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# CONTENTS

<b>Sr. No.</b>	<b>TITLE &amp; NAME OF THE AUTHOR (S)</b>	<b>Page No.</b>
1.	<b>POSITIVE MENTAL ATTITUDE: LEARNING FROM THE LIFE OF SWAMI VIVEKANAND: A DESCRIPTIVE STUDY</b> <i>JASPREET BAJAJ, Dr. ANJU AHUJA &amp; Dr. MARKANDAY AHUJA</i>	1
2.	<b>REVIVAL OF INDIAN ECONOMY THROUGH RECONSTITUTION OF INFRASTRUCTURE DEVELOPMENT IN INDIA</b> <i>Dr. RAJA ROY CHOUDHURY, MRUNAL ARUN MULE &amp; Dr. VIJETA CHAUDHARY</i>	5
3.	<b>MANAGING CAREER ASPIRATIONS – A CONCEPTUAL INSIGHT</b> <i>SOUMYA PRAKASH B S &amp; Dr. MANASA NAGABHUSHANAM</i>	8
4.	<b>ECONOMIC IMPACT OF FINANCIAL INCLUSION ON FARMERS IN SOUTH GUJARAT REGION</b> <i>DHARMESH U THAKOR &amp; Dr. RAMAKANTA PRUSTY</i>	11
5.	<b>PROSPECTS OF SPECIAL ECONOMIC ZONES IN INDIAN ECONOMY: A COMPARATIVE STUDY</b> <i>VIVEK SHUKLA &amp; Dr. SOMESH KUMAR SHUKLA</i>	16
6.	<b>EXAMINING MEDIATING EFFECT OF TRUST BETWEEN STORE IMAGE AND LOYALTY IN GROCERY SPECIALTY STORES IN HYDERABAD</b> <i>ISHFAQ HUSSAIN BHAT &amp; Dr. SAPNA SINGH</i>	24
7.	<b>ENSURING QUALITY AND EXCELLENCE IN INSTITUTIONS OF HIGHER LEARNING WITH SPECIAL REFERENCE TO THE STATE OF ODISHA</b> <i>Dr. RASHMI MISHRA</i>	27
8.	<b>HUMAN RESOURCE INFORMATION SYSTEM, HUMAN RESOURCE PERFORMANCE AND MODERATING EFFECT OF NATIONAL AND INTERNATIONAL BANKS OF BANK EMPLOYEES IN QATAR</b> <i>Dr. RENJU MATHAI &amp; Dr. A. THANGARAJA</i>	34
9.	<b>AN ASSESSMENT OF PRODUCTIVE EFFICIENCY OF THE SELECT PRIVATE SECTOR NON-BANKING FINANCE COMPANIES IN INDIA</b> <i>Dr. N. DEEPA &amp; Dr. V. THILAGAVATHI</i>	39
10.	<b>IMPACT OF CAPITAL STRUCTURE ON PROFITABILITY OF PHARMACEUTICAL SECTOR IN INDIA - AN EMPIRICAL STUDY</b> <i>Dr. GURMEET SINGH &amp; KOMAL B SIDHNANI</i>	44
11.	<b>AN ANALYSIS OF DEVELOPMENT EXPENDITURE DURING THE PRE REFORM AND POST REFORM PERIOD IN INDIA</b> <i>Dr. P. NATARAJAN &amp; S. RAJARAJESWARI</i>	49
12.	<b>IMPACT OF ADVERTISEMENT AMONG CONSUMERS ON GOLD JEWELLERY PURCHASE IN COIMBATORE CITY</b> <i>V. VIDHYA &amp; Dr. S. P. VIJAYAKUMAR</i>	53
13.	<b>TRUST IN FINANCIAL MOBILE APPS – A PARTIAL LEAST SQUARE REGRESSION APPROACH</b> <i>Dr. K.UMA DEVI</i>	59
14.	<b>RELEVANCE OF E-COMMERCE IN MODERN BUSINESS SCENARIO: A STUDY</b> <i>Dr. ANIRUDDHA SARKAR</i>	62
15.	<b>EFFECTS OF TECHNOLOGICAL CHANGES IN THE PERFORMANCE OF HR DEVELOPMENT</b> <i>Dr. A. VENNILA</i>	68
16.	<b>AN INQUIRY INTO IMPACT OF TQM IMPLEMENTATION ON EMPLOYEE PERFORMANCE AT WORKING IRON AND STEEL FIRMS OF KARNATAKA</b> <i>K C PRASHANTH</i>	71
17.	<b>JOB SATISFACTION OF BANK EMPLOYEES – AN INVESTIGATION INTO THE RELATIONSHIP WITH THEIR ATTITUDE TOWARDS CHANGE</b> <i>KAMAL RAJ MOHAN</i>	77
18.	<b>THE IMPACTS OF NPA ON INDIAN ECONOMY</b> <i>GHEESA LAL &amp; Dr. MANISH BADLANI</i>	80
19.	<b>UNDERSTANDING GST THROUGH COMPARISON WITH PREVIOUS INDIRECT TAXATION SYSTEM</b> <i>GUNEEV BRAR</i>	85
20.	<b>PRODUCT PERFORMANCE OF LIFE INSURANCE COMPANIES IN INDIA: A LITERATURE REVIEW AFTER 2000</b> <i>Dr. SASMITA SAHOO</i>	89
	<b>REQUEST FOR FEEDBACK &amp; DISCLAIMER</b>	95

