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## ANALYSIS ON EXPENDITURE PATTERN OF STATE GOVERNMENT AND ITS IMPACT IN ECONOMIC GROWTH OF INDIA

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**Abstract:** Public Expenditure refers to the expenses of the public authorities Central, State and Local Government either for protecting citizens or promoting their social and economic welfare. The public expenditure is important for the development of a nation. The growth of public expenditure that every state must provide in the budget enough resources to maintain big and strong defence forces. The study is based on growth pattern of expenditure done by state government in India. Hence trend analysis, compound annual growth rate and ANOVA is used to measure the increase in pattern of expenditure and its impact in GDP, GNP, Per Capita Income. Based on the objective the analyzes concluded that the impact of state expenditure on economic growth of India, has significant impact on Gross Domestic Product (GDP) and Gross National Income (GNI) in India.

**Index Terms - Public Expenditure, GDP, GNP, Per Capita Income, Economic Growth.**

### I. INTRODUCTION

Public finance deals with the problems of adjustments of income and expenditure of the government. The methods of expenditure of public bodies and the income of public bodies as well as borrowing by public bodies are known as operations of public finance. Public finance is the science which deals with the income and expenditure of a government. In modern times, this includes four major sub-divisions as public revenue, public expenditure, public debt and certain problems of the fiscal system as whole such as financial administration. Public expenditure deals with the study of the principles and the effects of public expenditure on the economic life of the country as a whole, i.e., the effect on production, distribution and individuals. Public expenditure is the expenditure incurred by public authorities – Central, State and Local governments – either for the satisfaction of collective needs of the citizens or for promoting their economic and social welfare. The volume of public expenditure has been increasing in almost all countries in the world, because of the continuous expansion in the activities of state and other public bodies on several fronts.

A theory of public expenditure in the nineteenth century was not very necessary because the scope of the functions of government was restricted. In the twentieth century, the development of the functions of the State in social matters, e.g., in education, public health and in commercial and industrial undertakings such as railways, irrigation and similar projects have increased public expenditure. The importance of public expenditure has also increased because of its nature and volume and effects on the economic life of a country in various ways, i.e., it can affect the level of production distribution and general level of economic activity.

### II. Fundamental Principles of Public Expenditure

The following are the principles stated by Prof. Alfred.G. Buchler which should be followed by public authorities. They are as follows:

- Public expenditure should promote the welfare of society, even though it may be designed primarily to further the welfare of a particular class or group. The social good, infinite as it is the highest good and is above the interest of individuals or groups. The welfare of society should not be injured to aid a certain element of society.
- Careful judgement should be exercised by public official and the electorate to ensure that the advantages of expenditure on each public service exceed the costs and that the fund utilized by governments will be more conducive to social welfare than the same funds would, if privately employed.
- The services, which will best promote the social welfare should be undertaken first and those which will least promote the social welfare should be undertaken at last, so that the public as well as public officials can intelligently compare the gains and cost of public services

### III. Canons of Public Expenditure

Prof. Findlay Shirass has given four canons of public expenditure. People have propounded canons of public expenditure also which governs the public expenditure decisions. They are as follows:

- **Canon of Economy** – It is essential that the process of public expenditure should not involve the use of resources more than what are just necessary. The sole aim of this canon is to avoid extravagance and corruption. Techniques like programme and performance budgeting and zero-base budgeting has been developed to meet this canon.
- **Canon of Sanction** – This canon implies that no public expenditure should be incurred without the sanction of proper authority and further that fund must be used only for the purpose for which they have been sanctioned.
- **Canon of Benefit** – Any public expenditure is to be viewed against the benefits that will accrue from it. Public funds must be spent in those directions which are most conducive to the public interest. It is possible only when public authorities spend resources among different uses in such a way that the marginal utility from all the uses is equal.
- **Canon of surplus** – This canon implies that the state must avoid resort to deficit budgeting. State should always try to be prudent and should aim at meeting its current expenditure needs out of its current revenue.

### IV. Scope of the Study

Public expenditure is nowadays considered to have a considerable impact on the level of economic activity of the country. It influences the level of production, distribution of national income, the allocation of resources and the level of employment. In developing country like India, public expenditure has an active role in reducing regional and personal disparities. It also stimulates saving and capital accumulation. Based on this background the study discusses the growth pattern of public expenditure of state governments in India.

