



“EMERGING TRENDS AND GROWTH PUBLIC EXPENDITURE IN INDIA”

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ABSTRACT

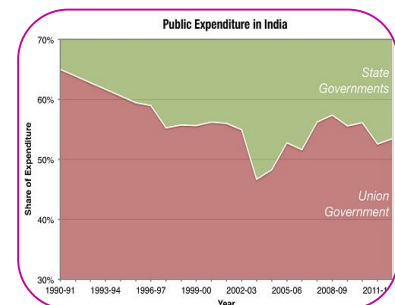
Public expenditure is the expenditures are incurred by the public authorities like Central, state and Local government's either for the satisfaction of collective needs of the citizen or for the promotion of economic and social welfare. The classical economists did not look the various effects of public expenditure, Prof. R.A. Musgrave, a Modern Economist, and Advocated that public expenditure should deal with many activities such as Allocation of resources, distribution resources and maintain stability in the economy. As a result, the public expenditure has been increasing during the last few decades and the modern economists have been started analyzing the effects of public expenditure on production, distribution and standard of living in the economy. This study has two objectives first one is to examine the trend and growth of public expenditure in India for the period 1980-81 to 2015-16 and second one is to analyze the impact of public expenditure on gross domestic product in India. The study reveals that the annual growth rate of revenue expenditure was higher as against the capital expenditure during the same period. The annual growth rate of non-plan expenditure was registered to be higher than that of plan expenditure in India and finally empirical results reveal the positive impact of public expenditure on Gross Domestic Product.

KEYWORDS: Public Expenditure, GDP, Government.

INTRODUCTION

Public finance mainly focuses on Public Revenue and Public Expenditure. Public expenditure is the expenditures are incurred by the public authorities like Central, state and Local government's either for the satisfaction of collective needs of the citizen or for the promotion of economic and social welfare. The classical economists did not look the various effects of public expenditure, Adam smith in his book “Wealth of Nations” pointed out that the Government activities were very restricted and sovereign has only three duties to attend firstly, protecting from external aggression: secondly, maintain law and order internally and thirdly the duty of erecting and maintain of certain public works. But now, the public expenditure of all countries over world has increased significantly. Prof. R.A. Musgrave, a Modern Economist, Advocated that public expenditure should deal with many activities such as Allocation of resources, distribution resources and maintain stability in the economy. As a result, the public expenditure has been increasing during the last few decades and the modern economists have been started analyzing the effects of public expenditure on production, distribution and standard of living in the economy.

The public expenditure theories enlighten the enlargement of public spending in both developed and developing countries. The positive theory of public expenditure by Wagner (1890) argued that a



functional cause and effect relationship exists between the growth of an economy industrializing economy and the relative growth of public sector. Which means public spending increases leads to increase in per capita income and output. Peacock-Wiseman in their early 1960s work, found that the public expenditure tends to evolve in a step like pattern rather it increases in large scale social disturbances or crisis.

REVIEW OF LITERATURE:

Empirical researches on the effect of government expenditure on economic growth reported results, in which some studies V.Shivaranjani (2010), Tanuka Endow (2008) shows the positive effect, However, many researches had negative results Ghura (1995) Saten Kumar (2009) Magazzino (2012) those who could not establish a relationship between government expenditure and economic growth.

Strayer (1949) in his work trying to describe the comparative growth and pattern of public expenditure to the desires for public services, technological services and the increase of urban population. He used empirical data to describe that there is a direct and proportional relationship between public spending and the variables.

Barro (1989) studies the relationship between public expenditure and economic growth. He examined some empirical regulations covering working, growing, efficiency and investment, and concluded that there was an inverse relationship between public consumption expenditures share in GDP and growth. It means that growth could be regarded as insignificant

Kar and Taban (2003) analyzed the effects of public expenditures on economic growth in Turkey using data from 1971-2000. They have analyzed public expenditures such as education, health, social security, and infrastructure expenses with a cointegration approach. Researchers found that the education and social expenses had positive effects, whereas health expenses had negative effects.

