



INTERNATIONAL JOURNAL OF CREATIVE RESEARCH THOUGHTS (IJCRT)

An International Open Access, Peer-reviewed, Refereed Journal

A Study Of Public Expenditure In India: Growth And Time Series.

Shankar P. Talakeri

Research Scholar

Chaudhary Charan Singh University, Meerut, Uttar Pradesh.

ABSTRACT

The present paper reveals that "Growth of Public Expenditure in India: Structure and Time Series Analysis" looked into the connection between public spending and the nation's economic Growth. A study demonstrates that India's economic development is significantly influenced by governmental spending. Public expenditure is expenditure by the government on various government activities and social sector services. Public expenditure is necessary for supporting the economy and economic activities. The purpose of public expenditure is not limited to providing essential goods and services but also it provides employment and liberal rights to use to its population. In this article, explore that, the trends in public expenditure in India and also theories and causes of public expenditure. In almost every type of economy, whether it is socialist, capitalist or mixed, government participates in various economic activities directly and indirectly. Also, the government is responsible for establishing the welfare state in a country. This results in huge expenditure or investment by the government. Developing countries are generally characterized by lower socio-economic indicators, and widespread poverty & inequality. Thus, developing countries require a higher level of public expenditure to accelerate its economic growth social indicator.

Keywords: Expenditure, Growth, Spending, relationship, impact, effect

INTRODUCTION

In economics, the word 'expenditure' signifies not exactly the coins and currency notes of a country but rather the resources of an individual or a group of persons denominated in terms of money. On the other hand, the word 'public' means a heterogeneous crowd of people having something in common, should possess some common band uniting them for some purpose for some time (Kumar, V., 1986). Therefore, public expenditure is defined as the expenditure of the public sector where relationships are adequately integrated

for a common pursuit. Public expenditure is a branch of public finance, studies how finances both in cash and kind are spent or should be spent to enable the state to perform its activities according to its avowed goal.

Generally speaking, policy choice of a government is reflected through public expenditure public expenditure would on the one hand indicate the cost of various types of projects selected by the government and on the other their quality and quantity as decided for the society by the government. In other words, the volume of public expenditure made through government budget would enable us to ascertain the cost of provisions of public goods and services which would generally appear in public sector accounts. It should, however, be mentioned that certain expenditures would result from governmental rules and regulations applied in private sector. Such, expenditures on all accounts, should have been included in public expenditures. However, for our purpose, we shall refrain from adopting such wider definition of public expenditure, although we recognize the importance of such wider definition in ascertaining the 'cost of government action. Thus, we shall in our analysis use the narrower definition of public expenditure to point out mainly the size and the growth of government

Public expenditure is catered to satisfy certain wants which individuals in their capacity cannot satisfy. They are unable to make appropriate provision for the satisfaction of certain wants when acting individually. In other words, it is observed that very often people may not take as much interest to satisfy those wants as the State or government would generally be. This is the root of assuming importance of the government in the economic sphere and of the increased public expenditure in modern times

In traditional development economic literature, the justification for growth of government or government expenditure is rooted in market failure arguments. The market does not always live up to competitive norms, and even when it does, it may not secure Pareto Optimal resource allocation when private and social value diverges. Nor can the market bring about appropriate corrections in income distribution. In such cases, the necessary corrections have to be brought about through government expenditure policy

MEANING OF FOR PUBLIC EXPENDITURE

Of the two main branches of public finance, namely, public revenue and public expenditure, we shall first study the public expenditure. The classical economists did not analyse in depth the effects of public expenditure, for public expenditure throughout the nineteenth century was very small owing to the very restricted Government activities.

The Governments followed laissez faire economic policies and their functions were only confined to defend the country from foreign aggression and to maintain law and order within their territories. But now, the expenditure of Government all the world over has greatly increased. Therefore, the modern economists have started analysing the effects of public expenditure on production, distribution and the levels of income and employment in the economy.

IMPORTANCE OF PUBLIC EXPENDITURE:

Thanks to the macroeconomic theory advanced by J.M. Keynes, the role of public expenditure in the determination of level of income and its distribution is now well recognised. Keynesian macroeconomics provides a theoretical basis for recent developments in public expenditure programmes in the developed countries. The public expenditure can be used as a lever to raise aggregate demand and thereby to get the economy out of recession. On the other hand, through variation in public expenditure, aggregate demand can be managed to check inflation in the economy.

