctuation (see column 4 in Table 4 and Figure 3).

Table – 3: Broad Sub Divisions of Public Sector GDP (at 1993-94 Prices)
[₹ Cr.]

Year	GDP	PSGDP	PSGDPTER	PVTG-DPTER	PSGDPM-FG	PSGDPSEC
1960-61	206103	19152	13603	46191	1569	3116
1961-62	212499	21326	14670	48401	2371	4124
1962-63	216994	24793	16350	50370	3250	5273
1963-64	227980	27227	17743	53042	3669	6023
1964-65	245270	29547	19355	55588	4006	6515
1965-66	236306	32311	20849	56198	4317	7167
1966-67	238710	34429	22387	57059	4287	7378
1967-68	258137	36509	23606	58955	4426	7943
1968-69	268473	39654	25300	61048	4809	8875
1969-70	282134	42534	27785	63068	4941	9343
1970-71	296278	46020	30415	64916	5053	9647
1971-72	299269	48736	32603	66120	4786	9781
1972-73	298316	51894	34518	67157	5285	10523
1973-74	311894	57570	36870	68206	5866	11456

Year	GDP	PSGDP	PSGDPTER	PVTG-DPTER	PSGDPM-FG	PSGDPMSEC
1974-75	315514	58888	36467	73330	6850	12755
1975-76	343924	64344	40315	76952	6503	12903
1976-77	348223	70532	44167	78506	7435	14646
1977-78	374235	73684	46447	82298	8171	15910
1978-79	394828	78491	49412	88018	8393	17075
1979-80	374291	82230	51501	88935	8525	17980
1980-81	401128	88791	55980	90773	9324	19303
1981-82	425073	93196	58255	96447	9125	19824
1982-83	438079	102535	62706	102378	10220	21949
1983-84	471742	109445	65753	108489	11267	23897
1984-85	492077	117738	71041	114209	11877	25662
1985-86	513990	127845	77543	122405	13341	28535
1986-87	536257	138912	83302	131368	16124	32175
1987-88	556778	147945	89609	139017	16104	33439
1988-89	615098	158483	95062	150203	18708	37375
1989-90	656331	171575	104243	162721	18065	39592
1990-91	692871	176720	107398	173758	20484	42701
1991-92	701863	187758	113227	181416	21827	45772
1992-93	737792	192708	117111	193300	22245	47921
1993-94	781345	202512	125255	208961	24870	51936
1994-95	838031	216995	129479	228411	26778	58447
1995-96	899563	230020	139421	255891	26827	60810
1996-97	970083	240419	150066	273708	24624	61378
1997-98	1016594	269001	165567	299856	34066	74181
1998-99	1082747	288938	183188	321119	36059	77209
1999-00	1148367	305160	207030	348019	28583	68128
2000-01	1198592	307849	212721	372814	25121	63800
2001-02	1267945	330339	225477	399637	34936	73012

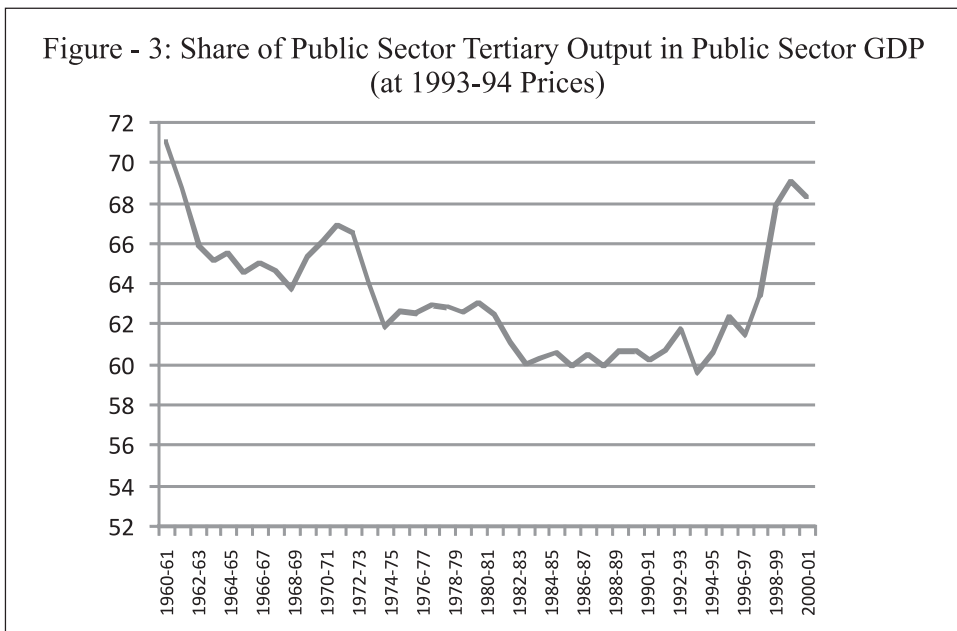
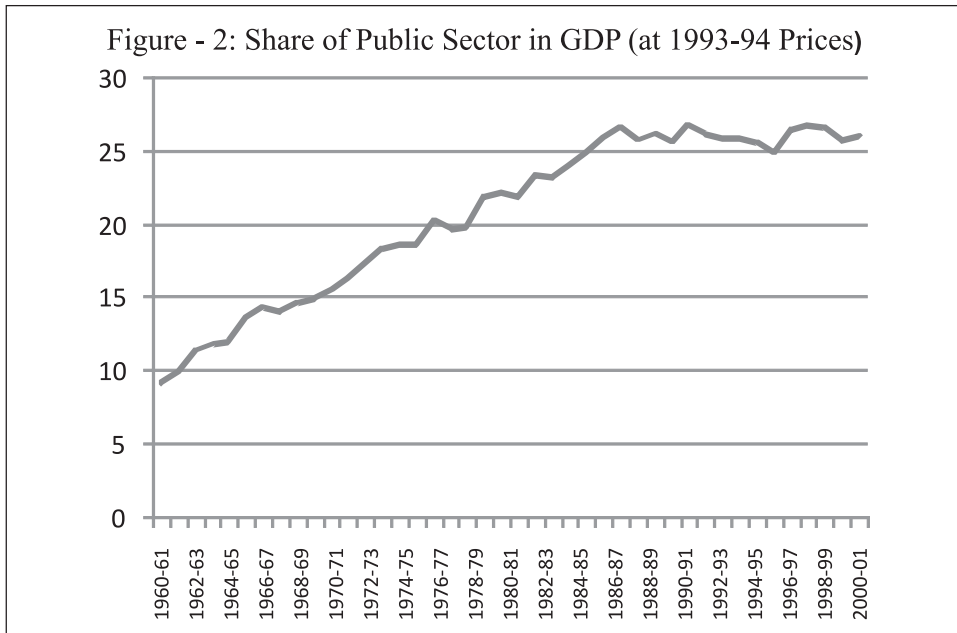
Source: Compiled from National Accounts Statistics, C.S.O. (various issues)

Table – 4: Important Ratio Indicators of Public Sector (Based on 1993-94 Prices)

Year	PSGDP as % of GDP	PSGDPTER to PVTGDPTER	PSGDPTER as % of PSGDP	PSGDPTER to PSGDP-NONTER
1960-61	9.29	0.29	71.03	2.45
1961-62	10.04	0.30	68.79	2.20
1962-63	11.43	0.32	65.95	1.94
1963-64	11.94	0.33	65.17	1.87
1964-65	12.05	0.35	65.51	1.90
1965-66	13.67	0.37	64.53	1.82
1966-67	14.42	0.39	65.02	1.86

Year	PSGDP as % of GDP	PSGDPTER to PVTGDPTER	PSGDPTER as % of PSGDP	PSGDPTER to PSGDP- NONTER
1967-68	14.14	0.40	64.66	1.83
1968-69	14.77	0.41	63.80	1.76
1969-70	15.08	0.44	65.32	1.88
1970-71	15.53	0.47	66.09	1.95
1971-72	16.29	0.49	66.90	2.02
1972-73	17.40	0.51	66.52	1.99
1973-74	18.46	0.54	64.04	1.78
1974-75	18.66	0.50	61.93	1.63
1975-76	18.71	0.52	62.66	1.68
1976-77	20.25	0.56	62.62	1.68
1977-78	19.69	0.56	63.04	1.71
1978-79	19.88	0.56	62.95	1.70
1979-80	21.97	0.58	62.63	1.68
1980-81	22.14	0.62	63.05	1.71
1981-82	21.92	0.60	62.51	1.67
1982-83	23.41	0.61	61.16	1.57
1983-84	23.20	0.61	60.08	1.50
1984-85	23.93	0.62	60.34	1.52
1985-86	24.87	0.63	60.65	1.54
1986-87	25.90	0.63	59.97	1.50
1987-88	26.57	0.64	60.57	1.54
1988-89	25.77	0.63	59.98	1.50
1989-90	26.14	0.64	60.76	1.55
1990-91	25.51	0.62	60.77	1.55
1991-92	26.75	0.62	60.30	1.52
1992-93	26.12	0.61	60.77	1.55
1993-94	25.92	0.60	61.85	1.62
1994-95	25.89	0.57	59.67	1.48
1995-96	25.57	0.54	60.61	1.54
1996-97	24.78	0.55	62.42	1.66
1997-98	26.46	0.55	61.55	1.60
1998-99	26.69	0.57	63.40	1.73
1999-00	26.57	0.59	67.84	2.11
2000-01	25.68	0.57	69.10	2.24
2001-02	26.05	0.56	68.26	2.15

