



REVENUE EXPENDITURE OF SPECIAL CATEGORY STATES: A STATEWISE ANALYSIS FROM 1990-91 to 2014-15

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1 INTRODUCTION

This paper is an attempt to examine the various categories revenue expenditure by the state governments in special category. An inter-temporal analysis of the expenditure pattern of the state indicates the changing policies and priorities of state government as well as central government. It also attempts to examine the variation across the special category states in terms of allocation of expenditure.

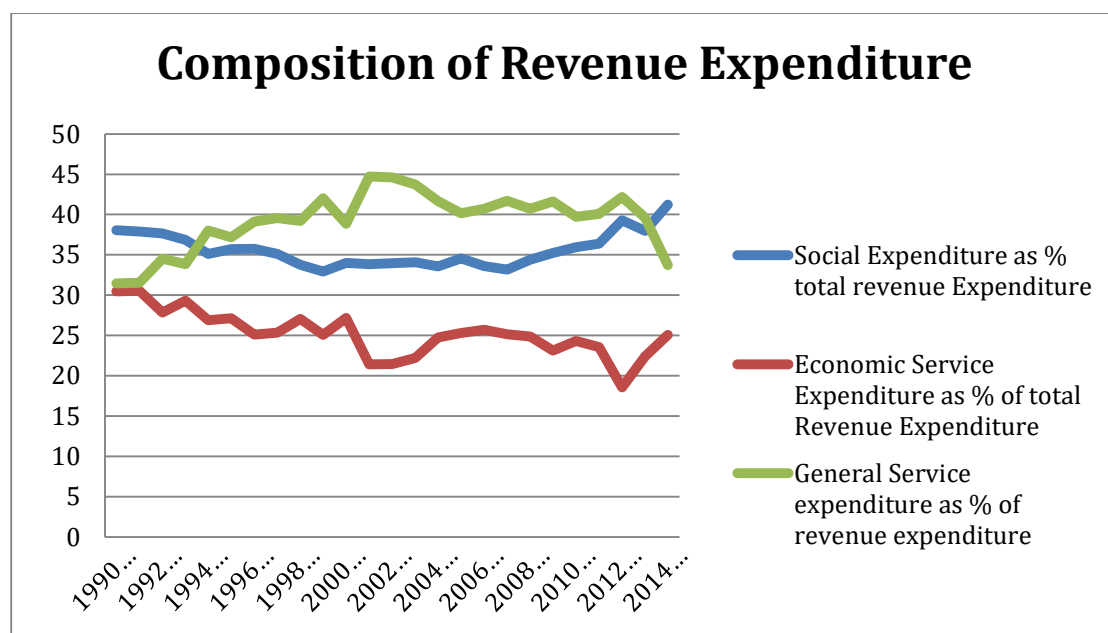
The paper is structured into following section. Section 1 deals with the overall trend and composition in the aggregate revenue expenditure of the state governments. Section 2 looks at the State-wise level and trend in social service expenditure. Section 3 examines the level and trend of economic service expenditure. Section 4, tries to analyze the state wise trend and composition of general service expenditure.

2 Data and Methods

The composition, quantum and trends of state revenue expenditure is examined across 11 special category states which includes Assam, Arunachal Pradesh, Himachal Pradesh , Jammu and Kashmir, Manipur, Meghalaya, Mizoram, Nagaland, Sikkim, Tripura, Uttarakhand and covers the time period from 1990-91 to 2014-15. The Revenue Expenditure is classified as Social Service Expenditure, Economic Service Expenditure and General Service Expenditure. The quantum, composition and variation of different categories of public expenditure are presented in real (at 2004-05 prices) per capita terms and as percentage to GSDP and Total Revenue Expenditure of State Government. The data on Revenue Expenditure by economic classification is obtained from State Finance RBI.

3 COMPOSITION OF REVENUE EXPENDITURE

The composition of expenditure is a reflective of the quality of expenditure. Literature suggests that improvement in the composition of expenditure has a positive impact on growth and development.



Source:-Calculated from data obtained from Annual Budget- State Finance RBI.

Composition of revenue expenditure shows that share of general service dominates the revenue expenditure followed by social service and economic service. It indicates that states government in special category shows higher priority to social service then economic service where as expenditure of general service shows a large committed liability of the states. The share of general service expenditure was increasing during 1990-2003, after 2003-04 the share has been decreasing marginally. As in 2003-04 Centre passed the FRBM Act and subsequently state government also passed it which mainly needs to target every fiscal year to reduce deficit.