Vijay and Gupta (2013) analyze the impact of public expenditure on economic growth of India from 1998 to 2012. They were used 'ADF Unit Root Test', 'Cointegration Test' and 'Granger Causality test' techniques to test the relationship. The study found that there is linear stationarity in both the variables that indicates the long run equilibrium and there is a positive impact of total public expenditure on economic growth.

NEED OF THE STUDY:

Public spending has become a fundamental point of study in the field of public economic research. Now a days there is huge increase in public spending in Indian economy and this has been created desire to study the public expenditure with a view to whether the public expenditure has capitulate the real fruits to the economy over a period of time. Government of India spending patterns have dramatically varied the over the last 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 analyze trends and growth levels of government expenditures.

OBJECTIVES OF THE STUDY

The objectives of the study are to:

1. To analyze the growth of public expenditure during period of 1980s-2015 in India.
2. To explore the relationship between the public expenditure and economic growth in India.

HYPOTHESIS:

1. There is no significant growth in Public expenditure in India.
2. There is no Relationship between Public expenditure and Economic growth.

METHODOLOGY:

The study uses mainly Secondary data. Secondary data is collected from publications of various years Union budgets, Economic surveys and www.data.gov.in website. The data used for the study is from the

period of 1980-81 to 2015-16. For the analysis and interpret of data, simple statistical tools like percentage, annual growth rate were used. To establish empirical relationship between GDP and Public expenditure, Ordinary Least Square (OLS) technique was used with the help E-Views software.

DATA ANALYSIS AND DISCUSSION:

Components of Public expenditure on any sector are classified into planned expenditure and Non-planned expenditure, Revenue expenditure and capital expenditure etc. Each classification of the public expenditure is to serve one or the other purpose. After independence in India, the efforts were made on the part of the government establish a welfare state

TRENDS AND GROWTH OF THE REVENUE AND CAPITAL EXPENDITURE OF THE CENTRAL GOVERNMENT:

Revenue expenditure are the routine expenditure that is incurred in the day to day business activities Capital Expenditure is an expense made to obtain an asset or develop the capacity of the asset. Table-1 shows that India has made significant progress in combined Revenue and Capital expenditure about four decades (between 1980-81 to 2015-16). The highest annual growth rate of revenue expenditure is 34% in 2008-09. The highest annual growth rate in capital expenditure is 46% in 2003-04. The lowest annual growth in rate of revenue expenditure is 5% in 2015-16 and the lowest annual growth in rate of capital expenditure -42% in 2005-06. Over period of time the revenue expenditure increases and capital expenditure decreases this is not the good sign for the economic development of the county. Hence government has focus on capital expenditure thus will create sustainability in our economy.

Table-1: Growth of Revenue and Capital Expenditure in India

(Rs in Crores)

Year	Revenue Expenditure	Annual Growth Rate	Capital Expenditure	Annual Growth Rate
1980-81	14410 (0.63)	-	8358(0.37)	-
1981-82	15408 (0.61)	7%	9857(0.39)	18%
1982-83	18742 (0.61)	22%	12049(0.39)	22%
1983-84	22251 (0.63)	19%	13283(0.37)	10%
1984-85	27691 (0.63)	24%	15941(0.37)	20%
1985-86	33924 (0.64)	23%	18742(0.36)	18%
1986-87	40860 (0.65)	20%	22056(0.35)	18%
1987-88	46174 (0.68)	13%	22087(0.32)	0%
1988-89	54106 (0.68)	17%	25005(0.32)	13%
1989-90	64210 (0.69)	19%	28698(0.31)	15%
1990-91	73516 (0.70)	14%	31782(0.30)	11%
1991-92	82292 (0.74)	12%	29122(0.26)	-8%
1992-93	92702 (0.76)	13%	29916(0.24)	3%
1993-94	108169 (0.76)	17%	33684(0.24)	13%
1994-95	122112 (0.76)	13%	38627(0.24)	15%
1995-96	139861 (0.78)	15%	38414(0.22)	-1%
1996-97	158933 (0.79)	14%	42074(0.21)	10%
1997-98	180335 (0.78)	13%	51718(0.22)	23%
1998-99	216461 (0.77)	20%	62879(0.23)	22%
1999-00	249078 (0.84)	15%	48975(0.16)	-22%