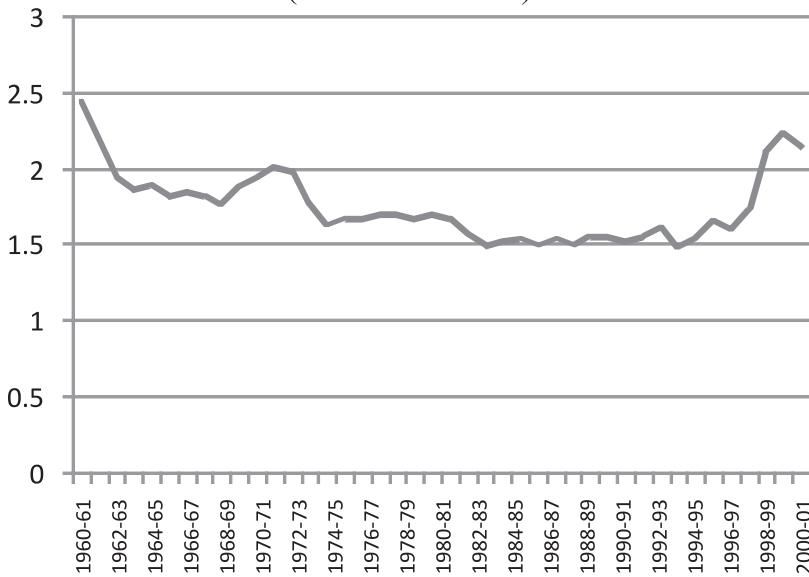
Source: Compiled from National Accounts Statistics, C.S.O. (various issues)



Finally, it is also found that the ratio of tertiary to non tertiary output within the public sector remained roughly stable for nearly two decades, after a steep fall in the initial years of our study period. A casual glance at column 5 (Table 4) reveals that this

ratio again started rising during the late 1990s. Therefore, it is not possible – unlike in case of the economy as a whole – to establish a clear and steadily rising dominance of tertiary activities within the public sector as a whole.

Figure - 4: Tertiary to Non Tertiary Output in Public Sector
(at 1993-94 Prices)



Sub Sectoral Composition and Growth of the Public Sector

We may now turn our attention exclusively to tertiary or service production within the public sector as

a whole and also different sub-groups of tertiary production therein [see Tables 5 (a) and 5 (b)]. The public sector in India occupies a dominant position in the

Table – 5 (a): Sub Sectoral Composition of Tertiary Output in Public Sector
(at 1993-94 Prices)

Year	PSGDPTHR	PSGDPTSC	PSGDPFIREBS	PSGDPCSPS
1960-61	284	4983	820	7516
1961-62	359	5335	820	8156
1962-63	454	5730	1022	9144
1963-64	474	6129	1037	10103
1964-65	628	6360	1205	11162
1965-66	838	6835	1479	11697
1966-67	1177	7169	1506	12535
1967-68	1042	7537	1773	13254
1968-69	1407	7966	1765	14162
1969-70	1651	8252	2249	15633
1970-71	1691	8739	3007	16978
1971-72	2000	9109	3317	18177
1972-73	2339	9632	3598	18949
1973-74	3347	9656	3952	19915
1974-75	2589	10032	3627	20219

Year	PSGDPTHR	PSGDPTSC	PSGDPFIREBS	PSGDPCSPS
1975-76	3157	11478	4240	21440
1976-77	3272	12738	5311	22846
1977-78	3462	13049	5999	23937
1978-79	3442	13164	6954	25852
1979-80	3501	13779	6687	27534
1980-81	4110	14834	7103	29933
1981-82	4180	15833	7582	30660
1982-83	4175	16244	8574	33713
1983-84	4560	16349	9637	35207
1984-85	4654	17495	10770	38122
1985-86	5417	18852	12342	40932
1986-87	5602	19923	13905	43872
1987-88	5573	20897	15412	47727
1988-89	4372	21334	18322	51034
1989-90	4289	22446	21794	55714
1990-91	4316	23091	22457	57534
1991-92	4171	24254	26410	58392
1992-93	4065	25016	26893	61137
1993-94	4610	26058	31370	63217
1994-95	4568	28147	32596	64168
1995-96	5066	31839	33739	68777
1996-97	5154	34158	38107	72647
1997-98	5119	38266	40001	82181
1998-99	4864	42315	45533	90476::
1999-00	5430	47762	50359	103479
2000-01	5002	54016	46558	107145
2001-02	7207	60227	48824	109219

Source: National Accounts Statistics, C.S.O. (various issues)

tertiary economy of India, even though the share of real public sector GDP from tertiary activities in public sector GDP has fallen in the four decades under our consideration. Of the public sector tertiary activities, public administration and defence (PAD) contributes the major chunk of output. This is not surprising considering the fact that in India the absolute size of the government administration is quite big (in terms of employment and capital stock both). Over the years, apart from administration proper,

governments – central and state, if not local – have increasingly undertaken responsibilities in disciplines like health and education, among others. As a result, a host of “other services (OS)” has grown considerably. It is noticed, therefore, that public administration and defence and other services together – under the broad nomenclature community, social and personal services (CSPS) – account for the highest share of output within the tertiary sector. Transport, storage and communication (TSC) is usually found

to be the second biggest contributor of tertiary output (with a few aberrations). It is worth noting that within this sub-group, communication

was virtually a government monopoly in the country prior to the 1990s. On the other hand, railways are also totally under the domain of public ownership; in fact, while in the post-1991 era, communication sector has been experiencing intense competition, the railways, in a sense, are still an exclusive preserve of the public sector. Unlike public administration and defence and other services, transport-storage-communication group is characterized by economies of scale; moreover, in this case, the extent of indivisibility or lumpiness of investment and externalities are much greater than the former. These characteristics explain – partially, at least – the sizeable share of the sub-group in tertiary output under the public sector.

A significant aspect of public sector's role in India's tertiary economy is the growing importance of financial services, i.e. of banking and insurance. In terms of output share, financial services (including real estate and business services), denoted as FIREBS,

have not only steadily improved its position, but also it dislodged the TSC group to occupy the second rank in the early 1990s. It is worth recalling that while the life insurance business was nationalized and made a national monopoly long back – to be precise in 1956 – the general insurance business in the country was also converted into a state monopoly in 1971. On the other hand, the year 1969 marked nationalization of 14 major commercial banks, followed by nationalization of another 6 commercial banks almost a decade later (in 1980). The phase of late 1960s and early 1970s marks a great watershed in India's financial history. Quite naturally, the impact of this nationalization is manifested in the enhanced production or output generation in financial services. The financial sector under public ownership has, indeed, contributed a lot towards structural transformation of the economy and it itself has also witnessed a qualitative change.

The output shares of community, social and personal services (CSPS) and trade, hotel and restaurant (THR) groups have remained roughly stable over the years, with the latter being

Table – 5 (b): Sectoral Shares of Tertiary Output and Index of Concentration (in Public Sector)

Year	THR	TSC	FIREBS	CSPS	Index of Concentration
1960-61	2.09	36.63	6.03	55.25	0.6660
1961-62	2.45	36.37	5.59	55.60	0.6671
1962-63	2.78	35.05	6.25	55.93	0.6635
1963-64	2.67	34.54	5.84	56.94	0.6691
1964-65	3.24	32.86	6.23	57.67	0.6674