Public expenditure can also be used to improve income distribution, to direct the allocation of resources in the desired lines and to influence the composition of national product. In the developing countries also, the role of public expenditure is highly significant. In the developing countries, the variation in public expenditure is not only to ensure economic stability but also to generate and accelerate economic growth and to promote employment opportunities. The public expenditure policy in developing countries also plays a useful role in alleviating mass poverty existing in them and to reduce inequalities in income distribution. In what follows, we shall study the types of public expenditure, the causes of growth of public expenditure and its effects on production, distribution and economic growth in both the developed and the developing countries.

CLASSIFICATION OF PUBLIC EXPENDITURE:

Revenue Expenditure and Capital Expenditure: Public expenditure has been classified into various categories. Firstly, Government expenditure has been classified into revenue expenditure and capital expenditure. Revenue expenditure is a current or consumption expenditure incurred on civil administration (i.e., police, jails and judiciary), defence forces, public health and education.

This revenue expenditure is of recurrent type which is incurred year after year. On the other hand, capital expenditure is incurred on building durable assets. It is a non-recurring type of expenditure. Expenditure incurred on building multipurpose river projects, highways, steel plants etc., and buying machinery and equipment is regarded as capital expenditure. Transfer Payments and Expenditure on Goods and Services. Another useful classification of public expenditure divides it into transfer payments and non-transfer payments. Transfer payments refer to those kinds of expenditure against which there is no corresponding transfer of real resources (i.e., goods and services) to the Government. Expenditure incurred on old-age pensions, unemployment allowance, sickness benefits, interest on public debt during a year etc., are examples of transfer payments because the Government does not get any service or goods against them in the particular year.

On the other hand, expenditure incurred on buying or using goods and services is a non-transfer payment as against such an expenditure, the Government receives goods or services. It is therefore called expenditure on goods and services. It may be noted that expenditure on defence, education, health etc., are non-transfer expenditure as in return for these, Government obtains the services of army personnel, teachers, doctors etc., as well as some goods or equipment's used in these activities. Investments expenditure is

undoubtedly non-transfer expenditure as through its government obtains capital goods. It is worthwhile to mention that whereas in case of transfer payments, it is the beneficiaries that decides about the use of resources, in the case of non-transferable type of expenditure, the Government itself decides about the use of real resources, especially whether they are to be used for consumption or investment purposes.

DEVELOPMENTAL AND NON-DEVELOPMENT EXPENDITURE:

Another useful classification of public expenditure rests on whether a particular expenditure by the Government promotes development. All those expenditures of Government which promote economic growth are called developmental expenditure. Expenditure on irrigation projects, flood control measures, transport and communication, capital formation in agricultural and industrial sectors are described as developmental. On the other hand, expenditure on defence, civil administration (i.e., police, jails and judiciary), interest on public debt etc., are put into the category of non-development expenditure. It may be noted that, till recently, expenditure on education and health were regarded as non-developmental type. It has now been realised that the expenditure on education and public health promotes the growth of what is called human capital which promotes economic growth as much as physical capital, if not more. Therefore, these days, expenditure on education, research and health are generally regarded as developmental expenditure. It is worth noting that division of Government expenditure into developmental or non-developmental is the modern counterpart of the distinction drawn by classical economists between productive and unproductive public expenditure, which has been a subject of great controversy.

For instance, it has been pointed out that even Government expenditure on defence and civil administration helps to maintain conditions in which productive activity can be carried out. It is, therefore, claimed by some that indirectly, expenditure on defence and civil administration is also productive. Thus, we see that what Government expenditure is developmental or productive and what non-developmental or unproductive is not based on any objective or fool-proof criteria and is therefore somewhat arbitrary.

GROWTH OF PUBLIC EXPENDITURE:

In India, Revenue Expenditure includes all current expenditure on administration, defence, and public commercial undertakings like railways, post and telegraph, etc. Capital Expenditure consists of all capital transactions, including defence and capital transactions of public commercial undertakings. In India, such classification of the government's budgetary transaction to the Central Budget has been followed since 1957-58. In India, revenue expenditures include all current expenditures on administration, defence and public commercial undertakings like railways, post and telegraphs, and grants-in-aid while capital expenditure involves all capital transactions.

