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   REVIEW OF LITERATURE

   NEED/IMPORTANCE OF THE STUDY

   STATEMENT OF THE PROBLEM

   OBJECTIVES

   HYPOTHESES

   RESEARCH METHODOLOGY

   RESULTS & DISCUSSION

   FINDINGS

   RECOMMENDATIONS/SUGGESTIONS

   CONCLUSIONS

   SCOPE FOR FURTHER RESEARCH

   ACKNOWLEDGMENTS

   REFERENCES

   APPENDIX/ANNEXURE

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TRENDS AND GROWTH OF PUBLIC EXPENDITURE IN INDIA DURING 2001-12

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ABSTRACT

The public expenditure has been assigned a key role in the economic development of any country more specifically in the underdeveloped and developing countries and hence there has been a rapid expansion of the public expenditure in a developing economy like India. According to Adolf Wagner's law, the expansion of public expenditure is in proportion to the growth of the national income i.e. increase in government activity is accompanied by an increase in public expenditure. This is due to the fact that the government has to perform a number of functions more efficiently, which has led to an intensive growth in public activity thereby increasing government expenditure. According to Peacock and Wiseman, public expenditure grows over time, not at a constant rate, but on a rising curve. Emergencies like war and depression leads to increase in public expenditure. With this background, an attempt has been made in this paper to know the growth rate in public expenditure. Further, it is also analysed the percentage increase and decrease in the public expenditure as percentage to gross domestic product, in the first decade of 21st century.

KEYWORDS
determinants, growth, GDP, public expenditure, trend.

INTRODUCTION

Public expenditure is the expenditure incurred by public authorities like central, state and local governments to satisfy the collective social wants of the people. Before 20th century most of the governments in the followed laissez faire economic policy and also the role was also limited, thus the size of the public expenditure is small. But during 20th century and onwards this has increased significantly. During great depression John Maynard Keynes advocated the role of public expenditure in determination of level of income and its distribution. In developing countries like India, public expenditure not only accelerates economic growth and promotes employment opportunities but also plays a useful role in reducing poverty and redistribution of income. But what is important is that the direction of the public expenditure and its result.

There are different criteria's to classify the public expenditure like some experts classify public expenditure on the basis of functions for which it has incurred. The government performs various functions like defence, social welfare, agriculture, infrastructure and industrial development. The expenditure incurred on such functions fall under this classification. These functions are further divided into subsidiary functions. This kind of classification provides a clear idea about how the public funds are spent.

Another way of classification is revenue and capital expenditure. Revenue expenditure is current or consumption expenditures incurred on civil administration, defence forces, public health and education, maintenance of government machinery. This type of expenditure is of recurring type which is incurred year after year. On the other hand, capital expenditures are incurred on building durable assets, like highways, multipurpose dams, irrigation projects, buying machinery and equipment. They are non recurring type of expenditures in the form of capital investments. Such expenditures are expected to improve the productive capacity of the economy. Modern economists suggested public expenditure can be classified as development and non-development expenditures. The development expenditure is all expenditures that promote economic growth and development are termed as development expenditure or can also be said as productive expenditure and all unproductive expenditures are termed as non development expenditures.

Yet another popular classification in India is plan and non-planned expenditure. Plan expenditure is spent on productive asset creation through Centrally-sponsored programmes and flagship schemes, while "non-Plan" refers to all other expenditure such as defence expenditure, subsidies, interest payments, including expenditure on establishment and maintenance activities such as salaries.

REVIEW OF LITERATURE

Abu Nurudeen and Abdullahi Usman (2010), it is proved that rising government expenditure has not translated to meaningful development as Nigeria still ranks among world's poorest countries. The results disaggregated analysis in their paper reveals that government total capital expenditure, total recurrent expenditures and government expenditure on education have negative effect on economic growth. On the contrary it is also proved that rising government expenditure on transport and communication and health results to an increase in economic growth. Authors advised that the government should increase capital expenditure, recurrent expenditure, expenditure on education. The government should increase its investment in the development of transport and communication, in order to create an enabling environment for business to strive. They also advised that government should raise its expenditure in the development of the health sector since it would enhance labour productivity and economic growth.

James Njeru (2003) in his study found that foreign aid represents an important source of finance in most countries in sub-Saharan Africa (SSA), where it supplements low savings, narrow export earnings and thin tax bases. The empirical results indicate that the flow of foreign aid does influence government spending patterns. There is a positive and statistically significant relationship between the share of government expenditure in gross domestic product (GDP) and the share of net disbursement of overseas development assistance (ODA). While the study finds relatively little evidence that aid leads to tax relief, there are strong indications that the government renders aid fungible by financing recurrent expenditures.