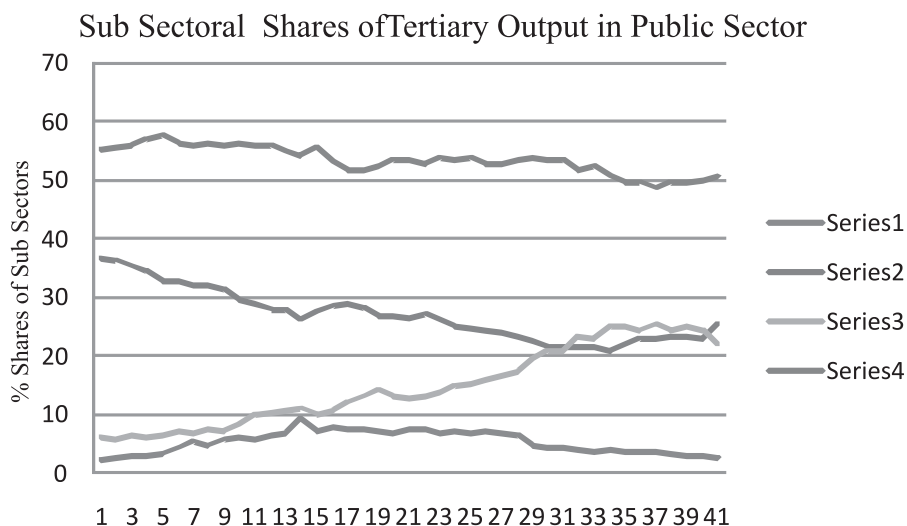
Year	THR	TSC	FIREBS	CSPS	Index of Concentration
1965-66	4.02	32.78	7.09	56.10	0.6549
1966-67	5.26	32.02	6.73	55.99	0.6507
1967-68	4.41	31.93	7.51	56.15	0.6517
1968-69	5.56	31.49	6.98	55.98	0.6484
1969-70	5.94	29.70	8.09	56.26	0.6441
1970-71	5.56	28.73	9.89	55.82	0.6380
1971-72	6.13	27.94	10.17	55.75	0.6348
1972-73	6.78	27.90	10.42	54.90	0.6282
1973-74	9.08	26.19	10.72	54.01	0.6165
1974-75	7.10	27.51	9.95	55.44	0.6309
1975-76	7.83	28.47	10.52	53.18	0.6173
1976-77	7.41	28.84	12.02	51.73	0.6088
1977-78	7.45	28.09	12.92	51.54	0.6056
1978-79	6.97	26.64	14.07	52.32	0.6078
1979-80	6.80	26.75	12.98	53.46	0.6155
1980-81	7.34	26.50	12.69	53.47	0.6145
1981-82	7.18	27.18	13.02	52.63	0.6107
1982-83	6.66	25.91	13.67	53.76	0.6159
1983-84	6.94	24.86	14.66	53.54	0.6122
1984-85	6.55	24.63	15.16	53.66	0.6131
1985-86	6.99	24.31	15.92	52.79	0.6066
1986-87	6.72	23.92	16.69	52.67	0.6058
1987-88	6.22	23.32	17.20	53.26	0.6095
1988-89	4.60	22.44	19.27	53.68	0.6147
1989-90	4.11	21.53	20.91	53.45	0.6143
1990-91	4.02	21.50	20.91	53.57	0.6153
1991-92	3.68	21.42	23.32	51.57	0.6063
1992-93	3.47	21.36	22.96	52.20	0.6100
1993-94	3.68	20.80	25.04	50.47	0.6017
1994-95	3.53	21.74	25.17	49.56	0.5979
1995-96	3.63	22.84	24.20	49.33	0.5961
1996-97	3.43	22.76	25.39	48.41	0.5931
1997-98	3.09	23.11	24.16	49.64	0.5993
1998-99	2.66	23.10	24.86	49.39	0.5998
1999-00	2.62	23.07	24.32	49.98	0.6024
2000-01	2.35	25.39	21.89	50.37	0.6055
2001-02	3.20	26.71	21.65	48.44	0.5949

Source: Computed from National Accounts Statistics, C.S.O. (various)

the most negligible entity; on the other hand, the gain in the share of finance, insurance, real estate and business

services (FIREBS) group has tended to be compensated by reduction in share of the TSC group. In other words,

Figure - 5: Sub Sectoral Shares in Public Sector Tertiary Output
(at 1993-94 Prices)



changes in the composition in the tertiary production has mostly been a kind of zero sum game between the TSC and the FIREBS sub sectors. In Table – 5 (b) we have also indicated the index of concentration, using *Hirschman index*. Even though the concentration index is showing a declining tendency, it is still much above 0.50. The high degree of concentration suggests that the pace of the structural transformation within the tertiary economy under the control of

public sector has been rather slow.

Growth Performance of Different Sub Sectors

Having discussed the sub sectoral composition and its transformation over time, let us now analyze the growth performance of different tertiary sub sectors within the domain of public sector. In Table 6(a) below, CARG values have been reported for the sub sectors (using the semi log growth equation).

Table – 6(a): CARG of Different Tertiary Sub Sectors under Public Sector, 1960-61 – 2001-02 (at 1993-94 Prices)

PSGDPMFG	PSGDPTER	PSGDTHR	PSGDPTSC	PSGDFIREBS
6.40 %	6.71 %	N.A	7.81 %	10.72 %
PSGDPCSPS	PSGDPRLY	PSGDPTOMS	PSGDPPAD	PSGDPOS
6.25 %	3.78 %	5.03 %	5.90 %	7.17 %

From Table – 6(a), it is found that between 1960-61 and 2001-02, public sector GDP from tertiary

activities (PSGDPTER) recorded higher compound annual growth rate than the GDP from manufacturing

(PSGDPMFG). The most remarkable and consistent performance over this four-decade span has been achieved, however, by the sub group comprising of finance, insurance, real estate and business services (FIREBS) under the ownership of the public sector. The spectacular growth performance of the FIREBS is mostly due to the contribution of the banking industry in the economy.

We may also examine the growth issue on sub period or decadal basis. The period under consideration has, accordingly, been split into four decades and the estimates of the growth rate have been furnished in Table – 6 (b). When we consider the issue on decadal basis, the following observations may be inferred:

Table – 6(b): Compound Annual Rate of Growth (CARG) for Tertiary Activities in Public Sector During Different Sub Periods
Sub Period: 1960-61 – 1969-70

PSGDPTER	PSGDPTHR	PSGDPTSC	PSGDFIREBS	PSGDPFIREBS
7.65%	21.63%	5.31%	11.99%	7.39%

Sub Period: 1970-71 – 1979-80

PSGDPTER	PSGDPTHR	PSGDPTSC	PSGDFIREBS	PSGDPFIREBS
6.11%	6.05%	5.87%	10.53%	5.53%

Sub Period: 1980-81 – 1990-91

PSGDPTER	PSGDPTHR	PSGDPTSC	PSGDFIREBS	PSGDPFIREBS
7.33%	N.A.	4.65%	13.37%	7.38%

Sub Period: 1991-92 – 2001-02

PSGDPTER	PSGDPTHR	PSGDPTSC	PSGDFIREBS	PSGDPFIREBS
8.36%	3.66%	12.03%	6.99%	8.11%

- (a) real tertiary output in public sector has always grown at more than 6% per annum;
- (b) GDP from tertiary activities under the domain of public sector has achieved the highest growth rate in the post liberalization period. It may be recalled that the 1990s decade has witnessed proliferation of a variety of services, driven mostly by information technology and knowledge. This development might have been responsible behind the improved showing of the public sector tertiary production;
- (c) in the post 1991 period, governments – at central and state levels – have put heavy emphasis on development of basic infrastructure, notably road transportation and communication network. Mammoth pumping in

of investment and other resources in this field – especially in roads – has made transport, storage and communication (TSC) group a vibrant activity. This is reflected in high growth rate of output of TSC group during the last decade of our study period; and

An interesting aspect is observable from the last sub-period under our consideration. In this sub-period, public sector GDP from tertiary activities recorded its best expansion rate. On the other hand, the post mid-1991 period has also been experiencing a relatively large scale and concerted drive towards economic reforms and liberalization. One of the most contentious issues of the debate concerning economic reforms pertains to denationalization and disinvestment of many public sector units (PSUs). Ironically, however, the talk of disinvestment gained momentum at a time when the public sector, as one may now appreciate, was observed to perform quite creditably. Nagraj (1991) also reached almost similar kind of conclusion while investigating the performance of the public sector in the 1980s. Given the impressive performance of public sector tertiary production, the government – in many situations – needs to reconsider the policy of disinvestment in a more careful manner. For this, however, it is essential to look not only into the behaviour pattern of the public sector output at sub-sectoral level, but also look at enterprise level. We must admit that crude figures of aggregate output cannot exclusively be relied upon to

pass final judgements; we need to explore output data at disaggregated level plus other parameters – employment, capital utilization, technology, profitability etc. (analysis of output data at sub-sectoral or disaggregated levels will be taken up in a later section in this chapter) so as to reach a firm opinion.

III. Size and Structure of Tertiary Employment in Public Sector

We now consider the other side of the coin: the employment aspect. Table – 7 depicts the size and growth of employment in India's organized sector and its decomposition between the public sector and the private sector; Figure 6, on the other hand, shows the trend in public sector's employment share in this aggregate employment generation. The figures indicate that the government sector has been the dominant source in terms of employment generation in the organized sector. Further, the share of the public sector in total organized sector employment reflected a rising trend since the early 1970s and from around the mid-1990s, this share has been falling – a picture that is compatible with the phase of economic reforms. However, even then, government is still the largest single provider of employment as far as organized sector is concerned. One of the reasons for the rising trend in public sector employment since the early 1970s may be because of the nationalization of 14 major banks in

1969 and, then, in 1971 nationalization of general insurance business. A large section of organized labour force which was classified as private sector employees, became employees of the public sector after nationalization; this

means, employment figures under the public sector get enlarged. Similarly, nationalization of 6 more commercial banks in the early 1980s also led to reclassification of a sizeable work force from being private to public.