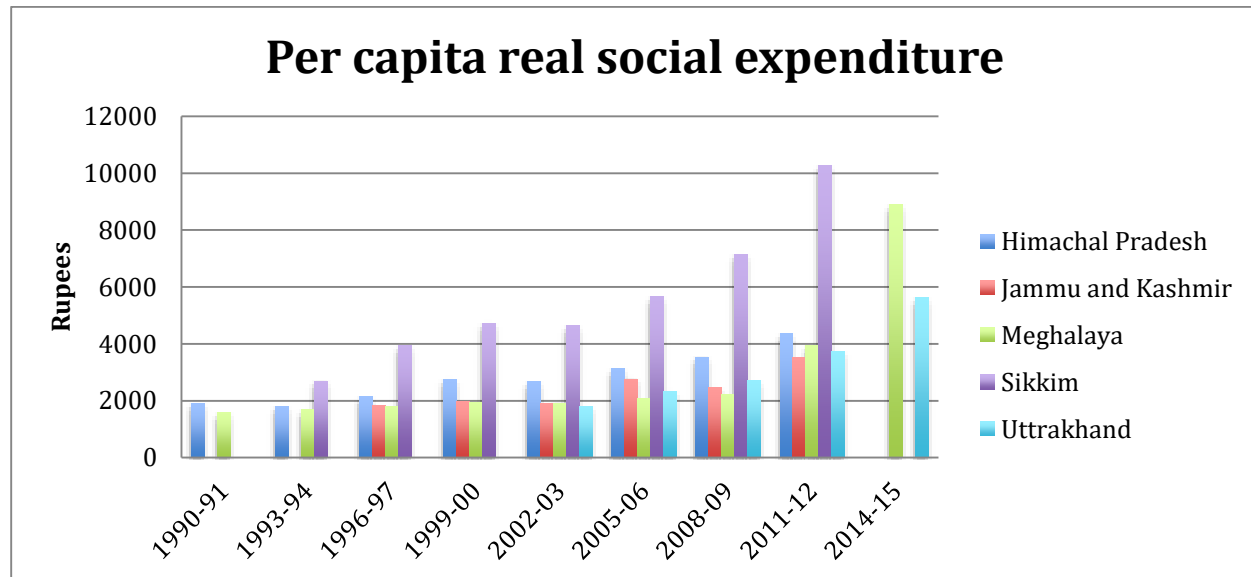
The share of social service expenditure shows a marginal decrease during 1990-2002 however after 2002 it shows a marginal increase. It has been in range of 32-40%. The share of economic service has been in the range of 18-29 %. Since 1990, expenditure on economic service has been decreasing indicating after economic reform, the share of economic expenditure is not increasing if not decreasing.

4 Social Expenditure

Looking at the per capita real social expenditure in case of Group 1 of special category, Sikkim has highest real per capita expenditure on social service among the other states in group1 with an increasing trend. It is clear that Sikkim has exceeded much than others states. During 1990-2002 the per capita real socials service expenditure, has been almost stagnant with Sikkim as an exception. After 2003-04 it shows a marginal increasing trend. Among the relatively high income group of special category states with Sikkim

as an exception, there is very low gap between the states on the real per capita expenditure on social expenditure.

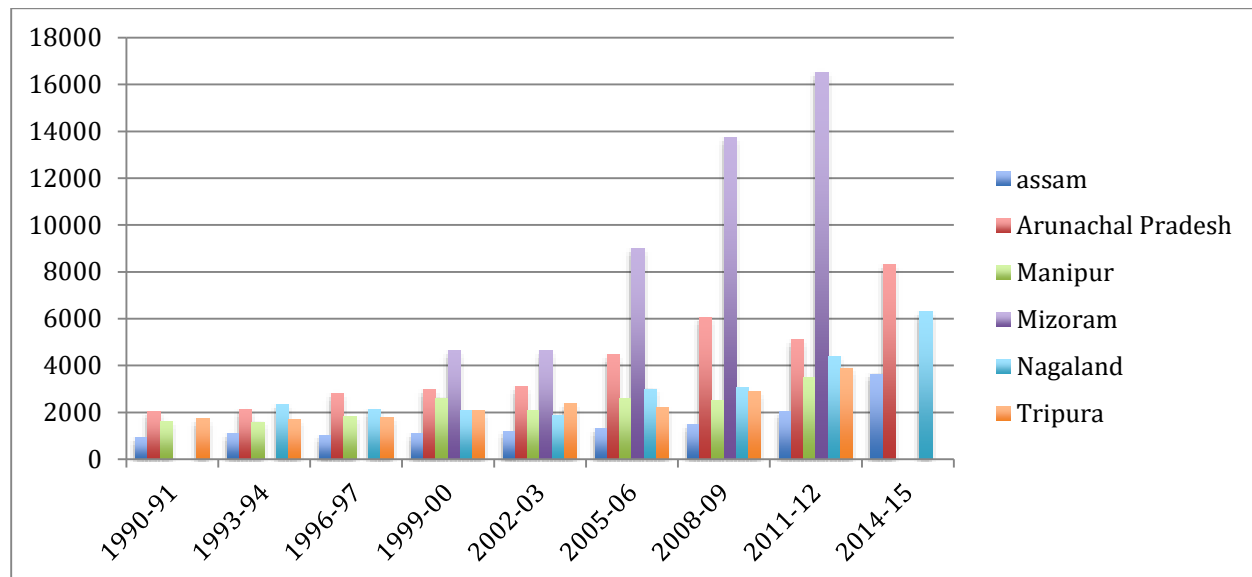
Figure 3.1 Real Per capita Social Expenditure (at 2004-05price) during 1990-2014; Group 1.



Source:-Calculated from data obtained from Annual Budget- State Finance RBI.

Among the relatively lower income states of special category states, Fig 3.2 shows that Mizoram has the highest real per capita expenditure with an increasing trend. Assam shows the lowest per capita real expenditure on social service. During 1990-2003, real per capita social expenditure is almost stagnant for all the states in this group. After 2002 it shows a marginal increasing trend for all states except Mizoram which was already increasing at significantly high rate. It is also evident that after 2003-04 in case of relatively low income states among SCS the gap between the states on per capita real social expenditure has increased.