### V. Objectives of the study

- To examine the growth pattern of revenue expenditure of state government in India from 2010-2011 to 2019-2020.
- To analyze the growth pattern of capital expenditure of state government of India from 2010-2011 to 2019 -2020
- To evaluate the growth of Plan and Non-Plan expenditure of State Government of India from 2010-2011 to 2019 -2020.

### VI. Hypothesis of the Study

$H_0$  = There is no significant impact of expenditure pattern of State Government on economic growth of India

$H_1$  = There is significant impact of expenditure pattern of State Government on economic growth of India.

### VII. Tools of the Study

The study is based on growth pattern of expenditure done by state government in India. Hence trend analysis, compound annual growth rate and ANOVA is used to measure the increase in pattern of expenditure and its impact in GDP, GNP, Per Capita Income. The study is based on secondary data collected from journals, handbook of Reserve Bank of India, reports published by state government of India, Ministry of Finance.

### VIII. Analysis and Interpretation

**The expenditure of the Union Government is divided into two classes, ie., Expenditure on Revenue account and Expenditure on Capital account.**

The expenditure on revenue account is finance out of the receipts of taxes and other revenues such as contribution of railways, post and telegraphs and civil works, etc. Revenue expenditure is incurred for the normal running of Government Departments and various services, interest charges on debt incurred by Government, etc. Revenue expenditure is incurred for the normal running of Government Departments and various services, interest charges on debt incurred by Government, etc. Broadly speaking, expenditure which does not result in the creation of assets is treated as revenue expenditure. All grants given to State Governments and other parties are also treated as revenue expenditure. Revenue expenditure is met out of the Revenue receipts of the Governments, ie., tax revenue and other revenues.

The expenditure on capital account is financed out of the capital receipts such as market loans, borrowing by Government from the Reserve Bank of India and other parties, loans received from foreign Governments and International financial institutions and recoveries of loans granted by Central and State Governments and other parties. Expenditure on capital account consists of expenditure used for the acquisition of assets like land, buildings, machinery, equipment as investment in shares, etc., and loans and advances granted by the Central Governments to State Governments, Government companies, corporations and other parties for development purposes. From the below table it was witnessed that the CAGR of Revenue and Capital expenditure during the study period was 12.74 percent and 14.04 percent.

## 4.1. Expenditure on Revenue Account and Capital Account

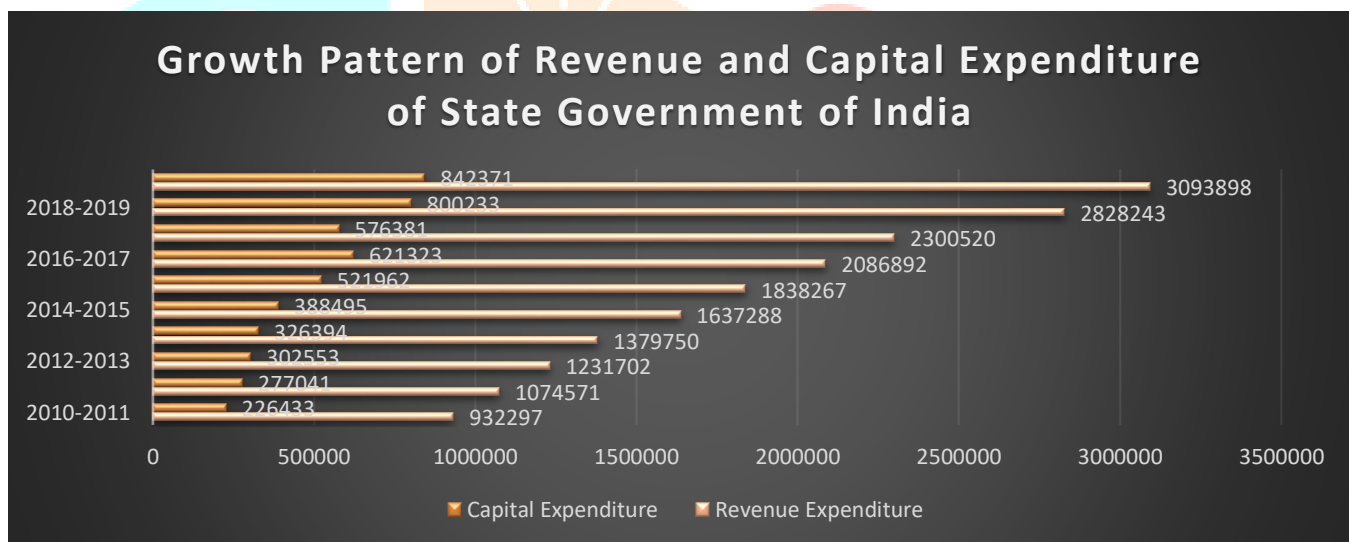
Table: 1.1 Table Showing the Growth Pattern of Revenue and Capital Expenditure of State Government of India