J.F.J Toye (2008), the author had gathered information related to India government public expenditure and commented on the same. His opinion was that the trend of public expenditure and macroeconomic objectives of the Indian plans was, in 1960's, initially not very strong and progressive weaker.

Subir Gokarn and Gunjan Gulati (2006) this paper attempted to provide a broad-based description of the growth performance of the Indian economy from 1991 reforms. The fluctuating growth rate of the economy during the post reforms period is the combined effects like inflationary policy, interest rate, agricultural growth and depreciation of the currencies of many Asian countries. They are also of the opinion that from 1997 to 2003, the economy grew at a relatively sluggish pace. During this period, the merits of the reform agenda naturally came into question.

JBIC Research Paper 11 (2001), the book in its fourth chapter highlights the Public Expenditure Management (PEM) established link with objective of economic policy and that of removal of poverty. Paper finds that India is having effective PEM. With the purpose of assessing effectiveness of PEM in India a framework of PEM cycle is adopted, at each stage PEM is assessed and identified the task ahead. An alternate assessment of the budget and financial management practices is also reviewed.

IMPORTANCE OF THE STUDY

Indian economy has been in the limelight. It has been among the fastest growing economies during the last two decades. The economy is more resilient, less vulnerable to external shocks and has opened up for more potential. It is the outcome of wide range of economic reforms like monetary and fiscal reforms. The spending pattern of the government is also responsible for this success story. Government of India spending patterns have changed dramatically over the last several decades. But at the same time several studies proved that there is no link between the economic development and public expenditure. Thus, it is important to monitor trends in the levels and composition of government expenditures, and to assess the causes of change over time.

OBJECTIVES

The objectives of the study are to:

1. study the growth in revenue and capital receipts of the Government of India,
2. analyze the trend in public expenditure of the central Government of India,
3. calculate public expenditure as percentage to Indian GDP,
4. estimate the Major Heads of Expenditure as a Percentage of to Indian GDP.

DETERMINATION OF PUBLIC EXPENDITURE

The numerous studies on the role of government spending found conflicting results about the effects of government spending on economic growth. Never the less public expenditure is very important more specifically in developing economies like India; it is not only for economic development but also for the social improvement. To achieve the country's target not only it is important but it is also important the approach of the respective government.

There are various theories have been formulated by many experts to explain different aspects of public expenditure. The theories suggest the method, criteria, mechanism, and hypothesis in spending the public expenditure. Let us discuss some of the important theories which seek to explain the factors that determine public expenditure.

Marginal Utility Approach: This is one of the important theories developed in the 1920s which suggested an economic approach to determine the composition of expenditure and budgeting. According to this theory, the government spends its limited income on alternative services in such a way that the marginal benefit is the same on all items. Just as an individual, in order to satisfy his/her wants, spends in a manner to achieve a certain balance among different types of expenditure which would ensure some marginal return of satisfaction from all of these.

Public Goods Approach: Public goods are those for which no private mechanism exists for providing them and which are consumed in equal amounts by all. People who have not paid for them cannot be excluded from their enjoyment. The demand for such public goods becomes an important element in the determination of public expenditure.

Public Choice: The budgeted expenditure is determined not with reference to overall spending and taxation but through a series of separate policy decisions based on estimates of gains and losses of votes. According to Downs, government will provide what voters want and not necessarily what is beneficial. Thus the central reality for governments is the public choice or demand.

Positive Approach: The positive approaches are concerned with the actual growth of public expenditure over a period of time and deal with the formulation and verification of hypothesis every now and then.