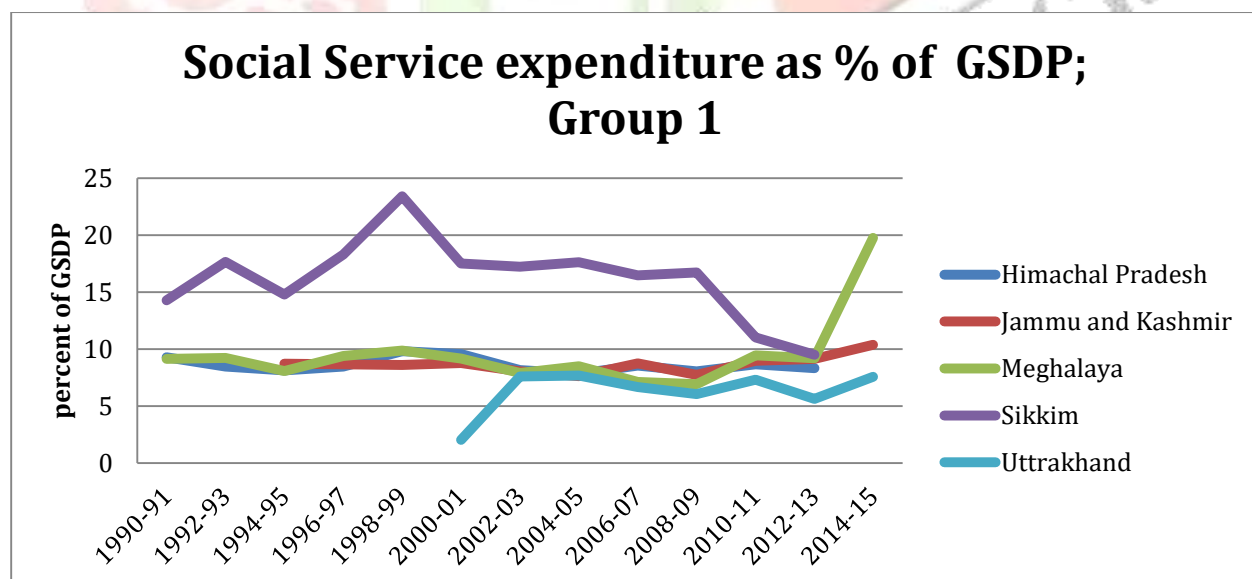
Figure 3.2 Real per capita social expenditure (at 2004-05price) from 1990 to 2014; Group 2



Source:-Calculated from the data collected from Annual Budget- State Finance, RBI.

Next looking at the social service expenditure in proportion to the economy, it shows a different picture. Figure 3.3 shows that in case of Group 1 which are relatively higher income states social Service expenditure as a percentage of GSDP has been stagnant from 1990-2002 with Sikkim as an exception. After 2002 it shows a decline till 2010. Since then it is increasing marginally. In case of Sikkim, Social service expenditure as percentage of GSDP started decreasing after 1998-99 and it continues declining.

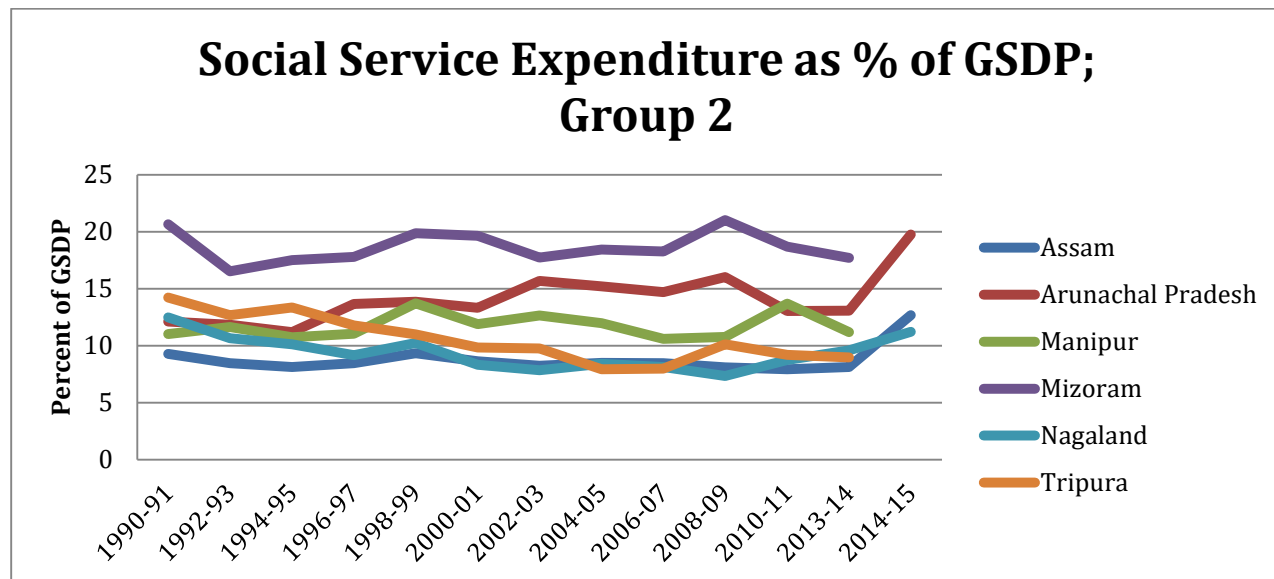
Fig 3.3 Social Service Expenditure as percentage of GSDP (1990-2014); Group 1



Source:-Calculated from the data obtained from Annual Budget- State Finance, RBI

Looking at the lower income states of SCS in Fig 3.4 shows that social service expenditure as percentage of GSDP has been stagnant or declining over the year for most of the states. In fact it shows a clear declining trend after 2000-01 in most states .In case of Arunachal Pradesh Social Service Expenditure as percentage of GSDP has gone marginally up during 2000-01 to 2008-09 and then declines.