(INR. in crore)

| Year      | Revenue Expenditure | Capital Expenditure |
|-----------|---------------------|---------------------|
| 2010-2011 | 932297              | 226433              |
| 2011-2012 | 1074571             | 277041              |
| 2012-2013 | 1231702             | 302553              |
| 2013-2014 | 1379750             | 326394              |
| 2014-2015 | 1637288             | 388495              |
| 2015-2016 | 1838267             | 521962              |
| 2016-2017 | 2086892             | 621323              |
| 2017-2018 | 2300520             | 576381              |
| 2018-2019 | 2828243             | 800233              |
| 2019-2020 | 3093898             | 842371              |
| CAGR      | 12.74%              | 14.04%              |

Source: Budget Documents of State Government

Chart 1.1



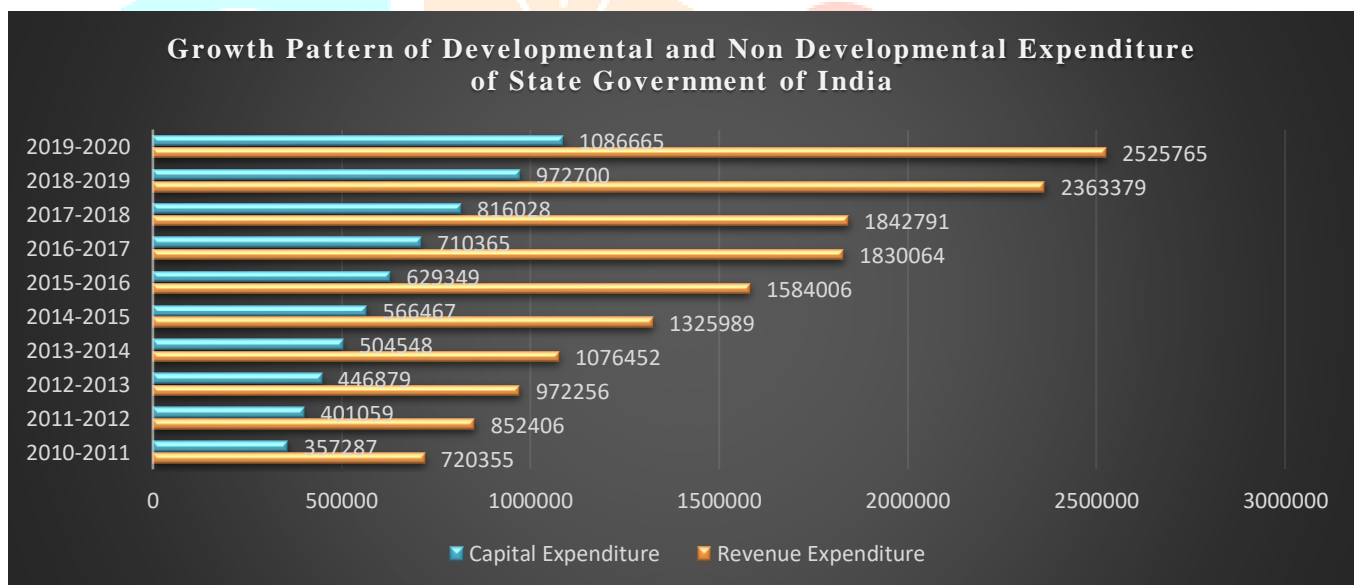
#### 4.2. Developmental and Non-Developmental Expenditure on Revenue Account and Capital Account

**Table: 1.2 Table Showing the Growth Pattern of Development and Non-Development Expenditure of State Government of India**

| (INR. in crore) |                           |                               |
|-----------------|---------------------------|-------------------------------|
| Year            | Developmental Expenditure | Non-Developmental Expenditure |
| 2010-2011       | 720355                    | 357287                        |
| 2011-2012       | 852406                    | 401059                        |
| 2012-2013       | 972256                    | 446879                        |
| 2013-2014       | 1076452                   | 504548                        |
| 2014-2015       | 1325989                   | 566467                        |
| 2015-2016       | 1584006                   | 629349                        |
| 2016-2017       | 1830064                   | 710365                        |
| 2017-2018       | 1842791                   | 816028                        |
| 2018-2019       | 2363379                   | 972700                        |
| 2019-2020       | 2525765                   | 1086665                       |
| CAGR            | 13.36%                    | 11.76%                        |