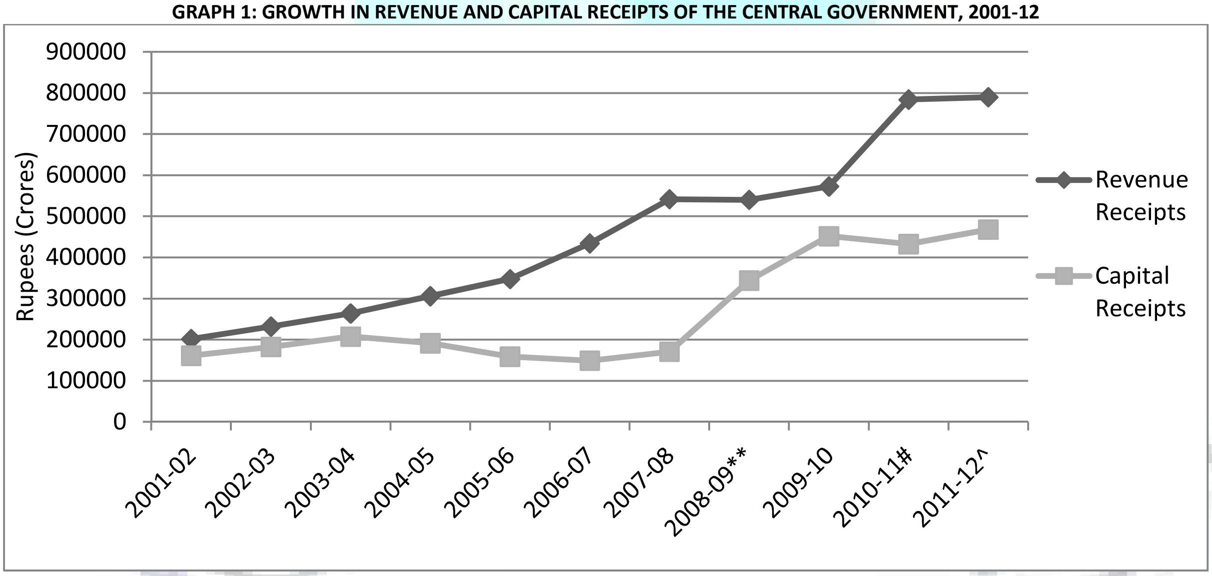
Wagner's Law: Wagner propounded the "Law of increasing expansion of public and particularly state activities" which is referred to as the "law of increasing expansion of fiscal requirements". The law suggests that the share of the public sector in the economy will rise as economic growth proceeds, owing to the intensification of existing activities and extension of new activities.

TREND IN REVENUE OF THE CENTRAL GOVERNMENT OF INDIA

The government total receipts both on revenue and capital account has been increasing continuously, since from several decades. The revenue from revenue receipts was Rs. 4,523 crore have been increased to Rs. 7,89,892 crore by 2011-12 (BE). The capital receipt has also increased from Rs. 6,987 crore to Rs. 12,57,729 crore during the same period. First time the total receipt has been felled from Rs. 17,259 crores in 1978-79 to Rs. 16,529 crore in 1979-80. It is mainly due to reeducation in interest receipts, shortfall in loans and advances etc.

Graph 01 shows that there is continues increase in both revenue and capital receipts of the central government. At the same time it is also observed that revenue receipts were the source compared to capital receipts. During the year 2007-08 and 2010-11 (BE), the difference between the two is very high. It may be high contribution from non-tax revenue.