Figure 3.4 Social Service Expenditure as % of GSDP from 1990-2014; Group 2



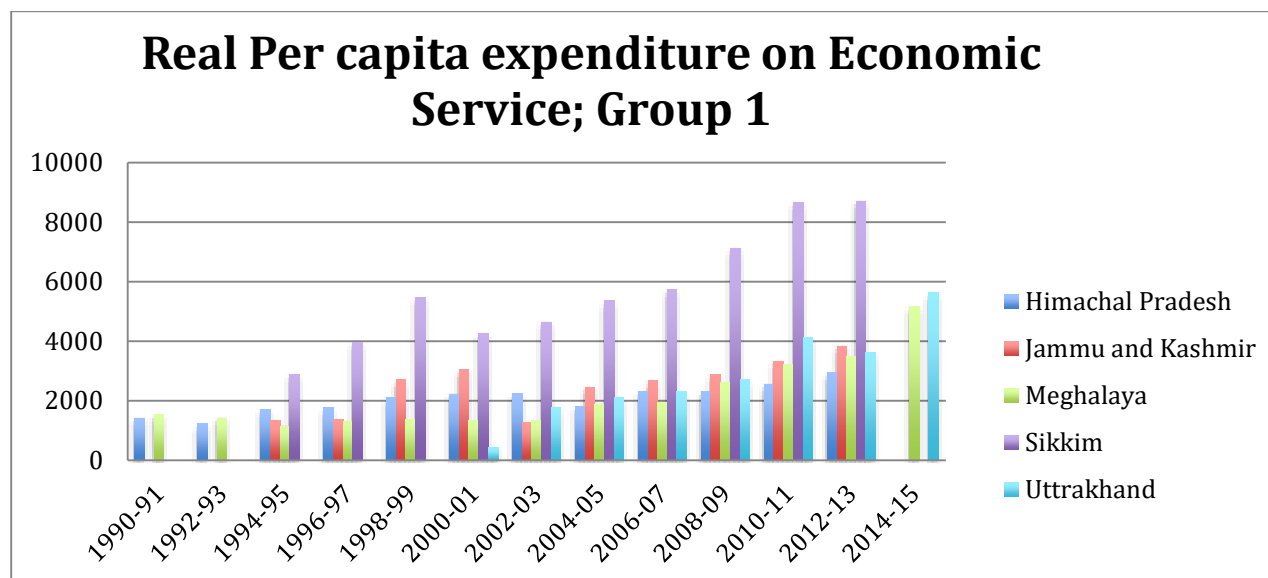
Source:-Calculated from the data collected from Annual Budget- State Finance, RBI

The picture is different when the trends are seen in terms of GSDP and real per capita expenditure. This is possible as per capita expenditure can increase even when as percentage of GSDP remain stable or declining. Numerous studies have found that social expenditure has declined after the economic reform under the pressure to reduce fiscal deficit (DEV & Mooij, 2002) in their study of 15 major states found that per capital expenditure on social service shows marginal increase in second half where as it shows that as percentage of GSDP it has come down.

3.5 Economic Expenditure

Per capita real economic expenditure as shown in figure 3.5 has been stagnant during 1990-2003. It shows marginal increasing trend after 2003-04. In case of Sikkim per capita real expenditure on economic service is much higher than other states and shows an increasing trend throughout. The gap between the states in term of per capita real economic expenditure is very low, indicating almost same level of per capita real expenditure on economic service except for Sikkim which has significantly high economic expenditure.

Figure 3.5 Real per capita expenditure on Economic Service (at 2004-05 price) from 1990-2014, Group1



Similarly in case of Group 2, Figure 3.6 shows that per capita expenditure on economic service has been lowest for Assam and it also shows that it has been stagnant over time. Arunachal Pradesh shows the highest but after 2004-05 Mizoram surpassed. It also shows stagnation in 1990’s and marginal increase in 2000’s. The gap between the states in term of per capita is still more than relatively higher income states but it is less than per capita social expenditure.

If we look at economic expenditure as proportion of GSDP in Fig 3.7, Sikkim shows a decreasing trend in economic service expenditure as percentage of GSDP converging to other states. Meghalaya shows a marginal increase in 2000’s where as Himachal Pradesh and Uttarakhand shows marginal decline. Jammu and Kashmir show sudden dip in 2001-04 while in other years it shows stagnant.

