



## PATTERN OF PUBLIC EXPENDITURE AMONG THE SELECTED MAJOR INDIAN STATES

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**ABSTRACT** Public expenditure is a crucial fiscal policy to improve the quality of the nation's technical, physical, and human capital. It has been continuously increasing over time in almost every country of the world. India has a federal structure where the objectives of equitable distribution of income, resources, and wealth are attained with the mutual efforts of the Union and State governments. It is pertinent to know the changing pattern and growth rate of the State government expenditures which helps to attain Sustainable Development Goals. The study uses time-series data to analyse the pattern of the components and sub-components of the State expenditures for the fourteen major general category States of India from 1990-91 to 2020-21. For comprehensive understanding, the sub-nationals are categorised into two panels, i.e., high and low-income States. The results showed that development expenditure has a prominent share in States' total expenditure, compared to non-development and other expenditures. However, the Compound Annual Growth Rate (CAGR) of non-development expenditure is more than that of development expenditure, irrespective of the income level. It is also concluded that the share and CAGR of social services expenditure is more than the economic services expenditure.

**KEYWORDS :** Public Expenditure; Development and Non-development Expenditures; Social and Economic Services Expenditures; Indian Major States.

### INTRODUCTION

The expenditure trends of the government mainly depend on the outlook, ability of the government, stage of economic development, and prevailing economic and social conditions in the country. In India, with the advent of independence, economic policy underwent a radical change to bring positive economic and social changes to the country. "The effect of public expenditure on economic growth depends upon the nature and composition of public expenditure" (Simiyu, 2015). India's public expenditure as a share of GDP was 28.62 % in 2022-23 (World Economic Outlook, 2023). State expenditures, which are not uniform among the Indian sub-nationals, offer ample reason to know the changing pattern and the growth rate of States' expenditures. For this, the present study investigates the pattern of the component and sub-component of State government expenditures for fourteen major general category States<sup>1</sup> of India. These selected fourteen States constitute 84.28 % of the total population and 71.29 % of the National area (Census, 2011). Unlike the previous studies conducted on the Indian States, to bring uniformity, this study focuses only on the non-special or general category major Indian States, which do not get benefits that special category States receive from the central government based on social, economic, and geographical terms. For comprehensive understanding, the sub-nationals are categorised into two panels, i.e., high and low-income States<sup>2</sup>. Accordingly, we have eight high-income and six low-income States for the analysis. The components of State expenditure include development, non-development, and other expenditure. Among these three expenditures, State development expenditure has over sixty-three percent share compared to non-development and other expenditures in the total State expenditure (RBI, 2021-22). Hence study further analyses the pattern of the components of development expenditure, i.e., Social Services Expenditure<sup>3</sup> (hereafter, SSE) and Economic Services Expenditures<sup>4</sup> (hereafter, ESE). The comprehensive results obtained from the study could help further study which components and sub-components of State expenditure are making a difference in the income level of the high and low-income States.

The structure of the chapter is organized as follows: Section - II mentions the data and estimation methods. The empirical results and discussion are shown in Section III. Section IV deals with the conclusion and policy implications.

### DATA AND METHODS

The annual secondary data for the components of States' expenditures, i.e., development, non-development, and other expenditures, and components of development expenditure, i.e., SSE and ESE, is obtained from various annual and occasional publications by RBI, specifically The State Finances: A Study of Budgets, Handbook of Statistics on State Government Finances- 2004, and Handbook of Statistics on State Government Finances- 2010. The annual time-series

data for high and low-income States panels is used for thirty-one years from 1990-91 to 2020-2021. The exploratory statistical techniques, such as bar graphs, ratios, percentages, and Compound Annual Growth Rate (hereafter, CAGR), have been used to analyse the pattern of States' Expenditures and their components. The trend analysis has been used to understand the direction and pattern of the States' expenditures. The bar graphs are used for comparative purposes. Also, percentages, averages, and CAGR have been used to capture the extent of changes in States' expenditures and their components over time.

