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**AN ECONOMIC CLASSIFICATION OF  
THE KERALA GOVERNMENT  
BUDGETS**

1962-63 to 1964-65

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KERALA GOVERNMENT BUDGET

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1962-63 to 1964-65



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## FOREWORD

The traditional system of budget presentation is meant primarily to ensure accountability of funds as well as to meet other requirements of fiscal management. It does not provide directly the information required for the formulation of fiscal and economic policies. The budgetary operations of Government have far-reaching effects on the economic and social life of the people. The reclassification of Government transactions on the basis of economic and functional criteria has therefore assumed in recent years an increasing importance.

The present study by the Bureau of Economics and Statistics is the first attempt in the State in this direction. It is proposed to bring out this study annually.

V. RAMACHANDRAN,  
*Addl. Secretary to Government*  
*(Planning & Finance).*

Government Secretariat,  
Trivandrum, 26-7-1965.

## PREFACE

There has been a long felt necessity for a rearrangement of the budget of the State Government into economically significant categories so as to enable a close study of the impact of the financial operations of Government on the economy of the State. The Bureau has tried to meet this need and this publication is the result of the first attempt in the direction. The economic classification presented here is for the year 1964-65 (B.E). The budgets for 1963-64 (R.E.) and 1962-63 (Accounts) are also covered incidentally.

The Government transactions have been classified under six accounts. In the system of classification similar types of transactions are grouped together. Thus consumption expenditure is separated from current transfers intended to supplement the income of individuals and institutions. Capital formation by Government is treated separately from capital transfers to other agencies. Transactions leading to changes in financial assets or liabilities are also dealt with distinctly. Thus the classification helps to bring out the demand made by Government on the real resources of the Community for financing its consumption and investment and the contribution made by Government towards capital formation directly through its own activity and indirectly through capital assistance given to other agencies.

The more important of the findings from the analysis are given in Chapter III.

This work was done by Sri. T. Edwin, Research Officer of this Bureau under the supervision of Sri P. P. Philipose, Deputy Director.

P. K. GOPALAKRISHNAN,

*Director*

*Bureau of Economics and Statistics*

Trivandrum,  
28-7-1965.

## I INTRODUCTION

The budget of the State Government gives detailed information regarding its revenue and expenditure and other financial transactions in a given financial year. The Government transactions are recorded in the budget in terms of various Departments and purposes. They may not present clearly the economic significance of various heads of revenue and expenditure. Though the budget of the Government is divided into revenue and capital accounts, some items of consumption expenditure are included in the capital account and vice-versa. Further, often in the budget revenue expenditures or capital outlays are reduced to the extent they are met from transfer from funds. This process deflates the expenditure and does not give the aggregate expenditure or the total demand made by the Government on goods and services available. Therefore, from the study of budget documents, as they exist, it may not be possible to get a clear idea of capital formation out of budgetary resources, savings of the Government, draft made by the Government on the real resources of the economy and Government's contribution to generation of State income.

The Government's transactions are significant to the rest of the economy only in terms of these magnitudes. In the economic classification, it is attempted to bring together the details of these economically significant heads in a series of statements. The purpose of this study is to determine what impact Government activities have on the rest of the economy, eliminating all inter-account and inter-departmental transfers. In the 'rest of the economy' are included the Central Government, the local bodies, the Central and local Government undertakings which are run as autonomous corporations or companies and individuals and institutions in the private sector.

The Kerala State Government transactions for the years 1962-63, (Accounts), 1963-64 (R.E.) and 1964-65 (B.E.) have been classified and grouped on the basis of a series of distinctions useful for analysing their economic impact. Current transactions are distinguished from capital transactions and under both, transactions in goods and services are separated from transfers. Current transactions of Government as an administrative entity are distinguished from the current operations of departmental commercial undertakings as current expenditures of the former on wages and salaries and goods and services are final but those of the latter are not. Purely financial transactions are again isolated from transactions in goods and services and transfers. The

budgetary data so re-classified are tabulated in a set of six Accounts as below, each delineating a distinct aspect of the operations of the State Government:—

- ACCOUNT I** — Transactions in Commodities and Services and Transfers: Current Account of Government Administration;
- ACCOUNT II** — Transactions in Commodities and Services and Transfers: Current Account of Departmental Commercial Undertakings.
- ACCOUNT III** — Transactions in Commodities and Services and Transfers: Capital Account of Government Administration and Departmental Commercial Undertakings;
- ACCOUNT IV** — Changes in Financial Assets: Capital Account of Government Administration and Departmental Commercial Undertakings.
- ACCOUNT V** — Changes in Financial Liabilities: Capital Account of Government Administration and Departmental Commercial Undertakings; and
- ACCOUNT VI** — Cash and Capital Reconciliation Account of Government Administration and Departmental Commercial Undertakings.

Accounts I to III deal with Government transactions in goods and services and transfers and Accounts IV to VI with financial transactions affecting the net claim of the Government on the 'rest of the economy'. The nature of the Accounts, their coverage, derivation and treatment of the items included and the assumptions underlying these are explained in Chapter IV. Chapter III analyses the main results of economic classification of the Budget and Chapter V presents a reconciliation of the figures given in the financial statement and in the economic classification.