Figure 3.6; Real per capita expenditure on economic service (at 2004-05 price) from 1990-2014; Group 2

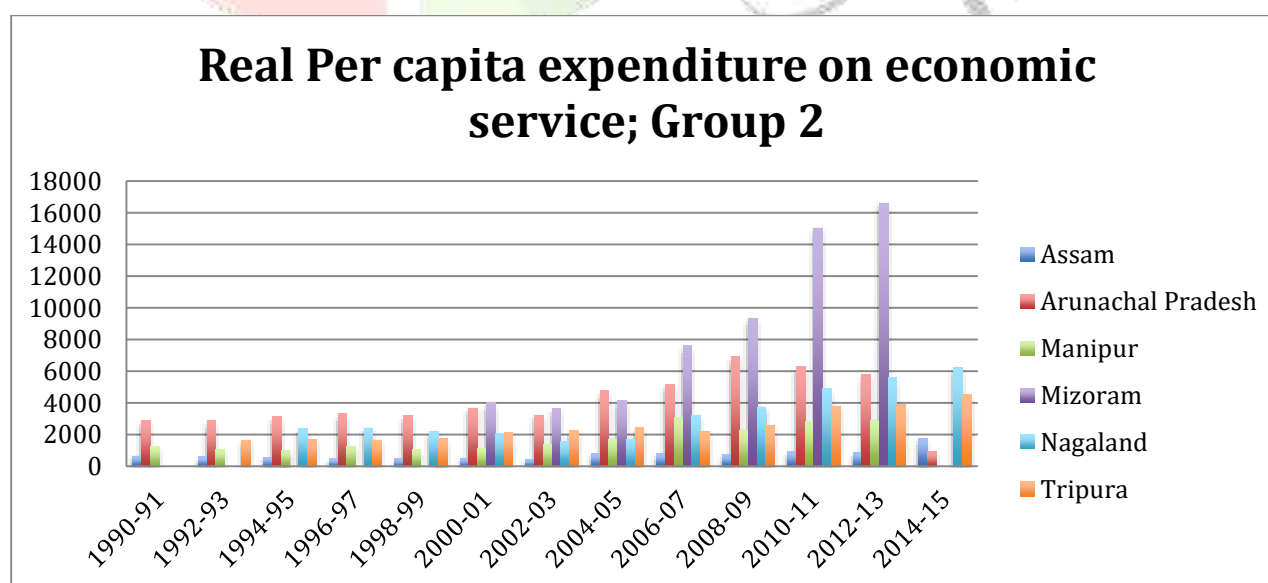
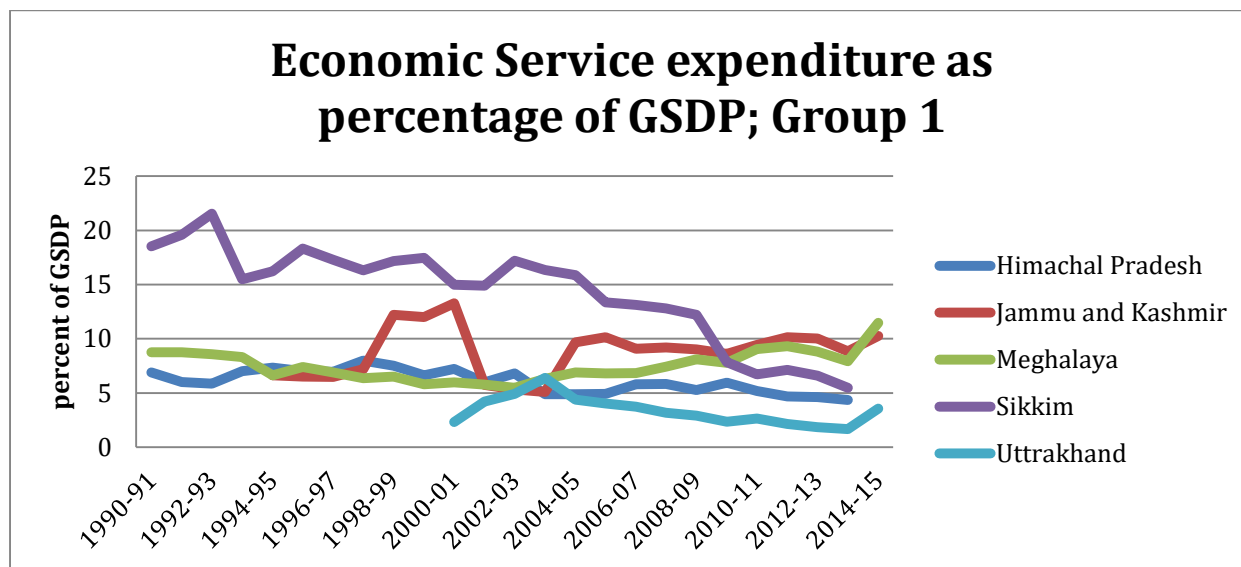
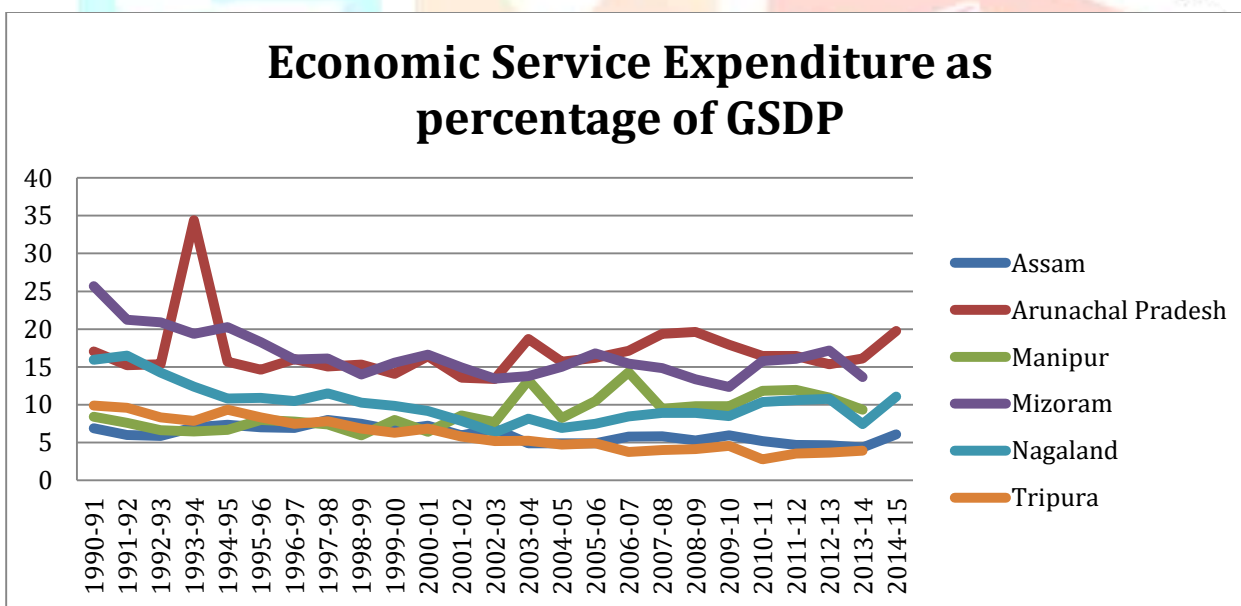