GRAPH 1: GROWTH IN REVENUE AND CAPITAL RECEIPTS OF THE CENTRAL GOVERNMENT, 2001-12



Source: various union budgets of 2001 to 2011

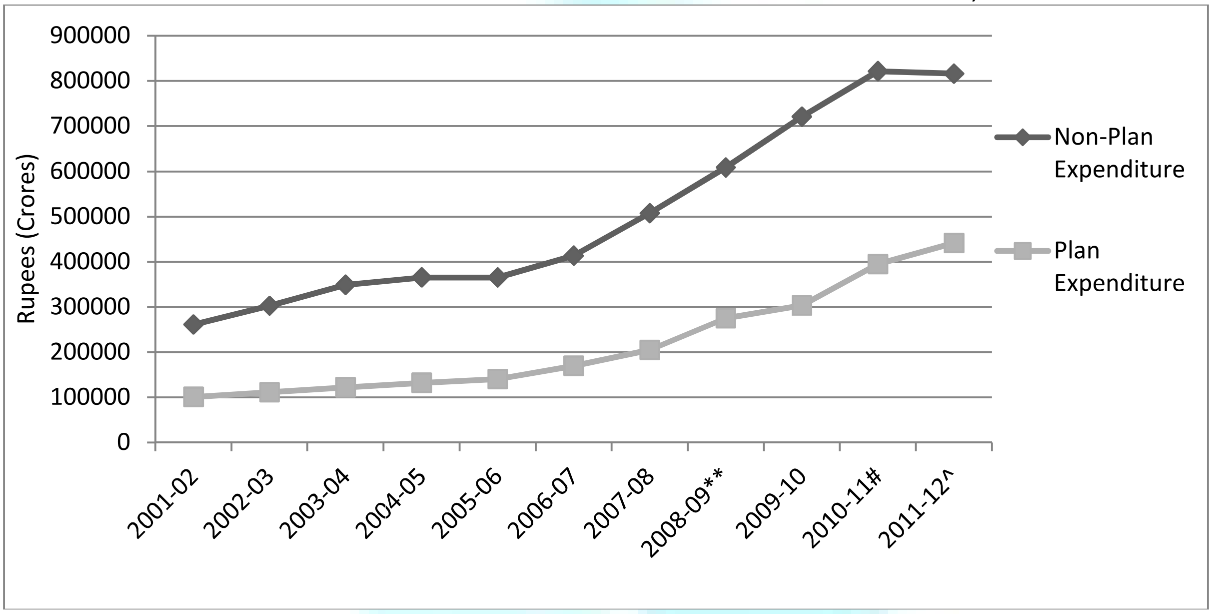
TREND IN PUBLIC EXPENDITURE OF THE CENTRAL GOVERNMENT OF INDIA

Historically the policies by the government of India aimed at social development and eradication of poverty. This is why public expenditure in India has its importance. The trend of public expenditure in India varied from time to time. The public expenditure was much important during the under developed phase of the Indian economy. Even during the present phase (first decade of 21st century) the public expenditure in India growing not to give momentum to the economy but extended task of the government. The extended tasks are managing population and their requirements like health, education, law, social security, health facilities etc. As the growth of economy, the security takes the important role, thus we can find enormous increase in defence expenditure in India. It increased Rs. 1,439 crores during 1972-73 to Rs.95,216 crores by 2011-12 (BE). The subsidy offered by the central government is another for the huge increase in the public expenditure. According RBI government offered Rs. 205 crores subsidies during 1972-73, it rose to Rs. 1,43,570 crores by 2011-12 (BE). Yet another major reason for increase in the public expenditure is debt servies, the interest paid by government was Rs. 776 crores and it has increased to Rs. 2,67,986 crores, during 1972-73 and 2011-12 respectively.

The public expenditure of the government can be classified as revenue and capital account expenditure; developmental and non- developmental expenditure and plan and non-plan expenditure. Each classification of the public expenditure is to serve one or the other purpose. With the help of revenue and capital expenditure classification, it can be analyzed the trend of government expenditure in terms of expenditure resulted in creation assets and how much the expenditure is into unproductive areas. Similarly, developmental and non-developmental classification helps in to know how much public expenditure is spent on social, community and economic services as against general services. In the same way, with the plan and non-plan expenditure classification government can determine the pattern of central assistance on plan schemes to state governments, and union territories. Therefore, each classification of government expenditure serves one or other objectives of the government. So, let us discus the trend in public expenditure of government of India by using above method of classification.

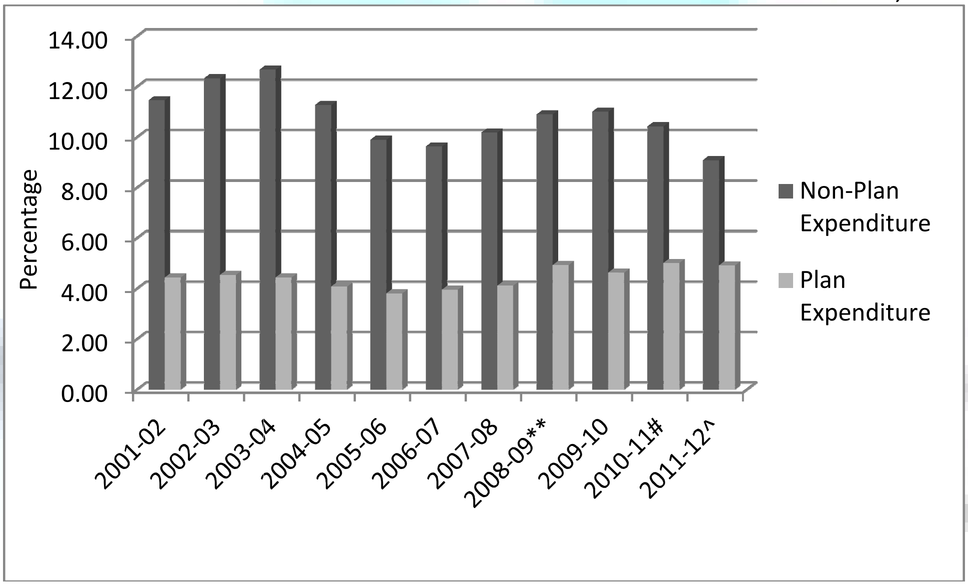
Plan expenditure refers to the expenditure incurred by the central government on projects, which are recommended by the planning commission. Non-plan expenditure, on the contrary, is a general term used to cover all expenditure of government, not included in the plan. Graph 2 and 3 indicates that both plan and non-plan expenditure is increasing continuously, it also true that the non-plan expenditure is very much higher than plan expenditure. The graph also shows that the total expenditure proposed in the 2011-12 (BE) budget is Rs.12,57,729 crore, which is an increase of 13.4 per cent over the budget estimates for 2010-11. In the same budget the plan expenditure was proposed at Rs.4,41,547 crore, which is an increase of 18.3 per cent and the non plan expenditure proposed at Rs. 8,16,182 crore is an increase of 10.9 per cent over budget estimates for 2010-11. During the first part of this century i.e. is between 2001 to 2012, non-plan expenditure as percentage to Indian GDP at current market price was lowest, it was 9.09 percentage (Rs.816,182). In the same period plan expenditure as percentage to Indian GDP at current market price is highest and it was 4.92 percentage (Rs.441,547).