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**II. DETAILED ECONOMIC CLASSIFICATION OF KERALA  
GOVERNMENT BUDGETS 1962-63 to 1964-1965**

**SET OF ACCOUNTS**

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## Account I—Transactions in Commodities and Services and Transfers:

<i>Expenditure</i>	1962-63 (Acct.)	1963-64 (R.E.)	1964-65 (B.E.)
1. Consumption expenditure	4376.76	4166.32	5239.06
1.1 Wages and salaries	2501.64	2512.66	3098.39
1.2 Commodities and services	1875.02	1653.66	2140.67
2. Transfer payments	1952.70	2074.10	2097.29
2.1 Interest on debt and other obligations	415.61	482.21	566.11
(a) Interest on loans from the Government of India	261.36	322.14	401.51
(b) Interest on other loans and obligations	176.63	185.55	184.98
Less interest receipts (net)	—22.38	—25.48	—20.38
2.2 Pensions and other retirement benefits	188.83	207.34	227.68
Less pensions and other retirement benefits transferred to Acct. II regarding Departmental Commercial Undertakings	—7.93	—17.69	—11.70
2.3 Grants to:	1248.20	1276.07	1137.59
(a) Local bodies	64.54	63.76	68.89
(b) Cooperative institutions	0.74	0.46	0.40
(c) Educational institutions	1079.60	1095.21	940.03
(d) Others	103.32	116.64	128.27
2.4 Subsidies	37.45	45.62	54.51
2.5 Stipends and scholarships	45.55	56.75	99.30
2.6 Other current transfers	24.99	23.80	23.80
3. Savings on current account	—532.10	366.91	—143.04
4. Total	5797.26	6607.33	7193.31



## Current Account of Government Administration

(Rs. lakhs)

<i>Revenue</i>	1962-63 (Accts.)	1963-64 (R.E.)	1964-65 (B.E.)
5. Tax Revenue	3427.84	4145.94	4375.89
5.1 Taxes on income	584.85	703.45	702.43
(a) State's share of central taxes	338.19	433.45	384.43
(i) Share of income tax	338.19	433.45	384.43
(b) State's taxes	246.66	270.00	318.00
(ii) Agricultural income tax	241.83	225.00	225.00
(iii) Professional tax	4.83	45.00	93.00
5.2 Taxes on commodities and services	2450.60	3056.30	3210.88
(a) State's share of central taxes	575.29	643.55	665.88
(i) Excise duty	575.29	643.55	665.88
(b) State's taxes	1875.31	2412.75	2545.00
(i) State excise duties	359.14	396.00	405.00
(ii) Taxes on vehicles	301.62	380.00	390.00
(iii) Sales tax	1200.65	1562.00	1662.00
(iv) Entertainment tax	3.12	24.25	27.50
(v) Electricity duty	10.78	50.50	60.50
5.3 Taxes on property and capital transaction	392.39	386.19	462.58
(a) State's share of central taxes	17.04	18.42	18.56
(i) Estate duty	17.04	18.42	18.56
(b) State's taxes	375.75	367.77	444.02
(i) Land revenue	112.02	60.02	129.01
(ii) Stamp duties	207.82	254.35	261.26
(iii) Registration	55.51	53.40	53.75
6. Administrative Receipts (Fees & other receipts)	490.22	517.55	660.24
7. Other Revenue receipts	404.00	435.49	406.49
7.1 Interest	283.02	329.15	293.73
7.2 Income on investment	43.37	32.00	40.00
7.3 Miscellaneous receipts	77.61	74.34	72.76
8. Revenue Grants, Contributions and Recoveries	1209.42	1241.18	1438.14
9. Profits transferred by departmental commercial undertakings	265.78	267.17	312.55
10. Total	5797.26	6607.33	7193.31

## Account II—Transactions in Commodities and Services and Transfers

<i>Expenditure</i>		1962-63 (Accts.)	1963-64 (R.E.)	1964-65 (B.E.)
1.	Wages and salaries	200.62	208.20	200.28
2.	Commodities and services	240.81	290.38	166.35
3.	Repairs and maintenance	193.96	206.14	227.20
3.1	Wages and salaries	96.98	103.07	113.60
3.2	Commodities and services	96.98	103.07	113.60
4.	Interest and other obligations	103.68	110.53	106.95
5.	Pensions	7.93	17.69	11.70
6.	Grants	0.75	0.80	0.75
7.	Subsidies	0.28	0.20	0.20
8.	Stipends	1.55	1.05	0.85
9.	Provision for depreciation	40.17	65.02	45.54
10.	Profits of departmental commercial undertakings	265.78	267.17	312.55
11.	Total	1055.53	1167.18	1072.37

## Account III—Transactions in Commodities and Services and Transfers

<i>Disbursements</i>		1962-63 (Accts.)	1963-64 (R.E.)	1964-65 (B.E.)
1.	Gross fixed capital formation	1344.95	1157.47	1274.62
1.1	Buildings and other constructions	1264.27	1110.02	1185.61
	(a) New outlay	1245.83	1088.78	1160.56
	(b) Renewals and replacements	18.44	21.24	25.05
1.2	Machinery and equipment	80.68	47.45	89.01
	(a) New outlay	50.07	21.79	62.11
	(b) Renewals and replacements	30.61	25.66	26.90
2.	Increase in inventories	38.06	25.30	4.60
2.1	Stocks of food, steel etc.	38.06	25.30	4.60
3.	Capital transfers	43.52	58.94	40.49
3.1	Grants and other capital transfers for capital formation	41.26	57.44	38.99
3.2	Gratuities and commuted value of pensions	2.26	1.50	1.50
4.	Total	1426.53	1241.71	1319.71

## Current Account of Departmental Commercial Undertakings

(Rs. lakhs)

<i>Revenue</i>		1962-63	1963-64	1964-65
		(Accts.)	(R.E.)	(B.E.)
12.	Gross sale proceeds of	1055.53	1167.18	1072.37
12.1	Forest department	465.25	471.37	494.80
12.2	Irrigation (Commercial)	10.16	13.04	14.29
12.3	Road and water transport department	438.72	512.24	543.85
12.4	Departmental Industrial Undertakings	141.40	170.54	19.43
13.	Total	1055.53	1167.18	1072.37