Figure 3.7; Expenditure on economic service as percentage of GSDP from 1990-2014; Group 1



In case of lower income states in Group 2, fig 3.8 shows that as a percentage of GSDP economic service expenditure has been stagnant and after 2000-01 it shows declining trend in most of the states.

Figure 3.8; Economic service expenditure as percentage of GSDP; Group 2

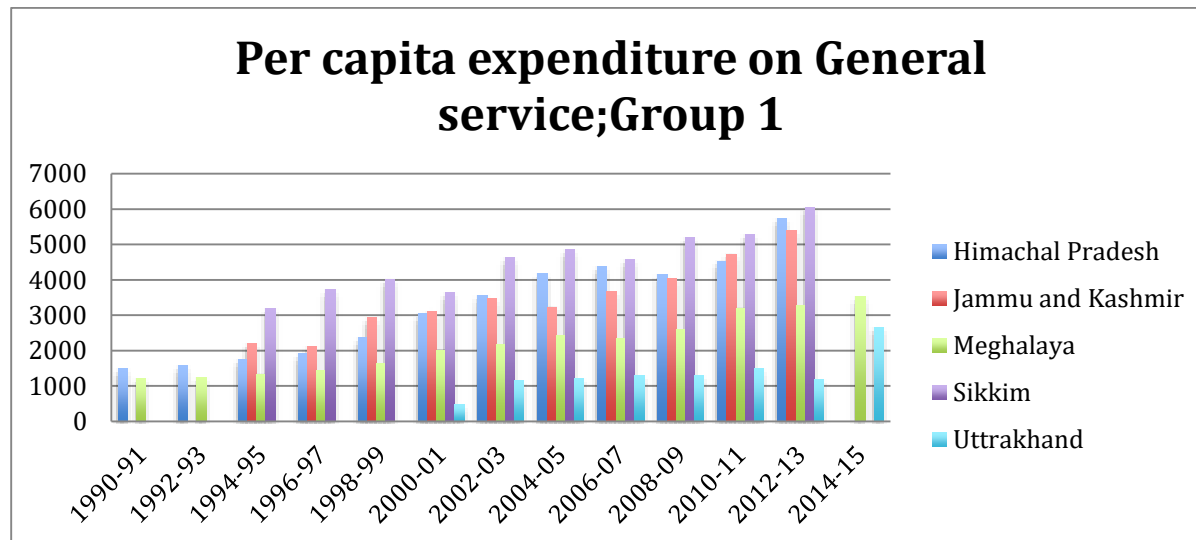


Thus, in economic service expenditure, it shows that per capita expenditure on economic service is not increasing much over the years. It shows marginal increase during 2003-2014. In terms economic expenditure as percentage of GSDP it has been decreasing. It indicates that economic expenditure has been low priority for the special category states and over the year it is getting more neglected.