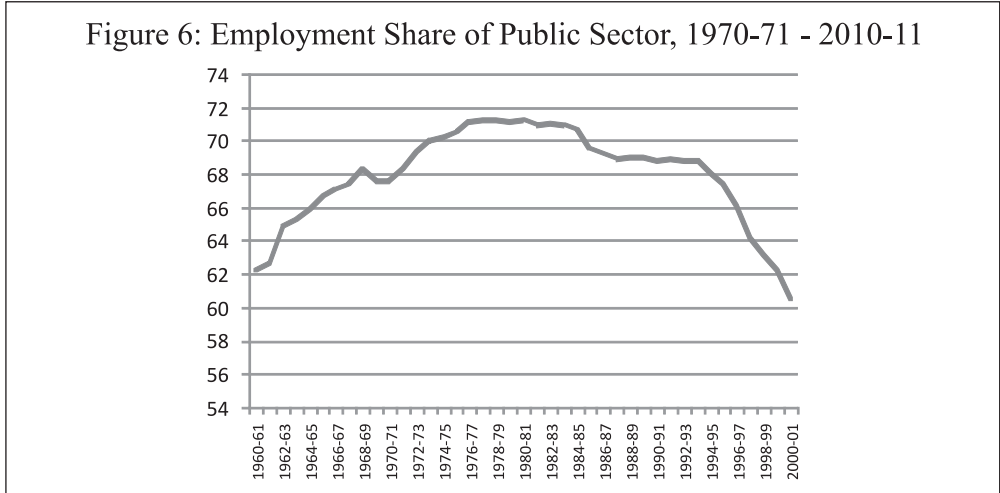


Table – 7: Organized Sector Employment Figures (in Millions)

Year	Employment (End- March)		Aggregate Employment	% Share of Public Sector Employment
	Public Sector	Private Sector		
1970-71	11.10	6.73	17.83	62.25
1971-72	11.69	6.96	18.65	62.68
1972-73	12.40	6.72	19.12	64.85
1973-74	12.73	6.75	19.48	65.35
1974-75	13.13	6.79	19.92	65.91
1975-76	13.63	6.79	20.42	66.75
1976-77	14.18	6.95	21.13	67.11
1977-78	14.73	7.11	21.84	67.45
1978-79	15.58	7.23	22.81	68.30
1979-80	15.12	7.24	22.36	67.62
1980-81	15.48	7.40	22.88	67.66
1981-82	16.28	7.53	23.81	68.37
1982-83	16.75	7.39	24.14	69.39
1983-84	17.22	7.36	24.58	70.06
1984-85	17.58	7.43	25.01	70.29
1985-86	17.68	7.37	25.05	70.58
1986-87	18.24	7.39	25.63	71.17
1987-88	18.32	7.39	25.71	71.26
1988-89	18.51	7.45	25.96	71.30
1989-90	18.77	7.58	26.35	71.23
1990-91	19.06	7.68	26.74	71.28
1991-92	19.21	7.85	27.06	70.99
1992-93	19.33	7.85	27.18	71.12
1993-94	19.45	7.93	27.38	71.04

Year	Employment (End- March)		Aggregate Employment	% Share of Public Sector Employment
	Public Sector	Private Sector		
1994-95	19.47	8.06	27.53	70.72
1995-96	19.43	8.51	27.94	69.54
1996-97	19.56	8.69	28.25	69.24
1997-98	19.42	8.75	28.17	68.94
1998-99	19.41	8.70	28.11	69.05
1999-00	19.31	8.65	27.96	69.06
2000-01	19.14	8.65	27.79	68.87
2001-02	18.77	8.43	27.20	69.01
2002-03	18.58	8.42	27.00	68.81
2003-04	18.20	8.25	26.45	68.81
2004-05	18.01	8.45	26.46	68.07
2005-06	18.19	8.77	26.96	67.47
2006-07	18.00	9.24	27.24	66.08
2007-08	17.67	9.88	27.55	64.14
2008-09	17.80	10.38	28.18	63.17
2009-10	17.86	10.85	28.71	62.21
2010-11	17.55	11.45	29.00	60.52

Source: RBI & Author's Calculation

Table – 8: Summary Information on Public Sector Employment (in '000)
[as on December 31 of each year]

Year	Primary	Manufacturing	Secondary	Tertiary	Total	Share of Tertiary	Share of Secondary
1961	309	369	1196	5545	7050	78.65	16.96
1962	370	490	1380	6070	7820	77.62	17.65
1963	342	509	1535	6206	8083	76.78	18.99
1964	360	620	1600	6820	8780	77.68	18.22
1965	370	635	1666	6921	8957	77.27	18.60
1966	400	690	1760	7370	9530	77.33	18.47
1967	410	730	1820	7490	9720	77.06	18.72
1968	430	750	1870	7650	9950	76.88	18.79
1969	430	780	1960	7890	10280	76.75	19.07
1970	441	782	1981	7952	10374	76.65	19.10
1971	535	862	2212	8341	11088	75.23	19.95
1972	613	950	2400	8673	11686	74.22	20.54
1973	929	1016	2527	8943	12399	72.13	20.38
1974	990	1095	2591	9152	12733	71.88	20.35
1975	1056	1096	2585	9485	13126	72.26	19.69
1976	1107	1214	2762	9748	13617	71.59	20.28
1977	1290	1310	2888	10003	14181	70.54	20.37
1978	1394	1384	3018	10320	14732	70.05	20.49
1979	1179	1416	3082	10414	14675	70.96	21.00
1980	1228	1446	3175	10676	15079	70.80	21.06
1981	1261	1586	3375	11168	15804	70.67	21.36
1982	1322	1662	3476	11481	16279	70.53	21.35
1983	1381	1723	3572	11794	16747	70.42	21.33
1984	1459	1747	3646	12111	17216	70.35	21.18
1985	1479	1812	3765	12340	17584	70.18	21.41
1986	1503	1846	3807	12603	17913	70.36	21.25
1987	1490	1874	3920	12827	18237	70.34	21.49

Year	Primary	Manufacturing	Secondary	Tertiary	Total	Share of Tertiary	Share of Secondary
1988	1514	1856	3906	13064	18484	70.68	21.13
1989	1522	1848	3894	13099	18515	70.75	21.03
1990	1515	1879	3910	13346	18771	71.10	20.83
1991	1556	1852	3906	13597	19059	71.34	20.49
1992	1560	1861	3929	13721	19210	71.43	20.45
1993	1559	1851	3936	13831	19326	71.57	20.37
1994	1560	1784	3889	13996	19445	71.98	20.00
1995	1555	1756	3855	14055	19465	72.21	19.80

Source: Report on Currency and Finance, RBI (various issues)

Table – 8 contains summary information on public sector employment (vis-à-vis private sector employment). We observe that between 1961 and 2002:

Total employment in public sector had steadily increased; and

Tertiary activities are the major source of labour absorption in public sector. This is reflected in the fact that share of tertiary employment in total public sector employment – in spite of showing a falling trend – accounts for more than 70%.

We can attempt to form an idea about the structure or composition of tertiary employment within the public sector. In Table – 9(a) and Table – 9 (b) broad sectoral division

of public sector (as well as of private sector) tertiary employment and its shares in tertiary economy (within the public sector) have been provided, respectively. We have also computed the Hirschman index of concentration. It is found that that the CSPS and TSC activities account for major chunks of employment shares; also, it may be inferred that the Hirschman index of concentration has remained almost stable over the years under consideration. Thus, we may assert that in absolute terms even though public sector absorbs a sizeable slice of tertiary employment, public sector has, however, failed to herald any structural transformation in India's employment front.

Table – 9 (a): Broad Sectoral Division of Tertiary Employment (in '000) in Public Sector (vis-à-vis Private Sector) [as on Dec. 31 of each year] As Per 'Old' Industrial Classification

Year	Public Sector			Private Sector		
	WRT	TSC	FIREBS & CSPS	WRT	TSC	FIREBS & CSPS
1961	NA	NA	NA	160	80	280
1962	120	1850	4100	190	140	370
1963	NA	NA	NA	190	110	430
1964	140	2020	4660	240	110	470
1965	NA	NA	NA	240	110	520

Year	Public Sector			Private Sector		
	WRT	TSC	FIREBS & CSPS	WRT	TSC	FIREBS & CSPS
1966	160	2110	5100	340	120	850
1967	170	2120	5200	347	121	853
1968	180	2140	5330	353	105	880
1969	270	2180	5440	369	108	922
1970	NA	NA	NA	302	101	960
1971	367	2238	5746	294	94	1032
1972	406	2288	5979	310	93	1085
1973	438	2336	6169	312	78	1112
1974	469	2371	6312	337	79	1134

As Per 'New' Industrial Classification (Table – 9 (a) contd.)