## Capital Account of Government Administration and Departmental Commercial Undertakings

(Rs. lakhs)

<i>Receipts</i>		1962-63	1963-64	1964-65
		(Accts.)	(R.E.)	(B.E.)
5.	Gross savings	—491.93	431.93	—97.50
5.1	Savings on current account of Government Administration	—532.10	366.91	—143.04
5.2	Provision for depreciation—Departmental Commercial Undertakings	40.17	65.02	45.54
6.	Capital transfers	—107.13	—108.79	127.12
6.1	Capital grants, contributions and recoveries from the Central Government	86.85	88.68	107.53
6.2	Estate duty	17.04	18.42	18.56
6.3	Other capital transfers	3.24	1.69	1.03
7.	Balance: Deficit on all transactions in commodities and services and transfers etc.	1811.33	700.99	1290.09
8.	Total	1426.53	1241.71	1319.71

## Account—IV. Changes in Financial Assets—Capital Account of

<i>Disbursements</i>		1962-63 (Accts.)	1963-64 (R.E.)	1964-65 (B.E.)
1.	Investments	165.01	344.49	260.51
1.1	In Government commercial undertakings	13.38	37.06	3.10
1.2	In other commercial concerns	139.43	226.13	304.49
1.3	Other miscellaneous investments	54.86	91.30	84.26
	Deduct recoveries	—42.66	—10.00	—131.34
2.	Loans and advances	953.58	1155.88	1988.78
2.1	For capital formation	903.11	1094.55	1915.02
	(a) Loans to Presidency Corporations, Port Trusts and other Port Funds	621.00	800.00	1570.00
	(b) Loans to Municipalities	11.47	7.84	15.06
	(c) Loans to district and other local fund committees	11.57	7.95	9.09
	(d) Advances to cultivators	33.09	34.75	34.72
	(e) Loans and Advances under the C. D. Programme	37.33	28.85	36.00
	(f) Miscellaneous loans and advances	171.17	205.49	233.14
	(g) Loans to Government servants	17.48	9.67	17.01
2.2	For current consumption	50.47	61.33	73.76
	(a) Loans to Municipalities	2.46	1.00	1.25
	(b) Advances to cultivators	33.95	49.00	59.75
	(c) Miscellaneous loans and advances	4.15	2.96	2.64
	(d) Loans to Government servants	9.91	8.37	10.12
3.	Total	1118.59	1500.37	2249.29

Government Administration and Departmental Commercial Undertakings.  
(Rs. lakhs)

<i>Receipts</i>	1962-63 (Accts.)	1963-64 (R.E.)	1964-65 (B.E.)
4. Repayment of Loans and Advances	156.86	212.77	175.68
4.1 Loans to Presidency Corporations, Port Trusts etc.	4.24	4.31	4.52
4.2 Loans to Municipalities	5.83	8.22	7.86
4.3 Loans to District and Local Fund Committees	0.50	1.09	1.02
4.4 Advances to cultivators	40.67	41.43	55.32
4.5 Loans and advances under C. D. Programme	30.33	26.21	25.39
4.6 Miscellaneous Loans and Advances	62.26	116.89	66.15
4.7 Loans to Government Servants etc.	13.03	14.62	15.37
5. Balance: Net Increase in Financial Assets	961.73	1287.60	2073.66
6. Total	1118.59	1500.37	2249.29

Account V—Changes in Financial Liabilities: Capital Account of Government

	<i>Disbursements</i>	1962-63 (Accts.)	1963-64 (R.E.)	1964-65 (B.E.)
1. Repayment of Public debt		1529.70	1574.24	1563.81
1. Permanent debt		0.75	275.48	46.29
1.2 Loans from the Central Government		1508.60	1277.94	1498.35
1.3 Other loans		20.35	20.82	19.17
2. Balance: Net increase in financial liabilities		2474.80	1753.31	22753.17
3. Total		4004.50	3327.55	4316.98

Account VI—Cash and Capital reconciliation Account of Government

	<i>Disbursements</i>	1962-63 (Accts.)	1963-64 (R.E.)	1964-65 (B.E.)
1. Deficit on all transactions in commodities and services—Balancing item—Account III		1811.33	700.99	1290.09
2. Net increase in Financial Assets—Balancing item—Account IV		961.73	1287.60	2073.66
3. Increase in cash balances: Balance		—298.26	—235.28	—610.58
4. Total		2474.80	1753.31	2753.17

Administration and Departmental Commercial Undertakings  
(Rs. lakhs)

<i>Receipts</i>	1962-63 (Accts.)	1963-64 (R.E.)	1964-65 (B.E.)
4. Public debt	3917.61	3223.81	4197.38
4.1 Permanent Debt	421.15	..	400.00
4.2 Loans from the Union Government	3347.82	3138.51	3719.88
4.3 Floating debt (net)	74.25	..	..
4.4 Other loans	74.39	85.30	77.50
5. Interstate settlement (net)	-27.00	-71.45	-47.36
6. Unfunded debt (net)	74.84	88.14	106.67
7. Cash balance investment account (net)	-22.80	-3.53	19.44
8. Other debt, deposits and remittances (net)	61.85	90.58	40.85
9. Total	4004.50	3327.55	4316.98

Administration and Departmental Commercial Undertakings  
(Rs. lakhs)

<i>Receipts</i>	1962-63 (Accts.)	1963-64 (R.E.)	1964-65 (B.E.)
5. Net increase in Financial Liabilities— Balancing item in Account V	2474.80	1753.31	2753.17

### III SOME SIGNIFICANT FEATURES

The classification of accounts presented above analyses the various aspects of the State Government's budgetary provisions and their relation to the rest of the economy of the State. Some significant magnitudes emerging from the analysis are:—

- (a) State Government's total expenditure, which represents the aggregate flow back of funds to the rest of the economy through the various uses to which they are put;
- (b) Capital formation out of the budgetary grants of the State Government;
- (c) Savings of the State Government—how this together with the savings of the rest of the economy, give the total domestic savings;
- (d) The various measures of deficit in the State Government's budgetary operations; and
- (e) State Government's contributions to the production of State income.