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# AN ANALYSIS OF DEVELOPMENT EXPENDITURE DURING THE PRE REFORM AND POST REFORM PERIOD IN INDIA

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## ABSTRACT

*Economic planning in India is different from that of the socialist countries in its approach as well as coverage. India has opted for a mixed economy, implying the co-existence of the public and the private sectors. The initiative of the state in such a social system is restricted to sectors, which fail to develop, either due to the inabilities or due to the indifference on the part of the private sector. Thus the State was accorded a very high important place in India for the development of the infrastructure under the plans. The development of the roads and the railways, the construction of the canals, the production and distribution of energy and the like have created a conducive environment for rapid economic development in India. The multi-dimensional development of the social overhead capital by the State had induced the incentive of the private sector also to increase production and to raise the output. This strategy had worked well in respect of the consumer goods industries. The state, however, could not rely for the development of the basic industries on the response of the private sector alone for the growth of the social overhead capital. Massive allocation of funds to these industries had resulted in their rapid and speedy development, which had considerably strengthened the country's basic industrial structure. The public revenue should be increased to meet the growing public expenditure. It has been suggested that the subsidies should also be reduced to meet the growing public expenditure of the country. The public revenue should be mobilized to a greater extent to meet the continuously increasing public expenditure.*

## KEYWORDS

India, development expenditure.

## INTRODUCTION

Most of the operations of public finance resolve themselves into a series of transfers of purchasing power. Purchasing power is transferred from the people to the Government in the form of taxes, fees, fines, special assessments and the like. The same purchasing power is re-transferred to the people when the government spends its income in various forms. How these transfers of purchasing power affect the entire economy is the subject matter of the positive science of public finance. However, public finance is not considered as a positive science because of its practical applications. It has its own normative aspects as well. Thus writers on public finance are inclined to set a series of norms for the transfers of purchasing power involved in the public finance operations. The paramount aim of the developing economics is economic development and everything else is subservient to this main aim. It is worth noting that there is an appreciable difference in the role of public expenditure in advanced industrialized countries and developing countries, like India. In the developed economies, the role of public expenditure consists in preventing cyclical fluctuations, counteracting a secular tendency towards stagnation and improving income distribution. Also public expenditure can be used as a lever to raise the level of income and employment; it can also influence the allocation of resources and affect the composition of Gross Domestic product. But the role of public expenditure in developing economies has a special significance. In a developing economy, control of cyclical fluctuation is not as important as raising the level of income and employment and improving the distributional aspect of national income. It must also pay special attention to backward areas. Thus, role of public expenditure in a developing economy is three fold: viz

- (i) Promoting economic growth,
- (ii) Redistribution of Income, wealth and economic power and
- (iii) Balanced regional development.