GRAPH 2: GROWTH IN PLAN AND NON-PLAN EXPENDITURE OF THE CENTRAL GOVERNMENT, 2001-12



Source: various union budgets of 2001 to 2011

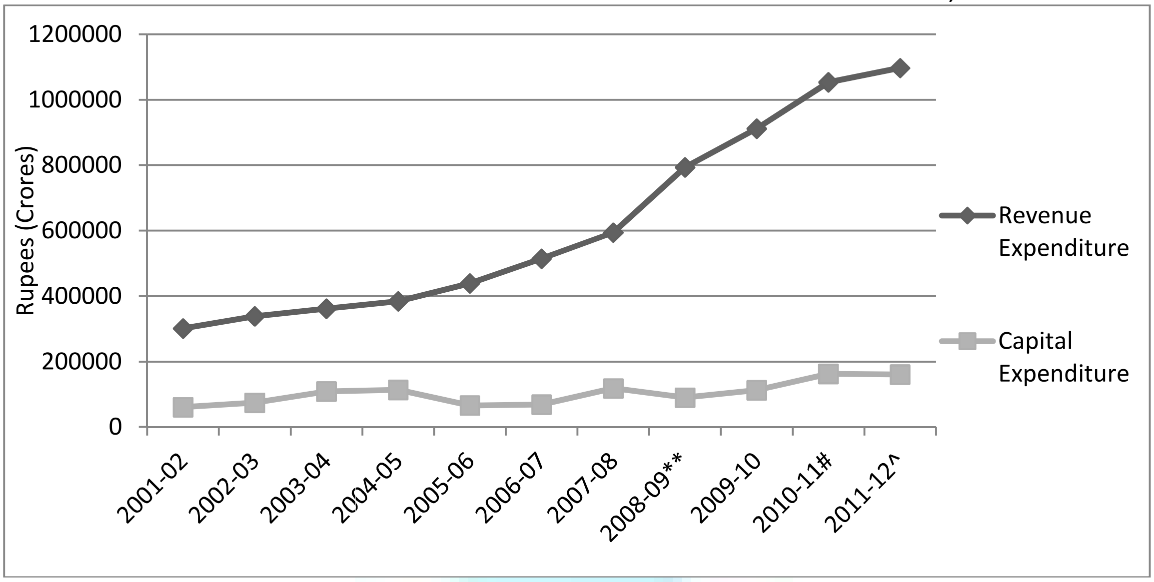
GRAPH 3: PLAN AND NON-PLAN EXPENDITURE AS A PERCENTAGE OF GDP AT CURRENT MARKET PRICE, 2001-12