Year	Public Sector				Private Sector			
	WRT	TSC	FIREBS	CSPS	WRT	TSC	FIREBS	CSPS
1975	53	2377	492	6563	300	75	179	1048
1976	74	2444	522	6708	275	71	185	1083
1977	80	2492	568	6863	274	61	187	1118
1978	97	2561	631	7031	279	71	194	1134
1979	99	2597	647	7071	281	71	201	1140
1980	110	2651	691	7224	274	71	206	1167
1981	114	2765	790	7499	277	60	200	1253
1982	117	2805	857	7702	275	60	206	1272
1983	123	2880	888	7903	275	57	213	1291
1984	127	2896	970	8118	278	55	216	1298
1985	131	2926	1019	8264	276	53	221	1326
1986	134	2967	1049	8453	278	52	226	1360
1987	140	3001	1087	8599	282	52	235	1391
1988	144	3020	1108	8792	285	51	241	1426
1989	144	3026	1116	8813	286	51	234	1429
1990	150	3023	1154	9019	291	52	239	1460
1991	150	3026	1194	9227	300	53	254	1485
1992	157	3063	1214	9287	296	54	266	1527
1993	148	3055	1252	9377	301	55	277	1550
1994	161	3084	1273	9478	301	56	282	1585
1995	162	3106	1283	9504	308	58	293	1603

Source: Report on Currency and Finance, RBI (various issues)

Note: WRT stands for wholesale and retail trade

Finally, we may also make an attempt to have some rough idea about employment elasticity in the tertiary sector under the domain of the public

sector. In order to estimate input elasticity of output, we can use the following equation:

$$\ln Y = a + b \ln K + c \ln L + u_t$$

where Y is real output, K stands for real gross capital formation (as a proxy

for capital employed) and L stands for employment of labour (measured in thousands). We have

Table – 9 (b): Tertiary Employment Shares in Public Sector and Index of Concentration in Public Sector Tertiary Employment

Year	WRT	TSC	FIREBS	CSPS	Index of Concentration
1975	0.56	25.06	5.19	69.19	0.7378
1976	0.76	25.07	5.35	68.81	0.7344
1977	0.80	24.91	5.68	68.61	0.7322
1978	0.94	24.82	6.11	68.13	0.7277
1979	0.95	24.94	6.21	67.90	0.7261
1980	1.03	24.83	6.47	67.67	0.7238
1981	1.02	24.76	7.07	67.15	0.7192
1982	1.02	24.43	7.46	67.08	0.7179
1983	1.04	24.42	7.53	67.01	0.7172
1984	1.05	23.91	8.01	67.03	0.7162
1985	1.06	23.71	8.26	66.97	0.7153
1986	1.06	23.54	8.32	67.07	0.7158
1987	1.09	23.40	8.47	67.04	0.7152
1988	1.10	23.12	8.48	67.30	0.7167
1989	1.10	23.10	8.52	67.28	0.7165
1990	1.12	22.65	8.65	67.58	0.7180
1991	1.10	22.25	8.78	67.86	0.7196
1992	1.14	22.32	8.85	67.68	0.7183
1993	1.07	22.09	9.05	67.79	0.7188
1994	1.15	22.03	9.10	67.72	0.7180
1995	1.15	22.10	9.13	67.62	0.7173
1996	1.14	21.99	9.11	67.76	0.7183
1997	1.12	21.62	9.03	68.23	0.7215
1998	xxx	xxx	xxx	xxx	xxx
1999	xxx	xxx	xxx	xxx	xxx
2000	1.10	22.28	8.75	67.87	0.7197
2001	1.12	21.24	8.94	68.69	0.7247
2002	1.13	21.30	8.70	68.86	0.7261

Source: Computed from Report on Currency and Finance, R.B.I. (various years)

estimated this equation for the public sector output as a whole over the period 1960-61 – 2001-02:

(- 6.6572) (3.1157) (8.0705)

[where PSTEREMP stands for public sector tertiary employment (measured

in thousands) and PSTERGCF stands for real public sector gross capital formation in tertiary activities (measured in crores of rupees and at 1993-94 prices)].

It is found that employment elasticity in the tertiary segment of the public sector (indicated by the coefficient 'c') is 2.4091, which is, indeed, a rather high value. The value of the coefficient 'c' indicates that a 1% increase in employment of labour, ceteris paribus, causes a 2.4% increase in real tertiary

output in the public sector. Many authors often talk of the

phenomenon of jobless growth in India's tertiary sector. A high value of 'c' may be an indicator of that contention in the sense that real output grows faster than employment generation in the tertiary activities. Alternatively, a high Y/L means a low L/Y, i.e. low labour intensity of output and, accordingly, a tilt towards jobless growth.

Table – 10: Gross Capital Formation (GCF) in Public Sector Tertiary Segment (at 1993 -94 Prices) [₹ Cr.]

Year	GCF	Year	GCF	Year	GCF
1960-61	9349	1974-75	11922	1988-89	25842
1961-62	8995	1975-76	14661	1989-90	27719
1962-63	11000	1976-77	15197	1990-91	28551
1963-64	11710	1977-78	12165	1991-92	24700
1964-65	12688	1978-79	15969	1992-93	30773
1965-66	12375	1979-80	15823	1993-94	36017
1966-67	9546	1980-81	17089	1994-95	xxx
1967-68	10685	1981-82	19058	1995-96	xxx
1968-69	8480	1982-83	19273	1996-97	xxx
1969-70	8922	1983-84	19652	1997-98	34138
1970-71	11175	1984-85	23040	1998-99	36937
1971-72	13057	1985-86	21568	1999-00	44932
1972-73	16236	1986-87	24570	2000-01	49634
1973-74	14832	1987-88	19692	2001-02	45880

Source: National Accounts Statistics, C.S.O. (various years)

Conclusion

On the basis of our foregoing discussion, the major conclusions that emerge are the following:

(1) It is not possible, unlike the case of

national economy, to establish an unambiguously rising dominance of tertiary production within the domain of public sector.

(2) The most notable contribution to the growth of the public sector

output has been made by the sub sector finance, insurance, real estate and business services (FIREBS), especially the activities under banking and insurance. From the point of view of rate of growth, the financial sector has performed most impressively and consistently during 1960-61 – 2001-02. This, possibly, points to the pivotal role that the public sector financial institutions have played in the growth and transformation of India's financial sector

- (3) Structural change, viewed from the angle of output composition, within the tertiary economy under the ambit of public sector has been taking place at a slow pace.
- (4) Even though the public sector occupies a key position in terms of employment generation, especially with respect to tertiary employment, it has, however, remained free from any structural transformation as far as tertiary employment is concerned.
- (5) A closer look into the policy of disinvestment in public sector enterprises may be needed, given the impressive track record of some of the tertiary sub sectors (e.g. finance and telecommunication).

Appendix 1

Let us consider a hypothetical economy consisting of two sectors: public sector (the relatively non progressive sector) and private sector or the rest of the economy. As indicated, we assume that the productivity growth in the

public sector (Sector 1) lags behind the other sector, viz. Sector 2 (in Baumol's terminology "progressive" sector). We use the following notations in this two-sector model:

L_{1t} = employment of labour at time 't' in public sector;

L_{2t} = employment of labour at time 't' in the rest of the economy;

a_1, a_2 = indices of (per unit) labour productivity in public sector and rest of the economy, respectively;

r_1, r_2 = rates of growth (exponential) of labour productivity in public sector and rest of the economy, respectively.

Q_{1t} = output of the public sector in period t;

Q_{2t} = output in the rest of the economy (other sector) at time t; and

$Y_t = Q_{1t} + Q_{2t}$ = aggregate (real) output at time 't' (ignoring relative price or, setting it, for simplicity, at unity).

We are assuming labour as the only (variable) factor of production and assume a given labour supply so that $L_{1t} + L_{2t} =$.

We also assume $w_{1t} = w_{2t} = w$ (due to, say, free mobility of labour or, say, because of some sort of demonstration effect).

Given these assumptions we can write:

$$Q_{1t} = a_1 e^{r_1 t} L_{1t} \dots \quad (1)$$

$$Q_{2t} = a_2 e^{r_2 t} L_{2t} \dots \quad (2)$$

$$\therefore Y_t = a_1 e^{r_1 t} L_{1t} + a_2 e^{r_2 t} L_{2t} \dots \quad (3)$$

So, the share of public sector output in total output is given by:

$$s = \frac{a_1 e^{r_1 t} L_{1t}}{a_1 e^{r_1 t} L_{1t} + a_2 e^{r_2 t} L_{2t}}$$

$$= \frac{1}{1 + \left(\frac{a_2}{a_1}\right) e^{(r_2 - r_1)t} \left(\frac{L_{2t}}{L_{1t}}\right)}$$

Since Sector 2 is considered to be (more) progressive sector than Sector 1 (the public sector), $r_2 > r_1$. Hence, over time $(a_2 / a_1) e^{(r_2 - r_1)t}$ will rise. As a result, the public sector can maintain its share in total output if $\frac{L_{2t}}{L_{1t}}$ falls; and it means – given – labour is transferred from more progressive to less progressive sector. Further, as the wage rate is assumed to be identical (and constant) across sectors, a rise in L_{1t} implies rising expenditure on wage bill (in the public sector). On the other hand, if the public sector wants to maintain a constant share of labour employment, $\frac{L_{2t}}{L_{1t}}$ will become fixed. This means, with rise in $(a_2 / a_1) e^{(r_2 - r_1)t}$ over time, the share of public sector output in total output declines. We can, therefore, assert - following this formulation - that public expenditures grow in that economy where the government attempts to capture a certain fixed share of total national output.

While Baumol's explanation towards rising public expenditure rests on a number of rigid or simplifying assumptions, theories explaining the growth of public sector offered by Alan Peacock and Jack Wiseman (1961) may be regarded as more

realistic. The Peacock-Wiseman study covered the period 1870-1955 and pertained to the British economy. Their hypotheses regarding the growth of the government sector broadly runs along the following lines:

1. During normal periods, people have an idea about tolerable or acceptable tax rate structure which the public authorities do not risk to ignore. Given this tax structure, as real income growth takes places, public revenues and expenditures also grow over time.
2. However, when large scale social disturbances occur – mainly, say, due to wars – public expenditures rise to a new plateau and tax rates, therefore, also rise to a new level. Even after the dust settles and the economy returns to its normalcy, the higher tax rates and public expenditure levels continue to survive because, on the one hand, people become accustomed to the new tax rates and, on the other hand, government has to maintain its new commitments – notably, payments of war pensions, debt interest etc. According to Peacock-Wiseman, the shift of the public revenues and expenditures to a higher plane as a result of social disturbances is known as 'displacement effect'. Also, social disturbances, such as wars, compel the government and the society to pay attention to some problems – e.g. war pensions, including pensions / maintenance allowance to war widows, individuals rendered handicapped by the war

and so on – which were neglected earlier. Peacock-Wiseman term it ‘inspection effect’.