#### Total Expenditure

According to this classification, budget estimates of Kerala for the year 1964-65 places the total expenditure of the State, exclusive of the operating expenditure of departmental commercial undertakings (Account II) at Rs. 10729.72 lakhs. This is Rs. 1959.99 lakhs higher than the revised estimates for 1963-64 and Rs. 2012.00 lakhs higher than the actuals for 1962-63. The allocation under major heads of expenditure is given in the following table:—

TABLE 1

#### Total Expenditure

	<i>(Rs. in lakhs)</i>		
	1962-63 <i>(Accts)</i>	1963-64 <i>(R.E.)</i>	1964-65 <i>(B.E.)</i>
1. Final Outlays	5759.77	5349.09	6518.28
(a) Government consumption expenditure (vide Item 1. Account I)	4376.76	4166.32	5239.06
(b) Gross capital formation (Items 1 & 2 taken together in Acct. III)	1383.01	1182.77	1279.22
2. Transfer payments to the rest of the economy	1996.22	2133.04	2137.78



TABLE I *Contd.*

	1962-63 Accts.	1963-64 R.E.	1964-65 B.E.
(a) Current Transfers (Item 2 in Acct. I)	1952.70	2074.10	2097.29
(b) Capital Transfers (Item 3 in Acct. III)	43.52	58.94	40.49
3. Financial investments and loans to the rest of the economy (net) (Item 5 in acct. IV)	961.73	1287.60	2073.66
4. Total Expenditure	8717.72	8769.73	10729.72

### Final Outlays

Out of the total expenditure of Rs. 10729.72 lakhs budgeted for the year 1964-65, Rs. 6518.28 lakhs or 60.75 percent of the total expenditure constitute the final outlays of the State Government; the corresponding final outlays for 1963-64 (R.E) and 1962-63 (Accounts) being 60.99 % and 66.07% respectively. The outlays under this head represent the State Government's direct demand for goods and services for consumption and capital formation. For purposes of national budgeting these two items can be added to the consumption expenditure and capital formation in the rest of the economy of the State.

### Transfer Payments, Financial Investments and Loans (net)—

The balance of the total expenditure for 1964-65 (B.E) amounting to Rs. 4211.44 lakhs or 39.25 percent constitutes disbursements by way of transfer payments, financial investments and loans to the rest of the economy and is intended to supplement the current or capital resources. The corresponding percentages for 1964-63 (R.E.) and 1962-63 (Accounts) were 39.01 and 33.93 respectively. It can be seen from the following tables that a sizeable part of these transfers is to assist capital formation by the local bodies, agriculture, and non-departmental commercial undertakings and other agencies.

### Gross Capital Formation

Out of the final outlays of Rs. 6518.28 lakhs provided in the budget estimates for 1964-65 Rs. 1279.22 lakhs or 19.62% were budgeted for gross capital formation to be spent on schemes undertaken directly by the Government. This is Rs. 96.45 lakhs higher than the revised estimates for 1963-64 and Rs. 103.79 lakhs more than the actuals for 1962-63.

## Net Capital Formation

Of the gross capital formation of Rs. 1279.22 lakhs to be undertaken directly by the State Government net capital formation, i.e., net addition to the stock of fixed assets and inventories was budgeted at Rs. 1227.27 lakhs or 99.84% for 1964-65. For 1963-64 (R.E.) this figure was Rs. 1135.87 lakhs and for 1963-64 (Accounts) Rs. 1333.96 lakhs (i.e. 96.11% and 96.46% respectively of the gross capital formation in these years). The details of net capital formation are given in the following table:—

TABLE 2  
Net Capital Formation (Rs. in lakhs)

	1962-63 Accts.	1963-64 R.E.	1964-65 B.E.
1. Buildings & other constructions (vide Item 1.1(a) Acct. III)	1245.83	1088.78	1160.56
2. Machinery and equipment (vide Item 1.2(a) in Acct. III)	50.07	21.79	62.11
3. Increase in inventories (vide item 2 in Acct. III)	38.06	25.30	4.60
4. Net capital formation (1 + 2 + 3)	1333.96	1135.87	1227.27

## Financial Assistance for Net Capital Formation:—

The State Government's assistance to the rest of the economy for net capital formation for 1964-65 was Rs. 2214.52 lakhs. This was Rs. 718.04 lakhs and Rs. 1105.14 lakhs higher than the figures of the revised estimates for 1963-64 and the actuals for 1962-63 respectively. The break-up of the financial assistance is indicated below:—

TABLE 3  
Financial Assistance for Net capital Formation (Rs. in lakhs)

	1962-63 Accts.	1963-64 R.E.	1964-65 B.E.
1. Grants for capital formation (Item 3.1 in Acct. III)	41.26	57.44	38.99
2. Loans for capital formation (Items 2.1 in Acct. IV)	903.11	1094.55	1915.02
3. Investments (Item 1 in Acct. IV)	165.01	344.49	260.51
4. Total financial assistance for net capital formation (1 + 2 + 3)	1109.38	1496.48	2214.52