3.6 General Service Expenditure

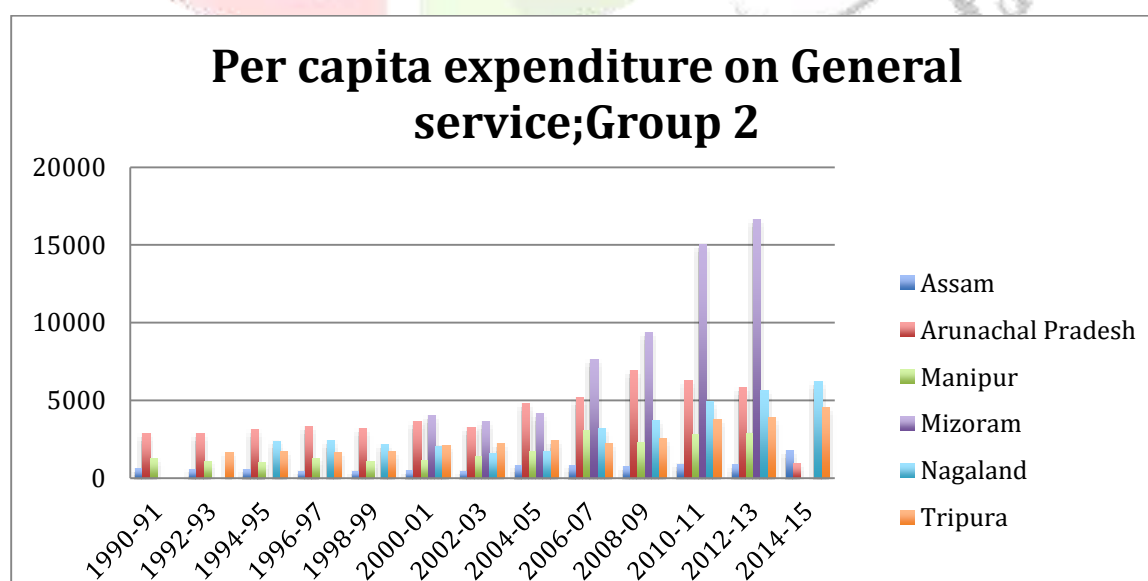
During the period of 1990-2014, the figures presented in chart 3.9 shows that per capita expenditure on general service has been increasing. With the rising interest rate for the states in 1990's and the implementation of Fifth Finance Commission, It shows that per capita expenditure on general service has been increasing.

Figure 3.9; Per capita expenditure on General Service (at 2004-05 price) from 1990-2014, Group 1



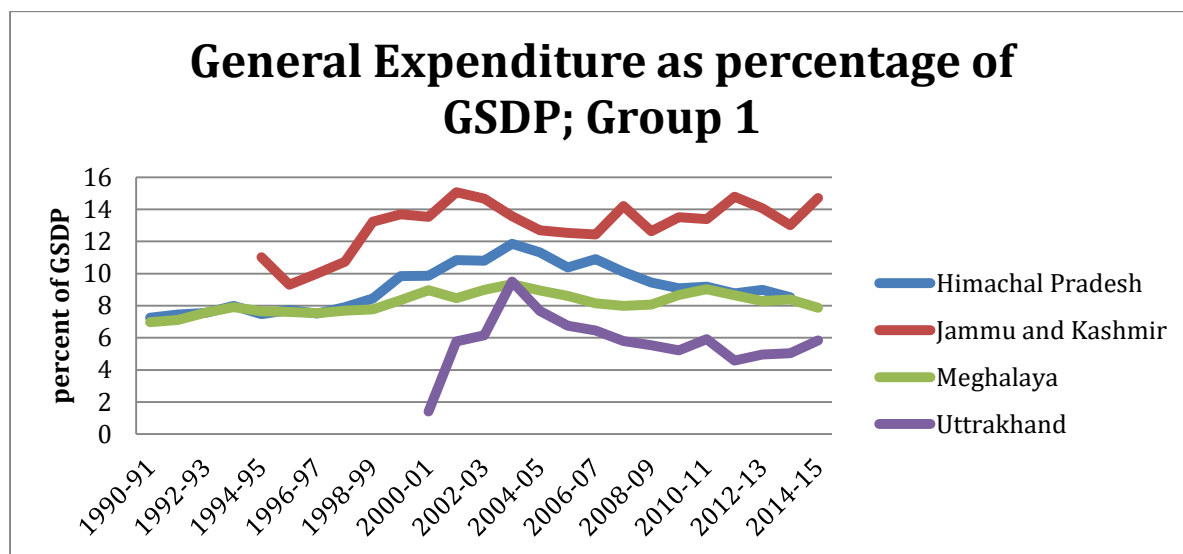
While in relatively lower income states of SCS in group 2 in fig 3.10, Assam and Tripura state government's per capita real expenditure on general service is stable whereas Manipur, Arunachal Pradesh, Mizoram, Nagaland, shows an increasing trend. In 1990-00 it has been stagnant whereas after 2000-01 it shows an increasing trend.

Figure 3.10; Per capita expenditure on General Service (at 2004-05 price) from 1990-2014, Group 2



However if we look at General Expenditure as percentage of GSDP as presented in figure 3.11, it shows a clear decline after 2003-04. However Jammu and Kashmir shows declining before that in 2001-02.

Fig 3.11, General Expenditure as percentage of GSDP from 1990-2014, Group 1



In case of Group 2 in Fig. 3.12, Mizoram shows a clear decline after 2003-04. Tripura shows almost stagnation over the period and Arunachal Pradesh shows a decline after 2003-04. Tripura and Arunachal Pradesh show a rise in 2009-10. Over all in case of Group 2 there has no clear trend like group 1 states.