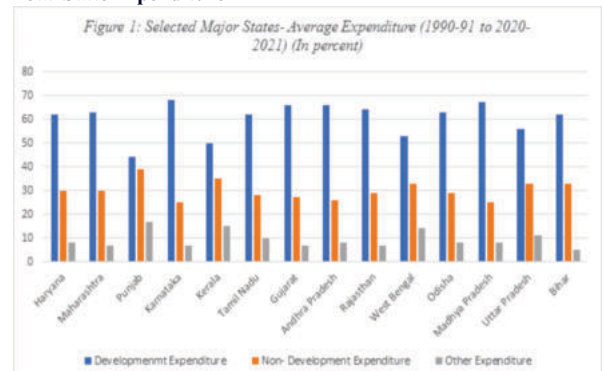
### EMPIRICAL RESULTS AND DISCUSSION

The pattern of the components of States' expenditures is discussed in two parts. The first part discusses the composition of States' expenditures, i.e., the share of development, non-development, and other expenditures, to the total expenditure of the selected States in the study. Apart from this, the CAGR of development and non-development expenditures is also analysed. The second part deals with the pattern and the CAGR of the compositions of development expenditure, i.e., SSE and ESE.

#### Composition Of Public Expenditure Of Selected Major States

This section is divided into two parts. The first part deals with the average percentage share of the composition of State expenditures of fourteen States to their respective total State expenditure. The second part deals with the CAGR of development and non-development expenditures of each State.

#### Average Share of the Compositions of State Expenditure to the Total State Expenditure



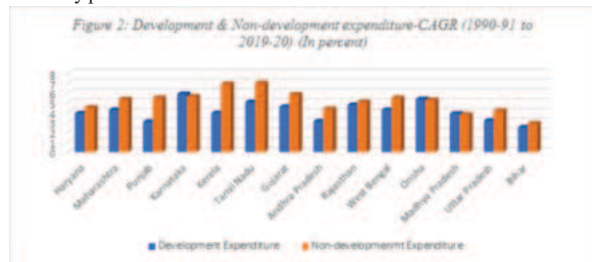
Source: Researcher's calculation based on RBI data.

**Figure 1:** Average Share of Composition of State Expenditure to the Total State Expenditure.

Figure 1 depicts the average percentage share of development, non-development, and other expenditures in the aggregate State expenditure for all the selected States. It is quite evident that among all the three expenditures, development expenditure is the one with the highest share over non-development and other expenditures in the States' total expenditure, irrespective of the income status of the States, during the study period. For example, for a high-income State like Haryana, the average percent share of development expenditure is 62%, non-development expenditure is 30%, and the other expenditure is 8% of the total expenditure of the State. Like high-income States, for a low-income State like Rajasthan, the average share of development expenditure is 63%, non-development expenditure is 29%, and other expenditure is 8% of the total expenditure of the State. Notably, the development expenditure equals or exceeds 50% of the total public expenditure for all the States. However, the State like Punjab is an exception. The average percentage share of non-development and other expenditures in total expenditure follows development expenditures for all the selected major States.

### Compound Annual Growth Rate (CAGR) of Development and Non-development Expenditure

After understanding the relative share of the development, non-development, and other expenditures, it is imperative to know the CAGR. Figure 2 below depicts the CAGR of development and non-development expenditure of all the selected major Indian States during the study period.



*Source: Researcher's calculation based on RBI data.*

**Figure 2:** The CAGR of Development and Non-development Expenditure.

Figure 2 presents the CAGR of the development and non-development expenditure. It is evident that the CAGR of non-development expenditure is more than the development expenditure of the States, irrespective of their income level. However, States like Karnataka, Orisha, and Madhya Pradesh are an exception where the CAGR of non-development expenditure is marginally less than that of development expenditure.

### Composition of Development Expenditure Among the Major Indian States

This section focuses on the pattern and the CAGR of development expenditure composition. Since development expenditure has the highest average percentage share in the total State expenditure, it is important to understand its sub-components. Two major components of development expenditure are SSE and ESE. The first part of the analysis deals with the share of the composition of development expenditure to total development expenditure, and the second part deals with its CAGR.