## Net Capital Formation out of the Budgetary Resources of the State Government

The State Government thus provided an aggregate of Rs. 3441.79 lakhs or 32.08 percent of the total expenditure for net capital formation in the economy out of the budgetary resources during 1964-65. The revised estimates for 1963-64 place it at Rs. 2632.35 lakhs or 30.01 percent of the total expenditure and the actuals for 1962-63 at Rs. 2443.34 lakhs or 28.03 per cent of the total expenditure. Details of the net capital formation are given below:—

TABLE 4

### Net Capital Formation out of Budgetary Resources of the State Government

(Rs. in lakhs)

	1962-63 Accts.	1963-64 R.E.	1964-65 B.E.
1. Net capital formation	1333.96	1135.87	1227.27
2. Financial assistance or capital formation to the rest of the economy	1109.38	1496.48	2214.52
3. Net capital formation out of the budgetary resources of the State Government (1 + 2)	2443.34	2632.35	3441.79

### Gross and Net Savings

Gross savings by the Government comprise the savings of Government administration (the surplus of receipts over current expenditure of the Government) and provision for depreciation of departmental commercial undertakings.

Net savings by Government are equal to the gross savings less expenditure on renewals and replacements.

The net savings of the Government for 1964-65 as against the net capital formation or the net investment by the State Government of Rs. 3441.79 lakhs worked out at Rs.(—)149.45 lakhs. The same figures for the revised estimates for 1963-64 were Rs. 385.03 lakhs and the actual

for 1962-63 Rs.—540.98 lakhs. The gross and net savings as worked out are detailed below in table 5:—

TABLE 5  
Gross and Net Savings

	<i>(Rs. in lakhs)</i>		
	1962-63 (Accts.)	1963-64 (R.E.)	1964-65 (B.E.)
1. Gross savings	—491.93	431.93	—97.50
(a) Savings on current account of Government Administration (Item 3 in Acct. I)	—532.10	366.91	—143.04
(b) Provision for depreciation Departmental Commercial Undertakings (Item 4 in Acct. II)	40.17	65.02	45.54
Less:			
2. Expenditure on renewals and replacements (Item 1.1 (b) and 1.2(b) in Account III)	49.05	46.90	51.95
3. Net savings by the State Govt. (1—2)	—540.98	385.03	—149.45

### Current Receipts

To assess the economic implication of Government expenditure it is necessary to examine the sources from which the finances emanate. Current receipts of the Government may be classified in the following economically significant heads.

TABLE 6  
Current Receipts

	<i>(Rs. in lakhs)</i>		
	1962-63 (Accts.)	1963-64 (R.E.)	1964-65 (B.E.)
1. Tax receipts (Item 5 in Acct. I)	3427.84	4145.94	4375.89
2. Fees and miscellaneous receipts (Administrative receipts) (Item 6 in Acct. I)	490.22	517.55	660.24
3. Revenue Grants from the Government of India (Item 8 in Acct. I)	1209.42	1241.18	1438.14
4. Total (1 + 2 + 3)	5127.48	5904.67	6474.27

**Current Outgoings**

Current outgoings of the Government are detailed as follows:—

**TABLE 7**  
**Current Outgoings**

(Rs. in lakhs)

	1962-63 (Accts.)	1963-64 (R.E.)	1964-65 (B.E.)
1. Consumption expenditure (Item 1 Acct. 1)	4376.76	4166.32	5239.06
2. Transfer payments (Item 2 in Act. 1)	1952.70	2074.10	2097.29
3 Total (1+2)	6329.46	6240.42	7336.35

**Income deficit**

The income deficit of the State Government, as measured by the excess of net investment over net savings works out as indicated below:

**TABLE 8**  
**Income Deficit**

(Rs. in lakhs)

	1962-63 (Accts.)	1963-64 (R.E.)	1964-65 (B.E.)
1. Net capital formation by the Government	1333.96	1135.87	1227.27
2. Net savings by the Government	—540.98	385.03	—149.55
3. Income deficit of the Government (1—2)	1784.94	750.84	1376.82

**Other Deficits:**

The deficit on income indicated above, is a measure of the gap to be filled by the Government's draft on savings within the State and out side. Another measure of deficit is provided by the sum of the balancing

items in Accounts III & IV. This deficit denotes the total requirements of finance for the State Government operations and can be analysed as follows:—

TABLE 9  
Other deficits

	<i>(Rs. in lakhs)</i>		
	1962-63 <i>(Accts.)</i>	1963-64 <i>(R.E.)</i>	1964-65 <i>(B.E.)</i>
1. Deficit on all transactions in commodities and services and transfers (Item 7 in Act. III)	1811.33	700.99	1290.09
2. Net increase in financial assets (Item 5 in Acct. IV)	961.73	1287.60	2073.66
3. Deficit indicating total requirements of finance (1+2)	2773.06	1988.59	3363.75

**Sources of Finance.**

The financing of the deficit indicated above is worked out in the following table.

TABLE 10  
Sources of Finance

	<i>(Rs. in lakhs)</i>		
	1962-63 <i>(Accts.)</i>	1963-64 <i>(R.E.)</i>	1964-65 <i>(B.E.)</i>
1. Net Borrowings:—			
(a) Permanent debt (net)	2400.55	1753.31	2753.17
(b) Loans from the Central Government (net)	420.40	—275.48	353.71
(c) Other loans (net)	1839.22	1860.57	2221.53
(d) Interstate settlements (net)	54.04	64.48	58.33
(e) Unfunded debt (net)	—27.00	—71.45	—47.36
(f) Cash balance investment account (net)	74.84	88.14	106.67
(g) Other debts, deposits and remittances (net)	—22.80	—3.53	19.44
2. Deficit financing	61.85	90.58	40.85
(a) Increase in floating debt (net)	372.51	235.32	610.58
(b) Withdrawal from cash balance	74.25	0.04	
3. Total (1+2)	298.26	235.28	610.58
	2773.06	1988.59	3363.75

The deficit financing detailed above indicates only roughly the expansionary impact of the budgetary transactions of the State Government on money supply.