A policy of sustained economic development requires the application of large investment expenditure for the creation of social overhead capital which, in turn, will facilitate the development of both manufacturing industries and agriculture. If the rate of economic development of developing countries is to be accelerated, the main reliance has to be placed on the creation of external economies through the availability of social overhead capital. Moreover, in a developing socialist economy like that of India, the State wishes to expand the public sector with a view to gaining increasing control over the means of production with particular emphasis on the long neglected heavy and basic industries in the early phases of industrialization. The share of government in the total investment has, therefore, been going up from plan to plan and it now occupies the commanding heights of the economy.

## NEED FOR THE STUDY

The classical economists have not analyzed in depth about public revenue and public expenditure. Throughout the nineteenth century, increases in public expenditure were very meager owing to the very restricted activities of the government. But now, the expenditures of the governments all over the world, including that of India had greatly increased, while the public revenue had not increased to the extent proportionately, and this is true more particularly, in the developing and the underdeveloped countries.

In developing countries, the public expenditure has an important role to play whereas in the developed industrialized countries, the basic problem, in the short run, is to ensure their economic stability and full employment levels and in the long run to ensure a steady rate of economic growth; that is growth without wide fluctuations. The developing countries like India are confronted with a more difficult problem of generating a high rate of economic growth so as to tackle the basic problems of poverty and unemployment. The public expenditure has to play a special role in promoting economic growth in the developing countries. Hence there is a need to study empirically the trend of public expenditure over period of time and its impact on the various sectors and also among the various sections of the community.

## STATEMENT OF THE PROBLEM

A continuous increase in the public expenditure is not a desirable feature as it increases the deficits of the annual budgets; and if a reduction in the public expenditure should be allowed to fall below the critical minimum level, it might affect the growth of the economy. There it is very essential to maintain the public expenditure at an optimal level, so as to sustain and encourage the optimum level of economic growth. But in India, public expenditure had been growing at an alarming

proportion, which had already drawn the attention of the policy makers. If the public expenditure is diverted towards development activities, it will certainly promote the process of development in the economy. While examining the nature of the public expenditure, it is very necessary to compare the growth of public expenditure with that of the Gross Domestic Product of the country. Governments in the modern era are actively participating in the allocation, distribution and stabilization processes of the economy. As a result of their active participation in the various economic activities, the government finances have begun to play a crucial role in the social and community development of the country.

In this context, the goals and objectives of the government have to be analyzed carefully. The quantity and the quality of the growth patterns differ from government to government, as these depend, among other things, upon the objectives of the respective governments. Also the efficiency with which the government services are provided, determines to a greater extent the quantity and the quality of the growth pattern. The pattern of expenditure however, is entirely a product of the pattern of public expenditure over a period of time, and it broadly gets reflected in the changing objectives of the government.

### OBJECTIVE OF THE STUDY

To analyze the developmental expenditure of the Central Government of India during the pre-reform and post-reform period.

### METHODOLOGY OF THE STUDY

Present paper has relied on secondary data, collected from India's Public Finance and Statistics, Government of India Report. Linear and Non Linear Models are used to analyze the data with the help of trend line for observing whether increasing trend or decreasing trend.

### ANALYSIS OF THE DATA

The total developmental expenditure of the Central Government for the periods namely pre-reform period and post-reform period is presented in the following Table.

**TABLE 1: DEVELOPMENT EXPENDITURE DURING THE PRE-REFORM PERIOD FROM 1980-81 TO 1990-91**

Years	Development Expenditure ( ₹ In crores)	Index number of Development Expenditure
1980-81	8994	100
1981-82	10250	114
1982-83	11913	133
1983-84	14038	156
1984-85	16615	185
1985-86	19914	221
1986-87	22941	255
1987-88	24209	269
1988-89	26151	291
1989-90	27520	306
1990-91	34566	384

Source: Indian Public Finance and Statistics, Government of India, Various Issues.