Source: various union budgets of 2001 to 2011 & RBI 2011

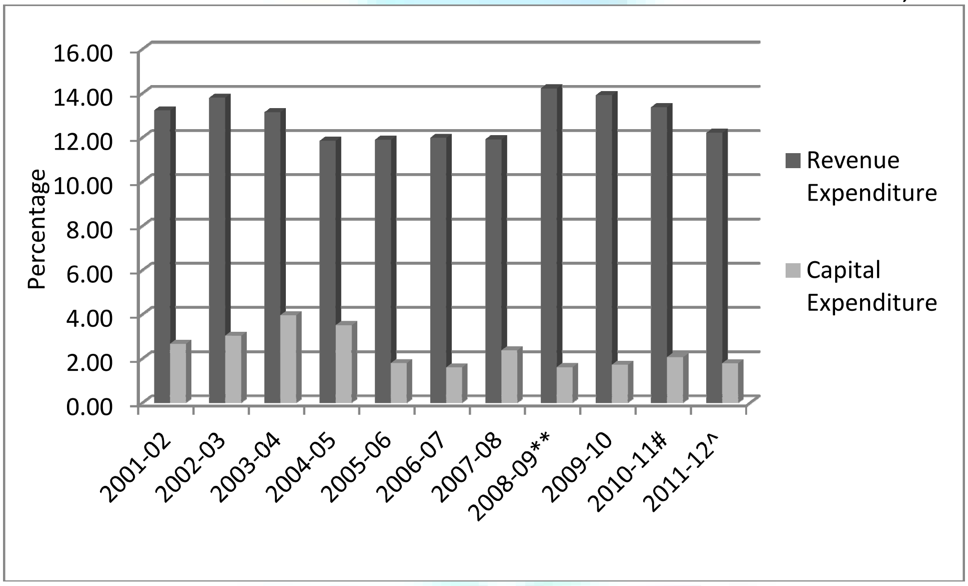
The main difference between revenue and capital expenditure is the difference between expenditures that result in the creation of new assets and those which will not create the assets. The goods and services consumed within the accounting period are included in the current expenditure; at the same time the allocation may be based whether expenditure is produces revenue or not. The gross and net capital formation in the public sector is shown in the capital account for the account period. The graph numbers 4 and 5 shows that both revenue and capital expenditure are increasing continuously. It is the revenue expenditure increasing faster than the capital expenditure. The revenue expenditure grew from Rs. 4538 crore in 1972-73 to Rs. 1097162 crore (B.E) in 2011-12, that means which increased two hundred and fifty times in thirty nine years. In the same period capital expenditure grew at a slightly slower rate than the revenue expenditure. It was Rs. 3319 crore during 1972-73 to Rs. 160567 crores by 2011-12 (BE). Which means capital expenditure is increased by just forty eight times, in same duration. As per graph 03, during the first part of the present century i.e. from 2001 to 2012, revenue expenditure grew by nearly four times; whereas capital expenditure is increased nearly by three times during the same period. Except in the first four years of this present century, the capital expenditure in India, as percentage to Indian GDP at current market prices not exceeded more than 2 percent. The ratio between revenue and capital expenditure is also too wide.

GRAPH 4: GROWTH IN REVENUE AND CAPITAL EXPENDITURE OF THE CENTRAL GOVERNMENT, 2001-12



Source: various union budgets of 2001 to 2011

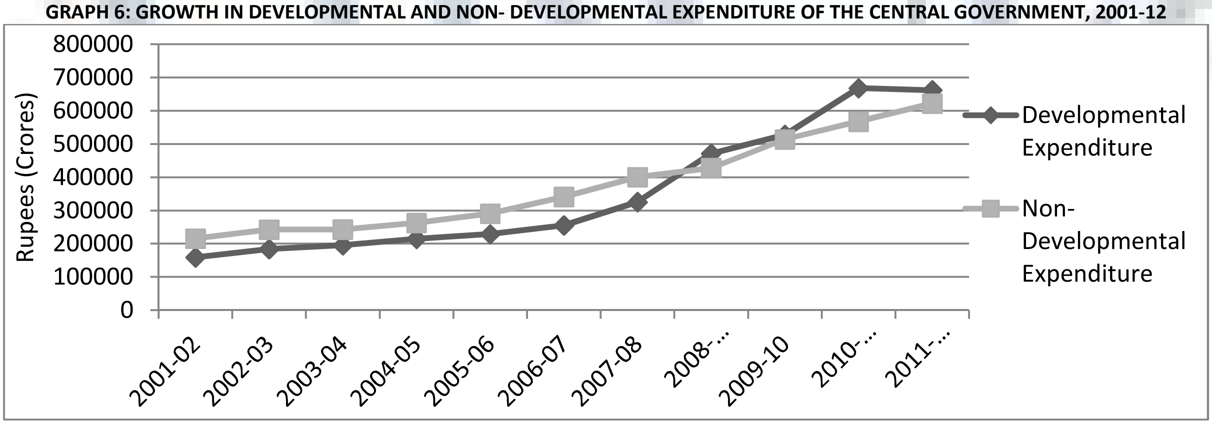
GRAPH 5: REVENUE AND CAPITAL EXPENDITURE AS A PERCENTAGE OF GDP AT CURRENT MARKET PRICE, 2001-12



Source: various union budgets of 2001 to 2011 & RBI 2011

Developmental expenditure includes expenditure on agriculture, cooperation, public health, labour, employment etc. On the other hand non-developmental expenditure includes expenditure incurred on defence, administrative services, interest payments; other general services etc. From the graphs 4 and 5 it can be observed that both the developmental and non-developmental expenditure of the central government is going hand in hand during period 2001 to 2012. From the year 2008-09 on words developmental expenditure is more than the non-developmental expenditure, both these expenditures are Rs. 471399 crore and Rs. 428145 crore respectively.