### Net Profits of Departmental Commercial Undertakings:

Net profits of the Departmental Commercial Undertakings, as measured by the excess of gross receipts over operating expenses, indicate the financial results of the working of these undertakings. They are also responsible in augmenting the current receipts of the Government Administration. The derivation of these profits is indicated in the table below:—

TABLE 11

#### Net Profits of Departmental Commercial Undertakings (Rs. in lakhs)

	1962-63 (Accts.)	1963-64 (R.E.)	1964-65 (B.E.)
1. Gross receipts	1955.53	1167.18	1072.37
2. Operating expenses	789.75	900.01	759.82
3. Net profits (1—2)	265.78	267.17	312.55

### Contribution to Income Generation

The budgetary operations of the State Government during 1964-65 are expected to have generated a total income of Rs. 4051.96 lakhs. According to the revised estimates for 1963-64 such income generation works out at Rs. 3423.06 lakhs and for the year 1962-63 (Accounts) at Rs. 3428.73 lakhs. The break-up of the total income generation by the State Government is as follows:—

TABLE 12

#### Contribution to Income Generation

(Rs. in lakhs)

	1962-63 (Accts.)	1963-64 (R.E.)	1964-65 (B.E.)
1. Wage and salary income generated by Government Administration (1.1 in Acct.I)	2501.64	2512.66	3098.39
2. Net output of departmental commercial undertakings	505.67	540.39	558.37
(a) Wages and salaries (including wages and salaries component of repairs and maintenance)	297.60	311.27	313.88

TABLE 12 *Contd.*

	1962-63 (Accts.)	1963-64 (R.E.)	1964-65 (B.E.)
(b) Profits (transferred to Government Administration & retained less renewals and replacements in excess of depreciation provision)	208.07	229.12	244.49
3. Wage & salary component of Government outlay on construction (estimated at 33.33% of the total expenditure on construction as shown in Account III)	421.42	370.01	395.20
4. Total 1 + 2 + 3	3428.73	3423.06	4051.96



## IV NOTES ON ACCOUNTS, THEIR DERIVATION & RATIONALE

### ACCOUNT I

#### Transactions in Commodities and Services and Transfers:

##### Current Account of Government Administration

This account deals with the current receipts and expenditure of Government Administrative Departments. All departments other than those listed under Account II are considered as administrative for purposes of this classification. The current expenditure of administrative departments consists of the final outlays of Government on current account which represents government's current consumption. The final outlays are made up of purchases of commodities and services and wages and salary payments. Besides final outlays, Government makes transfer payments, i.e. interest, grants, subsidies, pensions, scholarships etc. to the rest of the economy which add indirectly to the disposable income of the community. To meet these current expenditures, the Government appropriate a part of the income of the community through a variety of taxes, miscellaneous receipts accruing in the course of administration and other revenue receipts comprising interest on loans and advances. In addition, Government receives revenue grants, contributions and recoveries from the Central Government, and finally it appropriates the savings of the departmental commercial undertakings. The surplus of current receipts after meeting current expenditure and current transfers denote the savings of the Government administration, available for capital formation. Some items included in this Account are explained below:—

**Item 1.1.** Wages and salaries include pay of officers, pay of establishment, allowances (other than travelling and daily allowances) honoraria, wage payments to casual labour employed by administrative departments booked under the head "Contingencies" and wages and salaries component of repairs and maintenance. The wages and salaries component of repairs and maintenance is calculated by allocating expenditure equally between wages and salaries and commodities and services since the required break up is not available. Entire expenditure on repairs and maintenance by the Public Works Department is, however, included in commodities and services as it maintains regular staff for the purpose and pays them regular wages and salaries. The allowances and honoraria include dearness allowance, honorarium, compensatory allowance, overtime allowance, house rent allowance, medical allowance, car allowance, uniform allowance, examination remuneration, fees to Government pleaders, bonus, contributions to employees' insurance and contributions to employees' provident fund.

**Item 1.2.** Commodities and services comprise all expenditure under contingencies excluding pay and allowances of casual employees,

travelling and daily allowances, establishment charges paid to other Government servants, half of the expenditure on maintenance and repairs and all other miscellaneous expenditure.

**Item 2.** Transfer payments. Current transfers have been broken up into interest payments, grants to local bodies, to co-operative institutions, to educational institutions etc., subsidies and transfer payments to individuals intended to augment personal income.

**Item 2.1.** Interest on debt and other obligations comprises interest on loans from the Government of India and interest on other loans and obligations viz., permanent debt, floating debt and other loans. Interest earned on cash balance investment account and recovery from other State Governments in respect of servicing of debt have been noted against these interest payments. Interest charged to Departmental Commercial Undertakings is not included in this item, but is shown under item 4 in Account II.

**Item 2.2.** Pensions and other retirement benefits. Pension payments have been treated in the present classification as a transfer payment. An alternative treatment of pensions as deferred pay is possible. However, if the concept of pensions as deferred pay is accepted, accumulating pensionary rights would tantamount to compulsory savings by Government servants—i.e. a loan to Government—actual pension payments being of the nature of repayments of loans. The treatment of pensions as transfer is simpler and justifiable on the ground that no increase in current output accrues to the economy from retired personnel receiving pensions.