3. Finally, Peacock-Wiseman also mention another effect: ‘concentration effect’. Even though they recognize the pressure and demand for democratic decentralization (of power), the authors argue that there is a tendency for the central government to grow, relative to local governments. With real income growth, ‘technically efficient level of government’ changes and demand for equal provision for certain services across vast geographical areas – like education, infrastructure etc. – grows. The same social disturbances that generate displacement effect are also, to some extent, responsible for this situation. As a result of this development, central government is called upon to handle some social responsibilities which are supposed to be beyond the capabilities of the local governments. Quite naturally, therefore, the size of the public sector grows over time.

In an important paper, Rati Ram (1986) arrived, through empirical exercise, at the following observations: (a) government size has a positive externality effect on other sectors and economic performance; (b) relative factor productivity was higher in public sector than in other sectors during the 1960s; and (c) positive externality effect of government size on economic

growth might be stronger in lower income countries. These results were obtained considering time series data (1960 – 1980) of 115 countries. It is clear that Ram’s assertions are opposite to the message of Baumol. Following Ram’s work, J. L. Carr (1989) and B. Rao (1989) tried to question Ram’s findings. While Carr stressed on the problem of data bias (arising out of valuation of government goods and services at cost) and, hence, of maintaining caution while passing judgment on effect of government size on rest of the economy, Rao raised reservations regarding some of the assumptions that Ram made in his work. However, in response to criticisms from these two authors, Ram (1989) demonstrated that the major conclusions of his paper would remain valid even after allowing for adjustments and, hence, there is strong reason to believe in positive externality effect of government size. Once the positive externality argument is accepted, that strengthens the justification for increased size of public sector. In a developing economy like India, the externality argument, indeed, assumes greater significance. Even if one agrees with Baumol’s argument that public sector is itself ‘non-progressive’, as long as the spending in public sector creates positive external effect on the rest of the economy, that action, indeed, has indirect productivity effects. In this sense, Baumol’s approach seems to be rather narrow since it ignores or fails to appreciate the beneficial effects of the presence of public sector.

Coming to the Indian context, one finds a vast literature covering different micro aspects of public sector as well as public sector as a whole. It is not possible to touch or mention all these within a limited space; reference to a select ones will suffice so as to understand the vastness of the existing literature. It needs to be mentioned that pricing, productivity, profitability, investment, financing, management (with respect to public sector) are some of the areas that attracted frequent attention from the scholars. Lokanathan (1957) was, perhaps, one of the earliest writers writing on the topic, viz. India's public sector. Mazumdar (1982), Gothoskar (1989), Minhas (1991), Nagraj (1991), Suresh Kumar (1997), among others, also attempted to explore the place and role of public sector in India. Whereas there exists a voluminous literature on public sector as a whole, at macro level there is an acute paucity of literature dealing with India's public sector in the context of tertiary economy; there have, though, been attempts to explore various aspects of India's public sector at sub-sectoral level within the tertiary sector. A glance through the literature reveals that public sector banks have frequently received researchers' attention. Productivity and profitability scenarios, especially, in nationalized banks have been areas of investigation by the scholars – e.g. by Subrahmanyam (1993), D'Souza (2002) and Ram (2002). One can also find a limited number of studies with respect to employment – e.g. authored by Dar (1970) and Agarwalla (1983); on the other hand, there is an important study

by Rao (1985) on the non-financial, non-departmental enterprises.

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Analysis of Union Budget, 2015-16: Challenges & Opportunities

Yogita Kukreja*

I. Union Budget

Union Budget is the financial statement of the government, which outlines the annual expenditure and revenue generation by the government over the period of one financial year, starting from April 01 to March 31. The revenue generation can be done by tax or non-tax sources. The government spending or expenditure can be in the form of investments in PSUs, salaries, government services, etc. The Union Budget is generally presented by the Finance Minister in Parliament on last working day of February. The Budget is then reviewed and modified in the Lok Sabha for one month, from March 01 to March 31. The final Budget then comes in to effect from April 01.

The Union Budget is the summation of Revenue Budget and Capital Budget. Revenue Budget takes account of the government's revenue receipts and expenditure whereas the Capital Budget comprise of

capital receipts and expenditure of the government.

II. HIGHLIGHTS OF UNION BUDGET SINCE INDEPENDENCE

The first Union Budget of independent India was presented by the then Finance Minister R. K. Shanmukham Chetty, on November 26, 1947. This budget was the interim budget as it covered only 7 ½ months from Aug 15, 1947 to March 31, 1948. The latest budget presented on Feb 28th, 2015 was the 85th budget of independent India including 68 regular/ normal budget, 13 interim budgets and 4 special-occasion budgetary proposals or mini budgets. Following are the highlights of some of the budgets which changed the Indian Economy:

- The first budget (presented on November 26, 1947) was more of analysis of the economic scenario of independent India and there were no any tax proposals. This budget mainly focused on Agriculture sector.
- In FY 1950-51, the first budget of Republic India was presented by the third Finance Minister John Mathai. The Finance Minister

* Yogita Kukreja, student at ICAI Business School carried out the analysis as an Intern at Bombay Chamber of Commerce & Industry.

proposed the formation of Planning Commission and eliminated the business profit tax.

- In FY 1957-58, T. T. Krishnamachari introduced the Wealth Tax, Expenditure Tax and Tax on Railway passenger fee. This budget tried to differentiate between the active income and the passive incomes.
- In FY 1962-63, Finance Minister Morarji Desai made the short term capital gains taxable at ordinary income levels and taxed the long term gains at specified rate and also abolished the Expenditure Tax.
- In FY 1964-65, T. T. Krishnamachari gave the tax rebate on Provident Fund, Post Office deposit schemes and Life Insurance premiums.
- In FY 1968-69, Finance Minister Morarji Desai introduced the Public Provident Fund and at the same time discontinued the Dividend Tax. In 1969 Budget, Morarji Desai Nationalized 14 banks and so banks were forced to open branches in remote areas.
- In FY 1973-74, Finance Minister Y. B. Chavan nationalized the coal and insurance companies. And the estimated budget deficit of that year was ₹ 550 crore.
- In FY 1986-87, Finance Minister V. P. Singh introduced the Modified Value Added Tax in turn reducing the various duties on input materials.
- In FY 1991-92, Finance Minister Manmohan Singh liberalized the Foreign Direct Investment (FDI)

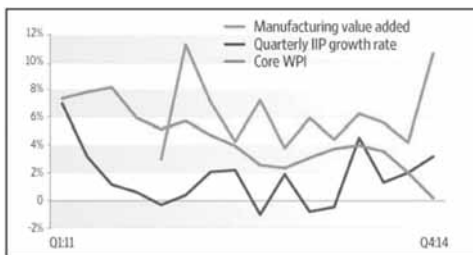
policy, launched the Dollar-denominated India Development Bonds and also heightened the Private Sector. In FY 1994-95, Finance Minister Manmohan Singh introduced the Service Tax.

- In FY 1997-98, Finance Minister P. Chidambaram allowed Minimum Alternate Tax to be carried forward for five assessment years. He also phased out the spontaneous treasury bills issuance.
- In FY 1998-99, Finance Minister Yashwant Sinha replaced Foreign Exchange Regulation Act with Foreign Exchange Management Act.
- In FY 2005-06, Finance Minister P. Chidambaram launched various schemes for the first time such as National Rural Health Mission, MNREGA and Gender Budget.
- In FY 2008-09, Finance Minister P. Chidambaram proposed BPL food, fuel and fertilizer subsidies.
- In FY 2012-13, Finance Minister Pranab Mukherjee introduced General Anti-Avoidance Rules to tackle the tax avoidance and also allowed Qualified Foreign Investors (QFIs) to access the Indian Corporate Bond Market.
- In FY 2013-14, Finance Minister P. Chidambaram announced India's first women's Bank.

III. STATE OF THE ECONOMY IN FY 2014-15

The GDP growth rate estimate for the third quarter (Q3), FY 2014-15 with

revised base year to 2011-12 is likely to be at 7.5%; whereas the overall growth in GDP during FY 2014-15 is expected to be 7.4% (Source: Advance Estimates Of National Income, 2014-15, MOSPI, Feb 2015). The Wholesale and Consumer price indices condensed and touched the new lows in FY 2014-15 with WPI at -2.33 and CPI at 5.17 in March 2015. The Index of Industrial Production remained fluctuating from touching high at 5.6% in May 2014 to as low as -4.2 in October 2014. India's exports during Q3 of 2014-15 (Oct-Dec 2014) shrunk by 1.0 percent after two consecutive quarters of growth cause of reduction in exports of petroleum products along with non-oil product export. Export performance had been impacted by weak global demand conditions. The fall in international crude prices resulted into a substantial saving on account of crude imports. During the entire FY 2014-15, the rupee rate floated above ₹ 60.00 with reaching as high as ₹ 63.75 in the third quarter.