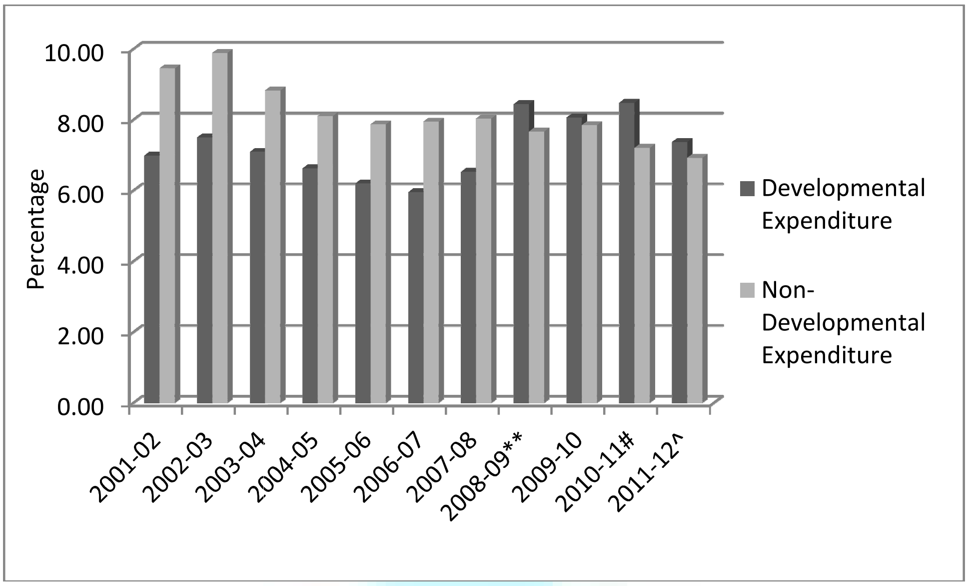
GRAPH 6: GROWTH IN DEVELOPMENTAL AND NON- DEVELOPMENTAL EXPENDITURE OF THE CENTRAL GOVERNMENT, 2001-12



Note: Data is inclusive of commercial and postal department,

Source: various union budgets of 2001 to 2011.

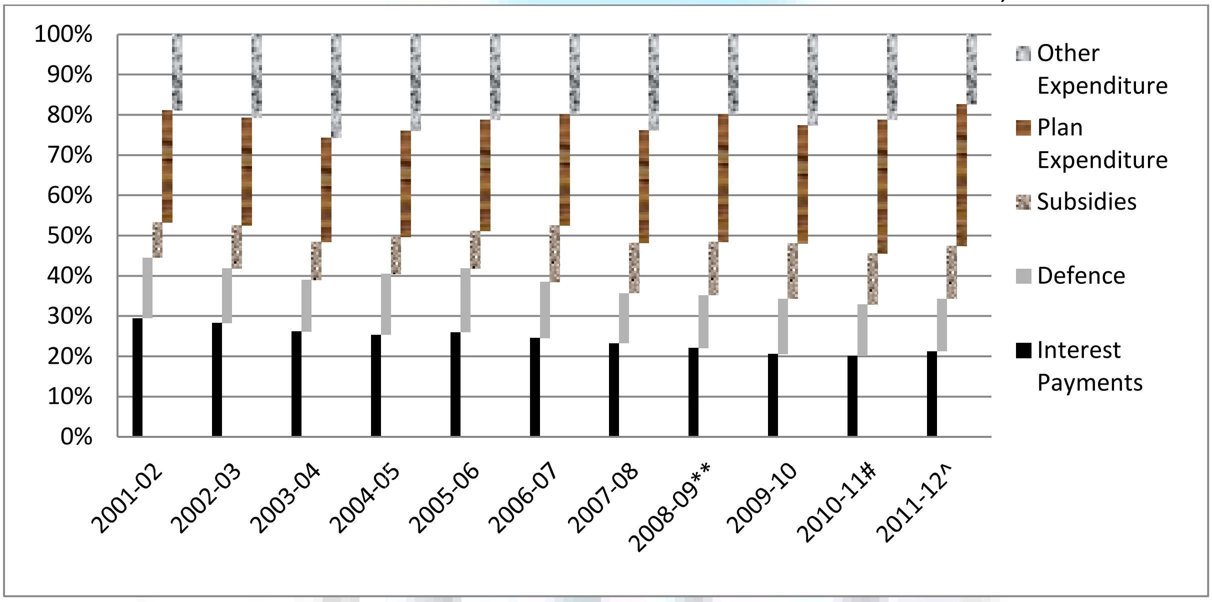
GRAPH 7: DEVELOPMENTAL AND NON-DEVELOPMENTAL EXPENDITURE AS A PERCENTAGE OF GDP AT CURRENT MARKET PRICE, 2001-12