Pensions here comprise superannuation and retirement allowances and family pensions less pensions transferred to Departmental Commercial Undertakings.

**Item 2.3.** Grants are classified according to the types of institutions to which they flow. Four classes are distinguished, i.e. local bodies, co-operative institutions; educational institutions and others. This last sub-item includes other unclassified grants and grants to non-profit making institutions.

**Item 2.4.** Subsidies represent the payments given for rebate on the sale of certain commodities to consumers like handlooms or for loss on the sale of fertilizers, improved seeds, pesticides, agricultural implements, to co-operative societies for maintenance of managers and the loss suffered by co-operative societies, to make good between economic rent and subsidised rent and to make good the excess expenditure incurred in the pumping operations of Kuttanad area etc.

**Item 2.5.** Stipends and scholarships include monetary aid given to students, for meritorious academic career, prizes, awards and gratuitous relief to trainees of industrial and other technical institutions.

**Item 2.6.** Other current transfers denote territorial and political pensions, charitable allowances, donations to provident fund, gratuitous relief to famine stricken people, privy purses of ex-rulers and compassionate allowances of the deceased and disabled government servants.

**Item 3.** Savings on current account denote miscellaneous receipt under the head "miscellaneous contributions and recoveries towards pensions", miscellaneous adjustments between State and Central Governments, revenue grants, contributions and recoveries and extraordinary receipts and profits accruing to the current Account of Government, administration and contributes towards its current expenditure.

## ACCOUNT II

### Transactions in Commodities and Services and Transfers:

#### Current Account of Departmental Commercial Undertakings

This Account exhibits the transactions in Commodities and Services and Transfers of Departmental Commercial Undertakings. The operations of Departmental Commercial Undertakings which figure in the budget are of the nature of producing commodities principally for sale in the market. The principal source of income for these undertakings is the sale proceeds of goods and services marketed by them. The purchase of materials etc. by them are intermediate expenditure such as cost of raw materials and fuels and are quite different in character from final outlays of administrative departments. Likewise, sale proceeds of such departments are different from transfer receipts (like taxes) of administration. This Account, therefore, shows the profit and loss statement of Departmental Commercial Undertakings and is different in character from Account 1.

Independent statutory Corporations and Boards set up by Government are excluded from the purview of these Commercial Undertakings.

In this study the following have been classified as Departmental Commercial Undertakings.

1. Irrigation, Navigation, Embankment and Drainage Works (Commercial).
2. Road and Water Transport Schemes.
3. Forests; and
4. Government Owned Commercial Undertakings.

The expenditure of Departmental Commercial Undertakings is classified into several heads:—wages and salaries, commodities and services, repairs and maintenance, interest, pensions, grants, subsidies, stipends and provision for depreciation. The residual item, profits transferred to Government administration constitutes the net contribution made by Departmental Commercial Undertakings to the financing of Government administration.

## ACCOUNT III

**Transactions in Commodities and Services and Transfers :  
Capital Account of Government Administration and Departmental Commercial Undertakings.**

This Account is concerned with the total capital outlay representing physical asset formation by Government Administration and Departmental Commercial Undertakings with its capital transfer payments mostly for assisting capital formation in the rest of the economy. It is possible to draw a distinction between Government Administration and Departmental Commercial Undertakings in respect of capital expenditure also, in the same manner as has been done for current expenditure. But this distinction is not very important. The entire outlay on capital formation is a final expenditure and is a charge on the national product, for which the Government has to find the resources either from its own savings or by drawing on private savings. The physical asset formation has been shown in gross as well as net aggregates. Increase in inventories is classified into work stores and stocks of food, steel etc. Transfers of capital are also spelt out—grants for capital formation, gratuities and commuted value of pensions and compensation to land owners.

The gross savings transferred from Accounts I & II and capital grants received by the State Government constitute the source of finance for all expenditure recorded in this Account. The difference between Government savings and Government capital formation is often used in economic analysis as a measure of budgetary deficit. The deficit which is shown as a balancing item in Account III along with net increase in financial assets in Account IV gives the total requirements of finance of the Government to be met out of borrowings or by adjustments in Government's cash balances.

Gross capital formation is classified into buildings and other constructions and machinery and equipment. Each of these sub divisions is further classified into new outlay as against renewals and replacements. The former are the measure of net capital formation by Government, while the latter a part of gross capital formation.

**Item 1.1.** Buildings and other constructions include all expenditure on original works of buildings, transport and communications, power and irrigation, navigation, embankment and drainage, water supply and sanitation, reclamation of land and plantations. Wages and salaries paid to the staff engaged in projects under construction and expenditure on commodities and services incurred in connection with such projects (both shown as a part of capital expenditure in the budget estimates) have been construed as a part of the cost of construction and accordingly included under this item in Account III and not in Account I.

**Item 1.2.** Machinery and equipment include furniture, vehicles, apparatus, tools and plants purchased both for Departmental Commercial Undertakings and Government Administration.

**Item 2.** Increase in inventories has been sub-divided into work stores and stocks of food, steel etc., held by administrative departments for policy reasons.

**Item 3.** Capital transfers are sub divided into grants and other capital transfers assisting capital formation and gratuities and commuted value of pensions. Other capital transfers comprise purchase or acquisition of land and buildings, compensation to land owners and other compensations, payments to retrenched personnel and guarantee and lease money paid.

Receipts on capital account—receipts available for capital formation consists of gross savings on current account brought over from Accounts I and II, Estate duty and other capital transfers. Other capital transfers include sale of land and other properties and also contributions towards gratuities received from other State Governments and the Government Servants on Foreign Service.