REASONS FOR GROWTH

- ✓ **Growing Population:** An upsurge in population calls for an upsurge in public expenses. Population growth has made it essential for governments of most countries to spend cumulative amounts on health, education, social security, subsidies, etc.
- ✓ **Inflation:** Inflation would mean that the Govt is forced to incur more expenditure in providing essential goods to the public. Hence, the public expenditure would increase.
- ✓ **Urbanization:** It has raised the dependence of people on the government for basic requirements such as drinking water, sanitation, etc. It has also led to the migration of labour from rural areas that end up living in slums. The government has to take the responsibility of these people and provide them with the basic requirements.
- ✓ **Interest Payments:** Govt borrowing has been on the increase. As a consequence, the government has to incur large interest payments, resulting in a rise in public expenditure.
- ✓ **Economic Development:** In less developed countries, the Govt has to take the responsibility of achieving rapid economic development because the private sector is not willing to take up huge investments. This leads to an increase in the public expenditure.
- ✓ **Social Security Measures:** The government offers social security measures for the welfare of the people, which increases its expenditure. It offers processes such as old-age pensions, free education, medical facilities, public works & relief programmes, etc.
- ✓ **Defence Expenditure:** Defence expenditure has increased over the years. It is essential because it reduces the possibility of external threats.

GROWTH TRENDS IN INDIA

Table: 1. Development and Non-Development Expenditures of State and Central Government (at current price)

Year	Development Expenditures	Non-Development Expenditures	As a percentage of total Expenditures		As a percentage of GDP	
State Government						
1990-91	63.37	22.60	73.71	26.29	-	-
2000-01	205.67	116.82	63.78	36.72	-	-
2010-11	720.36	357.29	66.85	33.15	-	-
2018-19	2290.51	986.37	69.90	30.10	-	-
Central Government						
1990-91	58.65	49.35	54.30	45.70	10.00	8.42
2000-01	139.39	197.47	41.38	58.62	6.40	9.07
2010-11	666.07	551.47	54.71	45.29	8.56	7.08
2018-19	1146.83	195.39	46.96	53.04	6.03	6.81

Source: National Statistical Office (NSO), Budget Documents of State and Central governments of India

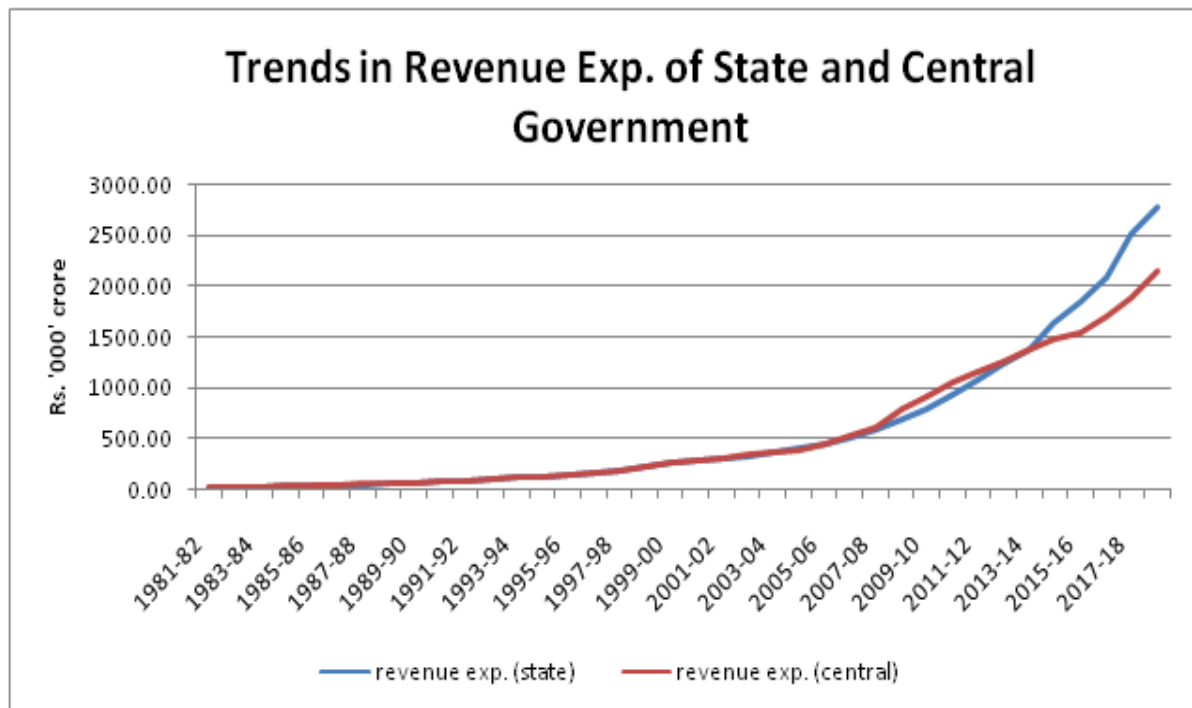
However, it can be seen that the portion of the development and non-development expenditure in GDP has decreased over time. Development expenditure was 10 per cent of GDP in the year 1990-91 which decreased to 6.03 per cent in the year 2018-19. The non-development expenditure which was 8.42 per cent of GDP in the year 1990-91 increased to 9.07 per cent after one decade in the year 2000-01 and then it started to decrease and reached to 6.81 per cent of GDP in the year 2018-19.