### Share of the Composition of Development Expenditure to the Total Development Expenditure

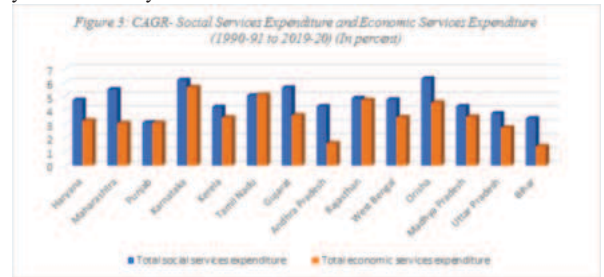
It is found that in the initial years of the study period, 1990-91 to 2020-21, the share of ESE is more than SSE for the majority of the selected States. Interestingly, in the last decade, the share of SSE has risen to ESE in the total development expenditure, regardless of the income status of the State. However, States like Punjab, Karnataka, Orisha, and Madhya Pradesh are an exception.

### Compound Annual Growth Rate (CAGR) of Social and Economic Services Expenditure

The following graphic presentation, figure 3, shows the CAGR of the SSE and ESE of all the selected States from 1990-91 to 2020-21.

Figure 3 shows that the CAGR of SSE is more than that of ESE regardless of the income level of the States. However, Punjab and Tamil Nadu States are an exception. These results support previous

results showing that the share of SSE has risen to ESE in the recent years of the study.



*Source: Researcher's calculation based on RBI data.*

**Figure 3:** The CAGR of the Components of Development Expenditure.

### CONCLUSION & POLICY IMPLICATIONS

This study uses the annual time-series data to examine the pattern and CAGR of disaggregated State government expenditure for India's fourteen major general sub-nationals for thirty-one years from 1990-91 to 2020-21. The selected sub-nationals are categorised into high and low-income States panels. The analyses showed that development expenditure has a prominent share in States' total expenditure, rather than non-development and other expenditures. However, the CAGR of non-development expenditure is more than that of development expenditure, irrespective of the income level. Hence, the analysis highlights that the non-development expenditure, i.e., general services expenditure, which includes expenditures on administration services, organ of States, interest payment, loans payments, fiscal services, pension, etc., has increased over time compared to development expenditure, irrespective of the income level.

Since development expenditure has a prominent share in total State expenditure, the development expenditure is analysed under SSE and ESE for a comprehensive understanding. The analysis concluded that SSE has contributed more to development than ESE in the last decade. It is found that State governments are spending and giving more importance to SSE compared to ESE. It is supported by the CAGR results, which showed that the CAGR of expenditures like education, medical and public health, housing, water supply, nutrition, etc., is more than the ESE, irrespective of the income level. These results may open the scope for further study to know which components of State expenditure are making a difference in the income level of the high and low-income States.

### Notes:

- Haryana (HR), Maharashtra (MH), Punjab (PB), Karnataka (KA), Kerala (KL), Tamil Nadu (TN), Gujarat (GJ), Andhra Pradesh (AP), Rajasthan (RJ), West Bengal (WB), Orisha (OR), Madhya Pradesh (MP), Uttar Pradesh (UP), Bihar (BR).
- The average income of the high or above-average-income States, i.e., HR, MH, PB, KA, KL, TN, GJ, and AP, is more than the country's per capita income, and vice-versa for the case of low or below-average income States named BR, UP, MP, OR, WB, and RJ.
- Education, Sports, Art and Culture; Medical and Public Health; Family Welfare; Water supply and Sanitation; Housing; Urban Development; Welfare of Schedule Castes, Schedule Tribes, and Other Backward Classes; Labour & Labour welfare; Social and Security Welfare; Nutrition; Relief on account of natural calamities and Others.
- Agriculture and Allied Activities; Rural Development; Special area programmes; Irrigation and Flood Control; Energy; Industry and Minerals; Transport and Communications; Science, Technology & Environment; and General Economic Services.

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