Fig. 3.12 General Expenditure as percentage of GSDP from 1990-2014, Group 2

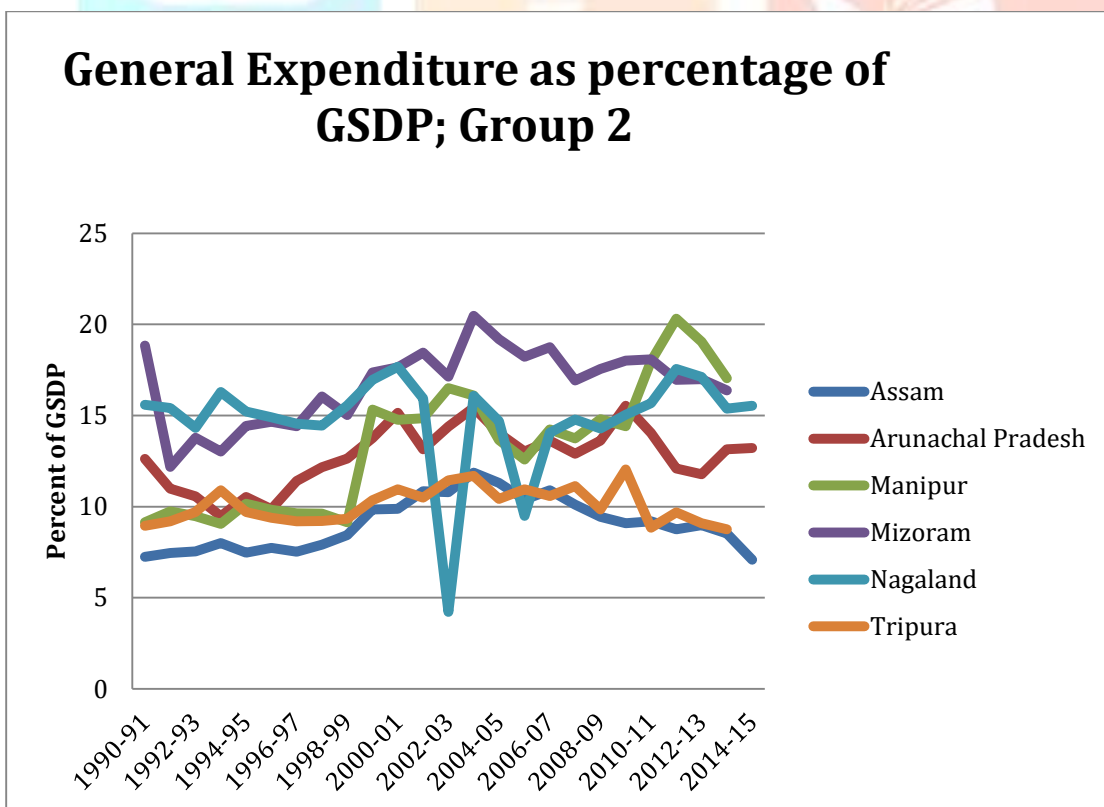


Table 3.1 Share of Interest payment in total General Service Expenditure

State	1990-91	2000-01	2004-05	2010-11	2013-14
Assam	44.05	34.74	39.24	26.27	21.51
Arunachal Pradesh	19.96	37.25	31.55	32.95	18.68
Himachal Pradesh	39.70	49.47	60.28	36.93	35.21
Jammu and Kashmir	49.94	33.20	33.91	29.35	26.58
Manipur	31.04	34.33	37.99	23.55	19.47
Meghalaya	20.55	28.92	31.38	20.70	21.39
Mizoram	37.68	30.90	36.24	23.15	18.23
Nagaland	29.08	28.41	29.09	22.80	18.52
Sikkim	35.23	20.75	9.66	12.58	15.07
Tripura	28.61	34.97	38.35	12.58	27.33
Uttarakhand	—	73.04	33.20	55.15	81.33

Looking at the share of interest payment in General service expenditure, it shows that share of interest payment has been increasing till 2003-04 and then it starts declining. In case of Uttarakhand share of interest payment is high. It came down during middle of 2000 and it again started increasing.

3.7 Summary

The revenue expenditure in Special Category states is dominated by expenditure on General Service with its highest share about 45 % followed by social expenditure around 35 % and economic expenditure around 20 %. Looking at it in per capita terms there has been marginally increasing in social expenditure and economic expenditure. In case of General expenditure in real per capita terms (at 2004-05) price shows a significant increase over time. Looking at it state wise it shows that in relatively higher income group within the special category states Sikkim shows the highest expenditure in all three categories whereas in the lower income group Mizoram has the highest. It also observed that the gap within the states on per capita social expenditure is more in relatively lower income group within Special category states. Whereas in case of higher income group gap is low except for Sikkim. Similar trend is observed in case of economic expenditure however the gap is still lower than real per capita social expenditure. In contrast the gap between the states in terms of per capita expenditure on general service gets high after 2003-04 in case of relatively higher income states where as in case of low income states the gap is low.

The state government's Social expenditure as a proportion of GSDP has been stagnant in during 1990-00 and has been declining after 2003-04. It shows that expenditure on social service has not been increasing with the size of economy in fact it has been decreasing. The expenditure on economic service has been declining since beginning of 1990's and continues declining. In case of relatively higher income states, there has been increase in expenditure on general service as proportion of GSDP during 1990-2003 and then starts declining. Among relatively lower income states, there is no clear trend. The share of interest payment in the general expenditure comes down after 2003-04 however in some states it has been increasing again.

Thus, it can be seen that with the implementation of Fifth Pay Commission and specially FRBM act impacted the State government's revenue expenditure. With the constraint on their budget and weakening of fiscal health of the states, their revenue expenditure has declined in proportion to the economy especially in case of social and economic service.