The ratio of development to non-development expenditure has also decreased from 1990-91 to 2018-19 for both the government. The ratio of development to non-development expenditure for the state was 2.80 which started to decrease in the 1990s to late 2000s and again started to increase and reached at 2.32 in the year 2018-19. In the case of the central government, the ratio was 1.19 in the year 1990-91 and then started to decline till the year 2007-08 and then increased till 2012-13 and again decreased and reached at 0.89 in the year 2018-19.

Trends in Revenue and Capital Expenditure

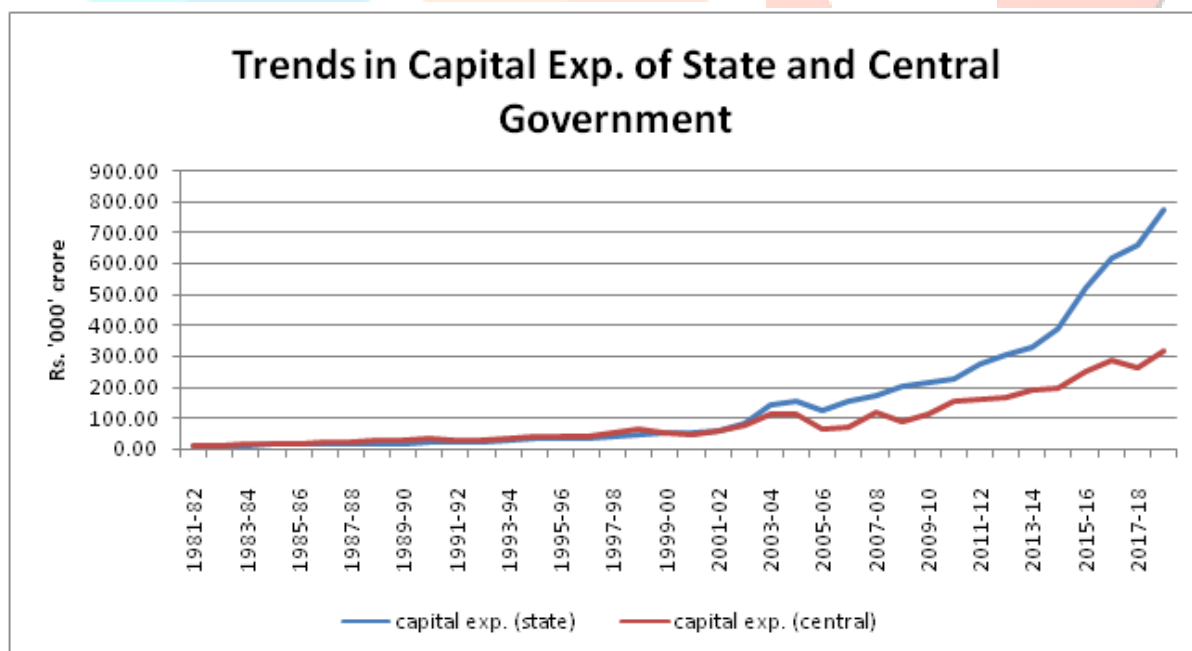
Revenue and capital expenditure for both state and central government have increased over time. In 1981-82, the revenue expenditure was 17.08 and 15.41 thousand crores for state and central government respectively, while the capital expenditure was 8.10 and 9.86 thousand crore for state and central government respectively.

Figure: 1. Trends in Revenue Expenditure of State and Central Government in India from 1981-82 to 2018-19



Source: Budget Documents of State and Central governments of India

Figure: 2. Trends in Capital Expenditure of State and Capital Government in India from 1981-82 to 2018-19



Source: Budget Documents of State and Central governments of India

The revenue expenditure for state and central government has increased to 86.19 and 82.19 thousand crores in 1991-92, while the capital expenditure has increased to 21.74 and 29.12 thousand crores respectively. Finally, in 2018-19, the revenue expenditure reached to 2783.78 thousand crores and 2140.61 thousand crores and capital expenditure reached to 775.95 thousand crores and 316.62 thousand crores for state and central government respectively.