It is found from the above Table that the total expenditure on developmental services of the Government of India has increased from ₹ 8994 crores in 1980-81 to ₹ 19914 crores in 1985-86, and further to ₹ 34566 crores in 1990-91 during the pre-reform period. If the total developmental expenditure of the year 1980-81 is given index number of base 100, then the index number of developmental expenditure for 1985-86 works out to be 221; and for 1990-91 it is 384. Large amount of developmental expenditure, by itself, cannot be considered as a good feature. For deciding as to how far an increase in developmental expenditure could be justified, one must examine the purpose for which the expenditure has actually been incurred. The other related aspects which have to be taken into consideration are the priorities laid down for incurring the developmental expenditure, the allocation of financial resources to the various sectors, the observance of the various canons of public expenditure in incurring the expenditure and the amount of benefits that accrue to the society from out of the developmental expenditure.

The following table presents the total developmental expenditure of the central government incurred after the New Economic Policy that is, post reform period after 1991. The New Economic Policy which is shortly called as LPG was initiated in the year July 1991 by the then Finance Minister Dr. Manmohan Singh under the Prime Minister ship of P.V. Narasimha Rao.

**TABLE 2: DEVELOPMENT EXPENDITURE DURING THE POST-REFORM PERIOD FROM 1991-92 TO 2014-15**

Year	Development expenditure ( ₹ In crores)	Index Number
1991-92	35961	100
1992-93	36660	102
1993-94	43662	121
1994-95	47378	132
1995-96	46374	129
1996-97	53534	149
1997-98	59077	164
1998-99	66818	186
1999-00	76182	212
2000-01	91884	256
2001-02	101194	281
2002-03	117972	328
2003-04	134484	374
2004-05	143010	398
2005-06	174952	487
2006-07	219087	609
2007-08	304293	846
2008-09	383107	1065
2009-10	413852	1151
2010-11	525019	1460
2011-12	580897	1615
2012-13	602503	1675
2013-14	661141	1838
2014-15	737229	2050

Source: Indian Public Finance and statistics, Government of India, Various Issues.

It is observed from the above table that the developmental expenditure has risen from ₹.35961 crores in the year 1991-92 to ₹.91884 crores in 2000-01. Finally the amount of development expenditure has increased to ₹.737229 crores in the year 2014-15. Developmental expenditure is a crucial vote getter for the incumbent party as these expenditures are extremely visible and its benefactors are easily identifiable. It is clear that during the election years, the Governments have directed large amounts of the available resources towards development expenditures as they are more visible and are more likely to lure the votes to cast their votes in favour of the party, which had undertaken the exercise of increasing the development expenditure. If the total developmental expenditure of the year 1991-92 is given an index number of base 100, then the index number of developmental expenditure for 2000-01 works out to 256; and for 2014-15, it becomes 2050.

#### TREND ANALYSIS

The paper has analyzed the trend pattern of growth of the developmental expenditure of the Central Government during the period from 1980-81 to 2014-15 by fitting a trend for the given variables. To fit the trend, the following linear model had been used.

$$Y = a + bt + U_t$$

Where,

Y = Development Expenditure

t = Time trend variable,

a = Intercept term and

b = Regression co-efficient showing the annual growth or the declining rate in the concerned variable.

#### COMPOUND GROWTH RATE

In this model, the values of the independent variables were taken in log and the dependent variable in the non-log form. For this, the following type of model has been used.

$$\text{Log } Y = a + bt + U_t$$

Compound growth rate was calculated by: (Antilog b-1) x 100

The following table presents the computed trend coefficients and compound growth rate for pre-reform, post-reform and overall periods.