Source: various union budgets of 2001 to 2011 & RBI 2011

The graph 8 shows the major heads of expenditure by the Indian government as a percentage of GDP at current market price. After the planned expenditure, government pays (spends) more on interest payments. However as a percentage of GDP at current market price, interest payments is reduced to 2.98 percent in 2011-12, and it was 4.70 percent during 2001-02. Similarly, as a percentage of GDP at current market price, the defence expenditure was also decreased from 2.40 to 1.83 percent, during 2001-02 to 2011-12 respectively. However this percentage is marginally increased in case of subsidies, it was 1.40 percent in 2001-02 and increased to 1.83 percent by 2011-12.

GRAPH 8: MAJOR HEADS OF EXPENDITURE AS A PERCENTAGE OF GDP AT CURRENT MARKET PRICE, 2001-12



Source: GoI, 2012

FINDINGS

The major findings of the paper are as follows:

- Wagner's Law is more applicable for the present rate of increase in the public expenditure of the government of India. The law says that the role public sector will rise as economic grows, leading to the escalation of the existing activities and extension of new activities.
- In the study period that is from 2001 to 2012, revenue receipts contribution is increased by nearly four times, whereas public revenue from capital receipts is increased by nearly three times.
- No doubt union government is spending more on non-plan expenditure than the plan expenditure, but as percentage to Indian GDP at current market price, its plan expenditure increasing more than the non-plan expenditure.
- The revenue expenditure is not only increasing faster than capital expenditure, but percentage share of capital expenditure is coming down. As percentage to Indian GDP at current market price, during 2011-12, revenue expenditure was 12.22 percent and capital expenditure was just 1.79 percent.
- In the graph number 6 and 7, it is estimated that both developmental and non-developmental expenditure are growing but as percentage to Indian GDP at current market price the share between the two very much near. In the year 2011-12, as percentage to Indian GDP at current market price, the developmental expenditure was 7.37 percent and non-developmental expenditure was 6.93 percent.
- During the first part of present century i.e. from 2001 to 2012, as percentage to Indian GDP at current market price, the interest payment was degreased. In the year 2001-02 interest payment was 4.70 percent and gone done to 2.98 percent in the 2011-12.

SUGGESTIONS

- The percentage public expenditure should be more on new activities than the existing activities. Government should make all efforts to complete all the proposed projects well within the stipulated time.

- Similarly, percentage public expenditure should be more to words capital expenditure than the revenue expenditure side. For this government should use cost cutting technique like
- To reduce the interest payments, government should raise fewer loans. But to meet the money requirement, government should encourage FDI, and the efforts had should be made to get back the black money.
- Government borrowing should be confined to priority sectors.
- Government should have executive control over the public expenditure, with sufficient powers.
- Government before implementing any new projects, it has to make pre-investment appraisal.
- Reduce the growth in non-developmental expenditure, by assessing the quality of expenditure.

CONCLUSIONS

There has been huge increase in public expenditure both in absolute terms and also as a percentage to as percentage to Indian GDP. This shows that the importance of public expenditure is increasing due to the increase in the welfare programmes of the government. Wagner's Law rightly says that public expenditure increases because of escalation in the existing activities and extension of new activities. It is always worth to discuss not only rate of growth public expenditure but also direction of the public expenditure. It is because the direction of public expenditure will affect the pattern and degree of production, consumption, income, investment, price level, employment etc. From 2001 to 2012 in India, as percentage to the GDP at current market prices, plan expenditure increasing more than the non-plan expenditure. At the same time as percentage to Indian GDP at current market price, during 2011-12, revenue expenditure was 12.22 percent and capital expenditure was just 1.79 percent. The good thing is the interest payment was decreased by 4.70 percent to 2.98 percent during 2001-12.

END NOTES

* based on provisional actual for 2001-02.
** based on provisional actual for 2007-08.
\# revised estimates
^ budget estimates

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