The growth rate of revenue expenditure for both state and central government has decreased over time; while there can be seen wide volatility in the growth rate of capital expenditure for both state and central government. The overall growth rate of capital expenditure of state has increased in 2018-19 in comparison to 1981-82, but however, its trends in growth rate for central government cannot be stated as it has high volatility.

The following diagram presents the decadal figure of the capital and revenue expenditure.

Table: 2. Revenue and Capital Expenditure of State and Central Government in India (at Current Price)

Year	Revenue Expenditures	Capital Expenditures	As a percentage of total Expenditures		As a percentage of GDP	
			Revenue Expenditures	Capital Expenditures	Revenue Expenditures	Capital Expenditures
State Government						
1981-82	17.08	8.10	67.84	32.16	-	-
1991-82	86.19	21.74	78.80	21.20	-	-
2001-02	309.82	58.86	84.03	15.97	-	-
2011-12	1074.57	277.04	79.50	20.50	-	-
2018-19	2140.61	775.05	78.20	21.80		
Central Government						
1981-82	15.41	9.86	60.99	39.01	8.76	5.61
1991-82	82.29	29.12	73.86	26.14	12.21	4.32
2001-02	301.47	60.84	83.21	16.79	12.80	2.58
2011-12	1145.79	158.58	87.84	12.16	13.12	1.82
2018-19	2140.61	316.62	87.11	12.89	11.26	1.67

Source: National Statistical Office (NSO), Budget Documents of State and Central governments of India

The revenue expenditure has always been more share in total expenditure compare to capital expenditure for both the state and central government. Revenue expenditure for the central government has increased very fast compare to state government.

It can also be noted that the revenue expenditure as a percentage of GDP for the central government has increased over time. It was 8.76 per cent of GDP in the year 1981-82 and after two decades in the year 2011-12 it was 13.12 per cent but in the year 2018-19, it decreased to 11.26 per cent of GDP. In the case of capital expenditure, its ratio to GDP has decreased over time. It was 5.61 per cent in the year 1981-82 and after one decade decreased to 4.32 per cent and finally in the year 2018-19, it decreased to 1.67 per cent of GDP.

Causes of Growth of Public Expenditure in India

The increasing trends in public expenditure in India are due to various factors. Followings are some important reasons that resulted in increase in public expenditure in India.

✓ **Population**

The increase in population is one of the major causes of the growth of public expenditure in India. Increasing population requires more and more social sectors expenditure, public goods and strong law and order. The population of India was 692 million in 1981-82 which increased to 1,040 million in 2001-02 and further it increased and reached to 1332 million in 2018-19.

✓ **Increase in per-capita income**

According to Musgrave increase in per-capita income leads to an increase in demand for public goods. Thus, it leads to an increase in public expenditure. The per-capita income in India was 2,115 rupees per annum which increased to 1,41,265 rupees per annum.

✓ **Défense Expenditure**

Defence expenditure in India has increased significantly. It possesses a major portion in both revenue and capital expenditure. Although, its share in revenue expenditure has decreased over time its share in capital expenditure has increased very rapidly. It possesses almost one-third of total capital expenditure. According to the union budget document, 12 per cent of total public expenditure in India goes to defence expenditure in 2018-19.

✓ **Subsidy**

The subsidy is necessary to support essential economic activities like agriculture. The share of subsidies in total expenditure has increased over time by showing the decreasing sign. It was 8.90 per cent of total public expenditure in 1981-82 which increased to 18.22 per cent in 2012-13 and in 2018-19 it was 12.22 per cent of total public expenditure in India.

✓ **Interest payments**

Interest payments have been increased over time contributes significantly to raising public expenditure in India. In 1981-82, the share of interest payments in total expenditure was 11.44 per cent which increased very rapidly during the 1990s and 2000s and reached to 23.70 per cent in 2018-19 after some upward and downward fluctuations.

✓ **Administrative services Expenditure**

Administrative services are necessary to maintain peace, law and order. The administrative expenditure has also increased very rapidly. In 1981-82 the administrative expenditures were 1,825 crores which increased to 2,07,538 crore in the year 2018-19.