TABLE 3

Model	Period	Year	a	b	T	R <sup>2</sup>	Absolute growth	CGR
Linear	Pre-reform	1980-81 to 1990-91	5210.70	2421.11*	19.062	0.98	2421	--
	Post-reform	1991-91 to 2014-15	-134181.40	29588.75*	10.451	0.83	29589	--
	Whole period	1980-81 to 2014-15	-148815.33	17590.35*	8.928	0.71	17590	--
Log linear model	Pre-reform	1980-81 to 1990-91	9.02	0.13*	20.796	0.98	--	14.04
	Post-reform	1991-91 to 2014-15	10.08	0.14*	33.52	0.98	--	15.51
	Whole period	1980-81 to 2014-15	8.93	0.13*	43.426	0.98	--	13.57

Source: Estimated by the Researcher.

Note: CGR – Compound Growth Rate.

Statistically significant at 5 per cent level.

It is found from the above table that in the pre-reform period, the value of the slope co-efficient worked out to 2421.11. This reveals that on an average the amount of developmental expenditure has increased by ₹.2421 crores over the period of eleven years just before the structural changes that has taken place in India. The value of R<sup>2</sup> is 0.98, which means that about 98 per cent of the variations in the developmental expenditure variables has been explained by the independent variable. Regarding the log-linear model, the estimate of 'b' was found to be statistically significant and it is 0.13. The annual growth rate of developmental expenditure in the pre reform period is 13 per cent and the value of R<sup>2</sup> is 0.98. The compound Growth Rate is 14.04 per cent.

For the post-reform period, the slope co-efficient is 29588.75, which showed that on an average the developmental expenditure has increased by ₹.29589 crores annually. The value of R<sup>2</sup> is 0.83, which means that above 83 per cent of the variations in the developmental expenditure variables has been explained by the independent variable during the post-reform period. The growth model value of the slope co-efficient is 0.14 and the value of R<sup>2</sup> is 0.98. The government is seeking to undertake major investment outlays; yet it had accumulated huge cash balances with the Reserve Bank of India.

Over the study period the slope co-efficient is found to be 17590.35, which discloses the average annual absolute growth rate of development expenditure for the entire period of time. The R<sup>2</sup> value of 0.71 discloses that in the regression line, the independent variable explains for about 71 per cent of the variations in the developmental expenditure, which is the dependent variable. The t' test reveals the regression co-efficient to be significant at the 5 per cent level. In the semi-log model the value of "b" is 0.13 and the goodness of fit is 0.71 per cent. The compound growth rate of development expenditure is 13.57 per cent.

$$\begin{aligned}
 t &= \frac{b_1 - b_2}{\sqrt{(S.E. b_1)^2 + (S.E. b_2)^2}} \\
 &= \frac{2421.11 - 29588.75}{\sqrt{(127.01)^2 + (2831.09)^2}} \\
 &= \frac{-27167.64}{2833.94} \\
 &= -9.59
 \end{aligned}$$

Table value of 't' at 5 per cent level is 1.960.

Since the calculated value of 't' greater than the 'table value', there is a significant difference between the annual growth rates of development expenditure for the two sub-periods namely pre-reform period and post-reform period.

#### CONCLUSION

Economic planning in India is different from that of the socialist countries in its approach as well as coverage. India has opted for a mixed economy, implying the co-existence of the public and the private sectors. The initiative of the state in such a social system is restricted to sectors, which fail to develop, either due to the inabilities or due to the indifference on the part of the private sector. Thus the State was accorded a very high important place in India for the development of the infrastructure under the plans. The development of the roads and the railways, the construction of the canals, the production and distribution of energy and the like have created a conducive environment for rapid economic development in India. The multi-dimensional development of the social overhead capital by the State had induced the incentive of the private sector also to increase production and to raise the output. This strategy had worked well in respect of the consumer goods industries. The state, however, could not rely for the development of the basic industries on the response of the private sector alone for the growth of the

social overhead capital. Massive allocation of funds to these industries had resulted in their rapid and speedy development, which had considerably strengthened the country's basic industrial structure. The public revenue should be increased to meet the growing public expenditure. It has been suggested that the subsidies should also be reduced to meet the growing public expenditure of the country. The public revenue should be mobilized to a greater extent to meet the continuously increasing public expenditure.

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