2000-01	277839 (0.85)	12%	47753(0.15)	-2%
2001-02	301468 (0.83)	9%	60842(0.17)	27%
2002-03	338713 (0.82)	12%	74535(0.18)	23%
2003-04	362074 (0.77)	7%	109129(0.23)	46%
2004-05	384329 (0.77)	6%	113923(0.23)	4%
2005-06	439376 (0.87)	14%	66362(0.13)	-42%
2006-07	514609 (0.88)	17%	68778(0.12)	4%
2007-08	594433 (0.83)	16%	118238(0.17)	72%
2008-09	793798 (0.90)	34%	90158(0.10)	-24%
2009-10	911809 (0.89)	15%	112678(0.11)	25%
2010-11	1040723 (0.87)	14%	156605(0.13)	39%
2011-12	1145785 (0.88)	10%	158580(0.12)	1%
2012-13	1243514 (0.88)	9%	166858(0.12)	5%
2013-14	1371772 (0.88)	10%	187675(0.12)	12%
2014-15	1466992 (0.88)	7%	196681(0.12)	5%
2015-16	1536047 (0.86)	5%	241430(0.14)	23%

Source: Union Budgets and Economic Survey, GOI, various issues

TRENDS AND GROWTH OF THE PLAN AND NON-PAN EXPENDITURE OF THE CENTRAL GOVERNMENT:

Plan expenditure is a part of budgetary expenditure which is detailed the schemes and programmes framed under annual and five years plan or expenditure on unfinished task of the previous plan. Plan expenditure in generally on the creation of assets. Non- Plan expenditure is all expenditure other than plan expenditure of the govt. Such expenditure is a must for every country, planning or no planning. So at the end of a five year plan, the recurring parts of Plan expenditure on different programmes or schemes become part of Non plan expenditure. Non plan expenditure is expected to increase steadily over the years.

It's observed from table (2) shows that India has made significant progress in combined plan and non-plan expenditure about four decades (between 1980-81 to 2015-16). The highest annual growth rate of plan expenditure is 34% in 2008-09. The highest annual growth rate in non-plan expenditure is 26% in 1984-85. The lowest annual growth in rate of plan expenditure is -02% in 1995-96 and the lowest annual growth in rate of non-plan expenditure 0% in 2005-06. Over period of time the plan decreases expenditure and non plan expenditure increases.

Table-2: Growth of Plan and Non-Plan Expenditure in India
(Rs in Crores)

Year	Plan Expenditure	Annual Growth Rate	Non Plan Expenditure	Annual Growth Rate
1980-81	8994(0.40)	-	13774(0.60)	-
1981-82	10165(0.40)	13%	15100(0.60)	10%
1982-83	13017(0.42)	28%	17774(0.58)	18%
1983-84	14038(0.40)	8%	21496(0.60)	21%
1984-85	16606(0.38)	18%	27026(0.62)	26%
1985-86	19854(0.38)	20%	32812(0.62)	21%
1986-87	22996(0.37)	16%	39920(0.63)	22%
1987-88	24209(0.35)	5%	44052(0.65)	10%
1988-89	25951(0.33)	7%	53160(0.67)	21%