Source: Budget Documents of State Government

**Chart: 1.2**



Developmental Expenditure on Capital Account refers to the expenditure on (a) social and community services, (b) economic services. Capital expenditure on the social and community services refers to the expenditure on scientific services and research, medical, public health and water supply, housing and urban development, broadcasting, social security and welfare, etc. capital expenditure on economic services refers to the expenditure on foreign trade and export promotion, agriculture and allied services, industry and mineral water and power development, transport and communications, railways and posts and telegraphs, etc. Capital expenditure on the above-mentioned heads is incurred for the purpose of creating assets and capital formation. The Developmental expenditure on capital account was of the order of INR.720355 crores in 2010-2011 and it increased to INR.1584006 crores in 2015-2016. The developmental expenditure was INR. 2525765 crores at the study period 2019-2020. The compound annual growth rate for the study period from 2010-2011 to 2019 – 2020 shows 13.36 percent growth.

The main items of non-developmental expenditure of state government includes Interest payments, Administration services and payments of Pension which is included in general services. The total non-developmental expenditure was of the order of INR. 357287 crores in 2010-2011 and it increased to INR. 1086665 crores in 2019-2020. Overall non-developmental expenditure of state government of India was estimated by CAGR which shows 11.76 percent growth.

#### 4.3 Impact of State Expenditure in Economic Growth of India

$H_0$  = There is no significant impact of expenditure pattern of State Government on economic growth of India

#### 4.3.1. Association between Expenditure Pattern of State Government and Economic Growth Indicators of India

**Model 1:**  $GDP = f(PE)$ , Where GDP = Gross National Product, PE = Public Expenditure of State Government.

**Model 2:**  $PI = f(PE)$ , Where PI = Per capita income, PE = Public Expenditure of State Government

**Model 3:**  $GNI = f(PE)$ , Where GNI = Gross National Income, PE = Public Expenditure of State Government

| Economic Growth Indicators   | Source of Variation | Sum of Squares | df        | Mean Square | F      | P-value | Hypothesis |
|------------------------------|---------------------|----------------|-----------|-------------|--------|---------|------------|
| Gross Domestic Product (GDP) | Between Groups      | 3.718          | 1         | 3.719       | 11.485 | 0.003*  | Rejected   |
|                              | Within Groups       | 5.827          | 18        | 3.238       |        |         |            |
|                              | <b>Total</b>        | <b>9.546</b>   | <b>19</b> |             |        |         |            |
| Per Capita Income (PI)       | Between Groups      | 2.475          | 1         | 2.475       | 54.590 | 7.460   | Accepted   |
|                              | Within Groups       | 8.161          | 18        | 4.534       |        |         |            |
|                              | <b>Total</b>        | <b>3.291</b>   | <b>19</b> |             |        |         |            |
| Gross National Income (GNI)  | Between Groups      | 3.612          | 1         | 3.612       | 11.404 | 0.003*  | Rejected   |
|                              | Within Groups       | 5.702          | 18        | 3.167       |        |         |            |
|                              | <b>Total</b>        | <b>9.315</b>   | <b>19</b> |             |        |         |            |

Source: Computed

From the above table it is observed that the significant value of Gross Domestic Product and Gross National Income of India is 0.003 which shows that the value is less than 0.005, the hypothesis is rejected and results that there state expenditure pattern has significant impact on economic growth indicators in India. further, based on the significant value of Per capita income is 7.460 which shows the value is greater than 0.005, hence the hypothesis is accepted.

## IX. Conclusion

The expenditure pattern of the state government of India had been increasing consistently during the study period 2010-2011 to 2019-2020. With the objective of analyzing the impact of state expenditure on economic growth of India, the study found that the state expenditure pattern has significant impact on Gross Domestic Product (GDP) and Gross National Income (GNI) in India. Through the analyses of CAGR it was witnessed that the Developmental expenditure on capital account was of the order of INR.720355 crores in 2010-2011 has increased to INR. 2525765 crores in the year 2019-2020. The Compound Annual Growth Rate of Revenue and Capital expenditure during the study period was 12.74 percent and 14.04 percent respectively.

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