Source: Where the economy is going, livemint.com

IV. UNION BUDGET, 2015-16

This Union Budget is the first full-budget by the new Modi-led NDA Government. The new Hon'ble Finance Minister Shri Arun Jaitley has tried

to show path towards Prime Minister Narendra Modi's Vision 2020 by announcing various reforms required to transform India to Digital India.

A. HIGHLIGHTS OF THE BUDGET

- Monetary Policy Framework Agreement with RBI, to keep inflation below 6%.
- GDP growth in 2015-16, projected to be between 8% and 8.5%.
- Housing for all, 2 crore houses in Urban areas and 4 crore houses in Rural areas.
- Direct Transfer of Benefits to be extended further.
- Target of ₹ 8.5 lakh crore of agricultural credit during the year 2015-16.
- Basic Custom duty on certain inputs, raw materials, intermediates and components in 22 items.
- Micro Units Development Refinance Agency (MUDRA) Bank, with credit guarantee corpus of ₹ 3,000 crore and in lending, priority will be given to SC/ST enterprises.
- NBFCs registered with RBI and having asset size of ₹ 500 crore and above may be considered for notifications as 'Financial Institution'.
- Sharp increase in outlays of roads and railways. Capital expenditure of public sector units to also go up.
- Tax free infrastructure bonds for the projects in the rail, road and irrigation sectors.

- SETU (Self-Employment and Talent Utilization) to be established as Techno-financial, incubation and facilitation programme to support all aspects of start-up business.
- Forward Markets Commission to be merged with SEBI.
- Gold monetization scheme to allow the depositors of gold to earn interest in their metal accounts and the jewelers to obtain loans in their metal account to be introduced.
- Foreign investments in Alternate Investment Funds to be allowed.
- Distinction between different types of foreign investments, especially between foreign portfolio investments and foreign direct investments to be done away with.
- An autonomous Bank Board Bureau to be set up to improve the governance of public sector bank.
- Rationalization and removal of various tax exemptions and incentives to reduce tax disputes and improve administration.
- Proposal to reduce corporate tax from 30% to 25% over the next four years, starting from next financial year.
- Measures to curb black money.
- Acceptance or re-payment of an advance of ₹ 20,000 or more in cash for purchase of immovable property to be prohibited.
- Wealth-tax replaced with additional surcharge of 2 per cent on super rich with a taxable

income of over ₹ 1 crore annually.

- General Anti Avoidance Rule (GAAR) to be deferred by two years.
- Education cess and the Secondary and Higher education cess to be subsumed in Central Excise Duty.
- Service-tax plus education cesses increased from 12.36% to 14%.
- GST will put in place a state-of-the-art indirect tax system by 1st April, 2016.
- Devolved a 42% share of the divisible pool of taxes to States.

The budget announced by FM, Arun Jaitley seems to be aligned with the overall Fiscal Policy adopted by the new government. The budget designed was with reflection of various broad themes like 'Make in India' or 'Digital India' which are trying to be implemented by the new government.

B. REFORMS PROPOSED IN SPECIFIC SECTORS

1. AGRICULTURE & SUBSIDIES

There is no excitement or disappointment even, on agriculture, because India is doing very badly in agriculture this year with the estimated growth rate of 3.2% (Source: Office of Economic Advisor, April 2015) and unless agriculture picks up 4 per cent growth, it might not be possible to achieve GDP growth of 8% to 8.5%. So, something more significant was expected on agriculture. If direct benefits are transferred in various sectors, where subsidies of fertilizers

can be transferred directly to the farmers, then it will aid a huge positive in the economy.

2. BANKING & NBFCs

One significant progression is to make cashless transaction, so everybody will have debit or credit card to use instead of cash. The conversion of cash into the economy has the big multiplier effect. If this is implemented successfully then every rupee comes into the economy from cash through the banking system has multiplier of 3 to 4 into the system, which is very positive. Registered NBFCs with asset size above ₹ 500 crore are benefited a lot by being included in SARFAESI Act, 2002.

3. RBI MEASURES

Indeed, as inflation is somewhat under control, RBI wants to give some thrust to the growth by reducing the rate over the period of time. And so, all the experts believe that there is scope of at least another 50 basis points reduction [in rates] by the end of financial year. So if that happens, it will give some more funds to banks which basically come from deposits.

4. MANUFACTURING

For a government which has been promoting so actively 'Make in India' and aiming to increase the share of manufacturing in India's GDP, this budget is found to be completely short of any specific guidelines, incentives or steps in the direction of helping manufacturing to grow and become more competitive in India.

5. MSME

Budget talks a lot about fiscal benefits in terms of ease of doing business particularly for SMEs, because of their critical and important place in the Indian economy. SMEs provide employment to about 40 odd percent of Indian population and therefore the government has clear strategy for SMEs. SMEs are one of the key instruments in providing employment at localized basis and that prevents lot of labor migration to cities, and therefore their role has been well appreciated in the current budget and there is an enough encouragement has been provided.

6. INFRASTRUCTURE

Announcements about increasing outlays on roads and infrastructure, and overall ₹ 70,000 crore in center fund for infrastructure sector is an encouraging move, though as Mr. Jaitley said, it is not significant but it's an advancing step. But little more concrete strategies on infrastructure funding and innovative financing were expected, without which infrastructure will find it difficult because it requires 15 to 20% or lower interest. Though Finance Minister talked about National Investment and Infrastructure Funds as well as the few other provisions, but whether it will lead to the kind of money that is required to make infrastructure happen, is need to be watched. When looked at the discussion about 1,00,000 km roads to be completed, another 1,00,000 km roads to be approved and built, or the infrastructure investment, there

are some positives in the budget for increasing the consumption of cement. The cement consumption can increase and the huge surplus that the cement industry has built in the country will be utilized. The rural infrastructure development fund that is going to support with corpus of ₹ 25,000 crore is also appreciable.

7. TRANSPORTATION

The new government has been talking a lot about giving encouragement to the water transport, shipping, ship building particularly in-line with the 'Make in India'. So there were lots of expectations for maritime sector about announcements, particularly for ship building and coastal shipping. Unfortunately budget did not have anything. The sector will still look forward to such facilitative measures during the year which will give a boost to the ship building and shipping sector; because that has a big multiplier effect and entire economy will get a boost if the maritime sector comes up.

C. TAXATION:

1. DIRECT TAX PROPOSALS

The reduction in corporate rate from 30% to 25% over the next 3 to 4 years to make our Indian corporate structure competitive is one of the much awaited steps. Now it is not the only benefit as it may seem; the effective rate for corporate is being 23 percent as Mr. Jaitley pointed out. This is because of the slew of exemptions and deductions which distort the investment and business behavior. It will surely increase confidence in the corporate sector.

The whole budget is very equated as everybody is expected to pay a reasonable tax.

Black money has been a cancer for the whole economy and it was high time that at highest level it has to be tackled. Therefore, the proposal to go very heavily after the foreign assets, and prosecute and penalize the people who hold foreign assets and not declare them or conceal them from Indian tax regime, is a very welcomed and one of the most important feature of this budget. This hopefully will increase the tax base for collection of taxes. The Finance Minister has also removed the wealth tax which has collected only ₹ 1000 crore and ensured that the information which is required to establish and audit to catch hold of the black money is still remained intact.

2. INDIRECT TAX PROPOSALS

Removing various exemptions is one of the most positive features, because these are huge weak points and bring about lot of litigations as well. The taxes and excise duties are being rationalized to be in-line with the proposed GST rates for the services and, the clear road map has been given in the sense that, the GST will be implemented from 1st of April, 2016; however no clear indication that how the rules and everything will come. The industry expects the government to give all the rules and provisions in place and to put up for public comments, so that the industry can work in direction.

Lowering of rates for basic raw materials will encourage the

manufacturing in India, as it will decrease the cost of production on the industry. The Finance Minister has also rationalized the exemptions, like negative list of exemptions is being curtailed and, more and more services are brought under the service tax net.

The government has subsumed the education cess in the service tax that is one of the good parts. But the 1.64% increase in the service tax is a big dampener. Instead, the government could have easily reduced the expenditure on fertilizer subsidies. Some bill could have automatically reduced because of oil prices, but nevertheless there should be a roadmap to reduce subsidies to zero and use the proceeds from there for such things rather than increasing taxes, so this is the disappointment.

Very little push has been given to encourage saving or to encourage consumption expenditure. Except for the ₹ 70,000 crore infrastructures spend; it does not appear to increase demand. Even the rationalization of excise duty does not going to bring any changes, the clean energy cess and all is marginal. In all, the government has increased the indirect taxes by ₹ 23,000 crore and has given concession in direct taxes of ₹ 8,300 crore and thus the net revenue is about ₹ 15,000 crore. So the revenue effect of the tax is not significant; what could have been done is considerably changing the expenditure side by reducing the subsidies, fertilizers in particular, and using those proceeds to augment expenditure on infrastructure projects and so on.