1989-90	27520(0.30)	6%	65388(0.70)	23%
1990-91	28365(0.27)	3%	76933(0.73)	18%
1991-92	30961(0.28)	9%	80453(0.72)	5%
1992-93	36661(0.30)	18%	85957(0.70)	7%
1993-94	43662(0.31)	19%	98191(0.69)	14%
1994-95	47378(0.29)	9%	113361(0.71)	15%
1995-96	46374(0.26)	-2%	131901(0.74)	16%
1996-97	53534(0.27)	15%	147473(0.73)	12%
1997-98	59077(0.25)	10%	172976(0.75)	17%
1998-99	66818(0.24)	13%	212522(0.76)	23%
1999-00	76182(0.26)	14%	221871(0.74)	4%
2000-01	82669(0.25)	9%	242923(0.75)	9%
2001-02	101194(0.28)	22%	261116(0.72)	7%
2002-03	111470(0.27)	10%	301778(0.73)	16%
2003-04	122280(0.26)	10%	348923(0.74)	16%
2004-05	132292(0.27)	8%	365960(0.73)	5%
2005-06	140638(0.28)	6%	365100(0.72)	0%
2006-07	169860(0.29)	21%	413527(0.71)	13%
2007-08	205082(0.29)	21%	507589(0.71)	23%
2008-09	275235(0.31)	34%	608721(0.69)	20%
2009-10	303391(0.30)	10%	721096(0.70)	18%
2010-11	379039(0.32)	25%	818289(0.68)	13%
2011-12	412375(0.32)	9%	891990(0.68)	9%
2012-13	413625(0.29)	0%	996747(0.71)	12%
2013-14	453327(0.29)	10%	1106120(0.71)	11%
2014-15	462644(0.28)	2%	1201029(0.72)	9%
2015-16	465277(0.26)	1%	1312200(0.74)	9%

Source: Union Budgets and Economic Survey, GOI, various issues

EMPIRICAL RELATIONSHIP BETWEEN PUBLIC EXPENDITURE AND ECONOMIC GROWTH IN INDIA

Model Specification:

From theoretical perspective, the model says that economic growth (GDP) depends on public expenditure. Thus, the model is linearly expressed as follows:

$$Y = \alpha + \beta x + \mu$$

Where,

Y =shows that Gross Domestic Product

X= indicates Public expenditure

α = Depicts any level of economic growth that at zero government expenditure level.

β = Coefficient of the public expenditure. It is a measure of the effects of public expenditure on economic growth.

μ is stochastic variable to accommodate the influence of other determinants of economic growth other than public expenditure.

To establish empirical relationship public expenditure and GDP researchers used E-Views software and the results below obtained.

Result Table-3
Model 1: OLS, using observations 1980-2015 (N=37) Dependent variable: GDP

Variable	Coefficient	Std.Error	t-Statistic	Prob.
C	3.366735	0.131045	25.69146	0.0001
Public-Expenditure	0.563370	0.24157	23.23125	0.0000
R-squared	0.939538	Adjusted R-squared	0.937811	
F-statistic	543.8807	Prob(F-statistic)	0.000000	
Durbin-Watson stat	0.196095	Mean dependent var	6.406077	

Source: E-Views Regression Output

OLS regression results with respect to the impact of public expenditure on GDP, A simple linear regression was run: taking public expenditure as the independent variable and GDP variable at a time as the dependent in the model and the results are obtained. The analysis shows that the impact of public expenditure on GDP is found significant. The value of adjusted R2 exceeds 0.93 this indicates that above 93 percent variations in the dependent variable are explained by the independent variable. Sign of the regression coefficient (the slope coefficient) indicates that the natures of the relationship between the two variables are positive. With coefficients obtained p-values are statistically significant, so there is a positive relationship between the variables. Hence the alternative hypothesis is accepted.

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. It is always worth to discuss not only rate of growth public expenditure but also direction of the public expenditure. Consequently, this analysis supports growing evidence that government expenditure has a relationship with and exerts significant effect on GDP. From 1980-81 to 2015-16 in India, as percentage to the revenue expenditure increasing more than capital expenditure at the same time, plan expenditure increasing more than the non-plan expenditure.

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