## ACCOUNT IV

### Changes in Financial Assets

#### Capital Account of Government Administration and Departmental Commercial Undertakings.

This account which shows the net changes in the financial assets of the Government is concerned with the transactions in financial investments in industrial and commercial concerns (i.e., investment in shares) and loans and advances granted to the rest of the economy. Investments are classified into the following categories:

Investments in Government Commercial Undertakings, investments in other commercial undertakings and other miscellaneous investments. Loans and advances are divided into those for capital formation and those for current consumption. Both are subdivided according to the type of borrower to whom loans and advances are made. Loans for capital formation include loans given for the creation of capital assets like the construction of irrigation works, industrial housing, water works, plantations, soil conservation, machinery and equipment etc. Loans for current consumption include loans to agriculturists for purchase of seeds and fertilizers etc., and other short term loans to needy persons to meet current consumption. Loans for capital formation together with investments and grants for capital formation represent the financial assistance provided by the Government to the rest of the economy for capital formation.

Repayment of loans (Item 4) is subdivided according to the type of the borrower. This type has been classified on identical lines in Item 2. Although the budgetary documents set out the details about the repayment of loans granted for capital formation, these are not considered as significant since it has been assumed that the repayment of such loans has been made from the current income and not out of capital. Hence the repayments are lumped together with the repayments of other loans and advances for current consumption.

Net increase in financial assets (Item 5) This balancing item added to deficit on all transactions in commodities and services and transfers gives the total financial requirements of the Government for fixed assets formation and for the accumulation of financial claims against the rest of the economy.

## ACCOUNT V

### Changes in Financial Liabilities:

#### Capital Account of Government Administration and Departmental Commercial Undertakings.

This Account gives the picture of the liabilities of the Government. In-comings represent the increase in financial liabilities and outgoings measure the reduction in liabilities. The balance, therefore, shows the net increase in financial liabilities resulting from increased expenditure for acquisition of real and financial assets.

In this Account, permanent debt, loans from Central Government and other loans are shown gross, while floating debt, unfunded debt, cash balance investment account and other debts are shown net.

## ACCOUNT VI

### Cash and Capital Reconciliation:

#### Account of Government Administration and Departmental Commercial Undertakings.

This Account sums up the net position in respect of Accounts III, IV and V showing the effect of all transactions of the State Government on its cash position. As stated earlier, Account III gives the net position in respect of all (real) transactions in commodities and services and transfers, while Accounts IV and V bring out the net position in respect of financial assets and financial liabilities respectively.

## V RECONCILIATION

A reconciliation of the figures of revenue and expenditure given in the Budget (financial statement) and in the Economic Classification is given below. The various adjustments made in the classification to arrive at the figures mentioned are spelt out in detail in the following tables.

TABLE I  
Current Account: Revenue

	(Rs. in lakhs)		
	1962-63 Accounts	1963-64 R. E.	1964-65 B.E.
Revenue as shown in the financial statement	6601.89	7516.13	7958.33
Less—			
Revenue attributable to			
(i) Capital Account	107.13	108.79	127.12
(ii) Interest on cash balance investment account	18.38	95.60	19.44
(iii) Sale proceeds of Departmental Commercial Undertakings (gross)	1055.53	1167.18	1072.37
(iv) Interest receipts from Departmental Commercial Undertakings	0.04	9.06	10.11
Add—			
(i) Recoveries in the expenditure treated as revenue receipts	39.81	39.28	42.82
(ii) Profits of Departmental Commercial Undertakings	265.78	267.17	312.55
(iii) Inter account transfers adjusted and other miscellaneous adjustments	70.86	116.28	108.65
(iv) Total adjustments	-804.63	-908.80	-765.02
Current revenue of Government administration as shown in the economic classification	5797.26	6607.33	7193.31

TABLE 2  
Current Account: Expenditure

	(Rs. in lakhs)		
	1962-63 <i>Accounts</i>	1963-64 <i>R.E.</i>	1964-65 <i>B.E.</i>
Revenue expenditure as shown in the financial statement			
Less—			
(i) Appropriation for reduction or avoidance of debt	6633.82	7004.10	7599.74
(ii) Current expenditure of Departmental Commercial Undertakings	42.32	44.74	44.75
(iii) Interest on cash balance investment account	789.75	900.01	759.82
(iv) Expenditure of a capital nature under current account	41.18	99.12	—
Add—			
(i) Working expenses of departmental commercial undertakings	139.69	182.63	207.1
(ii) Expenditure of a current nature in the capital account	600.56	629.19	633.48
(iii) Recoveries of expenditure account treated as revenue receipts	398.44	152.87	438.64
(iv) Inter-account transfers eliminated and other miscellaneous adjustments	39.81	39.28	42.82
Total adjustments	115.44	13.35	117.72
Revenue expenditure as shown in the economic classification	-304.46	-763.68	-263.39
	6329.36	6240.42	7336.35



TABLE 3  
Capital Account

<i>Capital Account</i>	1962-63 <i>Accounts</i>	1963-64 <i>R.E.</i>	1964-65 <i>B.E.</i>
Capital expenditure not met from revenue as shown in the financial statement	1363.58	1290.30	1387.64
Less—			
(i) Financial investments (Account IV)	165.01	344.49	260.51
(ii) Expenditure of a current nature under capital account	398.44	152.87	438.64
Add—			
(i) Expenditure of a capital nature under current account	585.44	554.50	633.48
(ii) Inter account transfers eliminated and other miscellaneous adjustments	40.96 62.95	—105.73 —48.59	2.26 —67.93
Total adjustments			
Capital expenditure as shown in the economic classification	1426.53	1241.71	1319.71