VI. MATERIALISTIC BUDGET PROPOSALS TILL DATE

I. Prime Minister Narendra Modi on April 8, 2015 launched Micro Unit Development and Refinance Agency (MUDRA), with a mandate to refinance and regulate Micro Finance Institutions (MFIs)

and fund small units that are excluded from the mainstream banking system. With this the farmers will be eligible for input subsidy if 33 per cent of their crop has been damaged, as opposed to 50 per cent or more, which was the norm till now.

II. Government of India, Ministry of Finance has announced the launch of Atal Pension Yojana, Pradhan Mantri Suraksha Bima Yojana and Pradhan Mantri Jeevan Jyoti Bima Yojana on May 9, 2015. The annual period of insurance for all the three social security schemes will be from June 1 to May 31. Also, the person would be able to enroll these three schemes through one savings bank account only.

III. Government has allowed National Highways Authority of India (NHAI), on April 23, 2015, to issue Tax Free Infrastructure Bonds aggregating to ₹ 24000 crore. By this, the government is pushing ahead with plans to raise funds for roads, railways and irrigation

through the tax-free infrastructure bond route.

IV. The government is finalizing the formalities for the merger of commodity derivatives market regulator Forward Markets Commission (FMC) and the Securities and Exchange Board of India (SEBI) by September. After FMC merges with the SEBI, commodity exchanges will become stock exchanges and common members believe they will merge the commodity and equity companies also, but how SEBI will allow that will also have to be seen.

VII. FINDINGS

Firstly, whenever the economy grows, the availability of money in the hands of consumer also grows and, the domestic consumption is then promoted when there is surplus expendable income in consumer's hand. At first sight, we believe that the budget is growth oriented so it will boost consumption demand in domestic market. But it will not particularly promote domestic consumption as there is no any direct correlation, but the economic growth can definitely bring more money in the hands of consumers and thereby it can boost domestic demand. So it can be done either from the direct or indirect tax measures or by prudent deficit management, which reduces the inflation. But the government has not done any such thing, which would indicate that there will be extra money in people's hand over last year. In fact it will be possibly be the other way around.

One of the areas that would have any impact on the domestic consumption is the boost to the manufacturing sector (the 'Make in India' campaign) coupled with implementation of the GST. Although there would be a mid-term impact felt in terms of increased prices of goods but from a long-term perspective, it should definitely give a boost to the domestic market. As any boost to the real sector will have a multiplier effect i.e. increase in employment, increase in income levels in turn increasing the expendable income and the availability of goods & services in the domestic market which would in turn lead to the increase in consumption demand.

Secondly, the Budget has a few ingredients which may act as starters/initiators for FDI. But the government may have to take several significant follow up measures to actually make investments happen. The budget has probably created a small platform for promoting investments from the international community. But the international community is looking at many more reforms before they really start investing in big way in India. Those can be steps like long term consistency in policy, current account reforms, friendly Tax administration, GST implementation or infrastructure investments. Maybe the single window concept would work very well which would not only expedite the entire approval process but also do away with some of the bureaucratic slack which normally is not appreciated by business. If some of these things do not start happening soon, FDI will get further

delayed. What the budget said is that we are investment friendly; but these are just statements of intent, which the international investment community would like to test out in physical terms. Certainty and clarity of the legislative intent and dialogue with stakeholders at the appropriate time would always help.

Again if economy is growing then the stock market also grows. The track record of India is absolutely phenomenal and nonparallel. If we consider other BRIC countries or any South Asian or South East Asian country, the kind of growth which we have had in our Sensex is definitely far outpaces the growth there. But if the interest regime changes in America, it will of course have an impact on global economy as well as on Indian economy. We are being hearing since last at least three years or more that Quantitative Easing will be withdrawn and interest rate will increase in USA, but it's still not happened. Now if this happens then there could be withdrawal of some money from Indian market which will affect the Indian stock market. To what extent, what will be the adverse effect is to be seen.

Thirdly, the proposed measures in Union Budget 2015-16 may not improve savings ratio, because the budget has not promoted or did not give any incentives for savings, except for additional Rs 50,000 in National Pension System (NPS). In fact it has more or less usurped the original Direct Tax Code (DTC). Some clarity was to be brought about the instruments like NPS which is also not provided.

The Exempt-Exempt-Taxed (EET) vs. the Exempt-Exempt-Exempt (EEE) treatment of NPS has not been clarified. Currently, NPS is EET and it was expected in DTC that it will be EEE. It has not even changed the house building loan treatment, tax treatment, etc. So in any case, the budget can't said to be friendly for savings. There are no effective incentives for promoting savings in this budget.

Fourthly, it can be difficult to point out any particular sector since there would always be a ripple effect. With the recent announcements about land acquisition laws, labor laws, undisclosed foreign assets etc. whose ultimate implementation is yet to be seen; the effect would not be felt by a specific sector but the benefits should also be reaped by Manufacturing including MSMEs, infrastructure coupled with a robust and transparent capital market regime.

The whole talk about manufacturing, Make in India, has not been supported by concrete measures for any of its sectors/subsectors. Any specific policy measures have not been mentioned for promoting manufacturing. So this can be a disappointment as we are talking so much about manufacturing and we know that manufacturing is potentially the biggest employer. But we have not done much to incentivize the investments in manufacturing, which is very much required given the bottlenecks specific to infrastructure and the labor market issues.

Although, one had expected that the infrastructure sector will actually get an impetus in terms of investment

from this Budget, it is going to be the infrastructure sector; it's not really much. But emphasis on Infrastructure is definitely going to benefit the core sectors. Cement in a way, is indirectly a part of infrastructure. It is upstream of infrastructure, so if infrastructure sector gets a boost then cement will indirectly get a boost. Even maritime-logistics sector, which is again a service industry, can get the advance with infrastructure growth as the international trade is related to that of the economy.

VIII. CONCLUSION

The budget appears to be growth oriented with reforms such as reduction in corporate tax from 30% to 25% over the period of four years, narrowing the exemption net spread to control the leakages, a good boost to Infrastructure sector thereby creating multiplier effect and many others. But along with such growth oriented reforms, this budget also lays some questions in the mind such as how the revenues can be met when given meager tax collection provisions, talking about curbing black money, how it will be instigated or where are the clear guidelines for implementing GST or reducing the corporate tax over the years.

The biggest threat in achieving the GDP target could be the actual implementation of the promises on the ground level and maybe talk about the realistic timelines rather than making it a one fiscal year agenda. Because of change in base year the CSO chief has mentioned that all the back year growth rate data has to be reworked in order to compare the growth rate of this year to that of the previous

years on apple to apple basis. But this reworking has not been done yet. So, if the last year's expected growth rate is 7.4% and Mr. Jaitley has talked about 8.5% growth rate in current fiscal, it should be absolutely an easy target because it is a change of only 1%. Given, FY 2013-14 growth rate was 6.9% and expected number for 2014-15 is 7.4%, it seems the growth rate of 8.5% is easily achievable.

Yet, some of the experts are of the view that going by the growth indicators and the sentiments expressed by industry and business so far, 8.5% seems now to be a tough number to crack. Of course, we have full 11 months to go but the real procedural issues or complex policy issues are not being addressed, or are taking time to get addressed. And also more active participation by the public sector, especially in the initial stages where the boost to the economy is required, is yet to be seen. Government should step in and ensure the entire Public Private Partnership mission does lead to success.

Overall, this budget can be said to have a clear method and in-line with the overall fiscal policy which the new government has adopted. It can be termed as a growth oriented and directional budget with no major radical transformations. The Finance Minister has got one more year for fiscal consolidation, so that gives little levy hopefully, to finance the investments. Finally, it can be said that, whether it's an international tax, domestic tax or war on black money, a medium to long term policy imperatives have been set by the finance minister which are as per the expectations.

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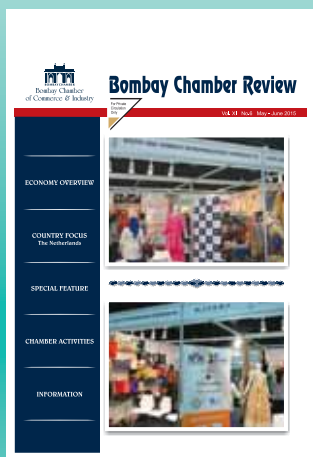
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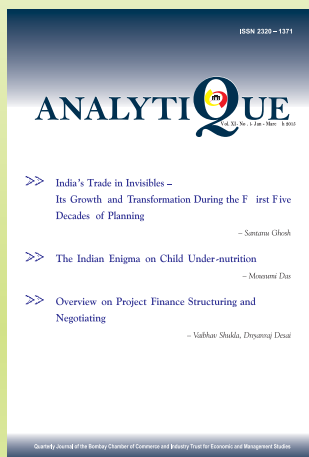


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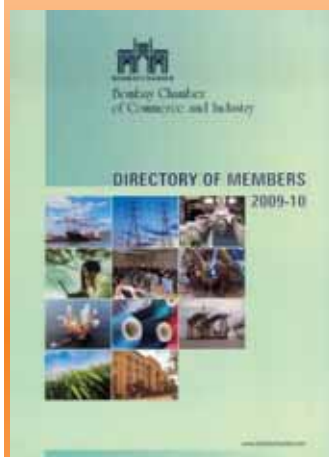
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