✓ **Social services Expenditure**

The social services expenditure also has increased over time in India. The government provides various types of social services to support developmental activities. With an increase in developmental works and population the social services expenditure has increase overtime.

✓ **Urbanization and Infrastructure Development**

India is still to urbanized so a major portion of expenditure goes to urbanization and development of basic infrastructure facilities. Government undertakes the development and construction of various social overheads to support economic activities.

✓ **Inflation**

This is also one of the reasons that increased public expenditure. Inflation is a rise in the general price level in the country. Inflation increases the cost of both new and existing projects.

✓ **Indian Economic and Political System**

The Indian economy is a mixed economy where there is the participation of both the public and private sectors. It increases the responsibility of the government. India is also a democratic country where social welfare is promoted. Therefore, it increases the expenditure by the government.

CONCLUSION

On the basis of the preceding study, it can be inferred that although the public expenditure in India is growing in the absolute term it is showing decreasing sign in terms of growth rate. This should also be noted that the central government is shifting their expenditure from development to non-development category. The share of revenue expenditure is more than the share of capital expenditure. These findings show that the Indian economy is gradually moving towards a laissez-faire economy.

REFERENCE

- ✓ Bird. R.M, Growth of Government Spending in Canada., Canadian Tax Foundation, Toronto 1970, p.6
- ✓ Burkhead J and Minar, J. Public Expenditure Aldin-Atherton Inc., Chicago, Aldin- Artherton Inc. 1971, p.174
- ✓ Chakrabbarty, T.K "Expenditure of the Central Government", Economic and Political Weekly, September 6, 1980, p. 1527
- ✓ Chona, JM "Expenditure of the Central Government, Economic and Political Weekly, July 5, 1980. p. 1144
- ✓ Jack Wiseman anmd Allan T. Peacock, The Growth of Public Expenditure in the United Kingdom 1890-1955, Princeton University Press, 1961 234965
- ✓ Gandhi VP "Wagner's Law of Public Expenditure. Do Recent Cross-section Studies Confirm It? Public Finance, XXVI(I), 1971, pp. 44-56.

- ✓ Government of India, Report of Taxation Enquiry Commission (1953-54), Vol. 1. p.34
- ✓ Kelly T "Public Expenditures and Growth", The Journal of Development Studies, val 34, No. 1, October 1997, pp.60-84.
- ✓ Kumar, V Government Expenditure and Economic Development, Criterion Publication, New Delhi, 1986, p.2
- ✓ Lakdawala, D.T, State of Theories of Public Expenditure. Rapporteur Report", Indian Economic Journal, Conference Number, December 1958, p. 193
- ✓ Madalgi SS. 'State Government's Expenditure, 1951/52-1965/66", Reserve Bank of India Bulletin, June 1966, p. 624
- ✓ Mehrotra, Jan Vandemoortele and Ennque Delamonica, Reallocating Public Spending for Basic Social Services in Developing Countries", Economic and Political Weekly, July 4, 1998 vol 33 NO 27
- ✓ Mukherjee, R., Level of Economic Activity and Public Expenditure in India: A Statistical and Quantitative Study, Asia Publishing House, Bombay 1965). P. vii
- ✓ Panchamukhi, P.R. "Measurement of the Effects of Public Expenditure (with Special Reference to public Education and Health Expenditure in India) Bambay University, 1967, p. 376
- ✓ Patnaik, SC., Orissa Finance in Perspective (1951/52 to 1965/66), People's Publishing House, New Delhi 1970. p. 162
- ✓ Pryor, FL, Public Expenditure in Communist and Capitalist Nations George Allen & Unwin Ltd, London, 1968
- ✓ Raghbendra Jha, "True Cost of Public Expenditure". Economic and Political Weekly, November 18 1995 p 2933.
- ✓ Reddy, KN. Growth of Public Expenditure in India 1872-1968, (A Secular and Time Pattern Analysis) Sterling Publishers Pvt. Ltd., 1972, P.11
- ✓ Sahni, B.S, (ed), Public expenditure Analysis. Selected Readings Rotterdam University Press, Rotterdam, 1972,
- ✓ Samuelson, PA "The Pure Theory of Public Expenditure Review of Economics and Statistics, XXXVII, November, 1955, pp 350-56.
- ✓ Sri Purshotamdas Thakurdas Research Wing, Union Budget- A Factual Study of Finances of Government of India, IMC, Economic Research and Training Foundation, Bombay, 1966, p vi