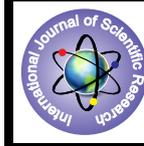


Contribution Of Public Expenditure In Economic Development Of India During 1990-2005



Economics

KEYWORDS : Public Expenditure, Development Expenditure, Non Development Expenditure, Economic Development, Plan Outlays, Percentage Terms.

Dr. S. A. Saiyed

Department of Business Economics, Faculty of Commerce, The M. S. University of Baroda, Vadodara-390002, Gujarat State (India)

ABSTRACT

Public Expenditure has become very popular in modern times. It is like an electric power without which an Engine of Economic Development can not run speedily to achieve faster economic growth and development.

The main purpose of the present study is to understand how public expenditure has contributed to economic development of Indian Economic System during 1990 to 2005 i.e. post liberalisation period by contributing towards infrastructural development, increase in the level of education and also improving the health of the people. We also want to study that how public expenditure during this period of our study has contributed to development of agricultural sector, industrial and service sectors in India.

1. INTRODUCTION

Public Expenditure has become very popular in modern times. It is like an electric power without which an Engine of Economic Development can not run speedily to achieve faster economic growth and development. Public expenditure is an important instrument of economic development and also of the administrative capacity of the Government. There has been lively debate among economic thinkers and writers in India as well as World as a whole about the direct relationship between volume of public expenditure and level of economic development. In India till recently public finance studies were confined only to studies of budgets. But now study of public expenditure behaviour and its impact and contribution to the economic development has become more prevalent. Public expenditure of India has grown up mainly on the British pattern. The British model is apparent in such things as the selection of the financial year from April to March, the form of the budget and the system of its presentation, in the methods of control of expenditure and in the strong central position of the Ministry of Finance. Government budgeting/expenditure took its roots in this country, from where it spread to all other countries. Naturally, Indian financial administration /public expenditure are a direct off-shoot of the British model. Soon after the attainment of independence on the 15th of August 1947.

2. STATEMENT OF THE PROBLEM

Planning Commission Government of India (1951-56) envisaged that Indian economy generally suffers from the problem of inequalities in the distribution of income and wealth distribution that warrants immediate remedy. Growth with justice demands that fruits of economic development should be evenly distributed. Greater production and better distribution have been rightly accepted as the main objectives of planning in India. The Indian Constitution (1959), envisage a society in which all have equal opportunity to work and right to be provided with work, a social order in which there is no exploitation of the economically weak by the stronger and where disparities in income and wealth are minimized. There should be establishment of egalitarian society, a true democratic society in real sense, where all have equal opportunities, equal rights, equal status, equal income and there must not be concentration of economic power in few hands.

Until recently in India, the specialists in the field of public finance were confined to the study of effects of budgeting trends, and the development of normative theories focusing at explaining how the behaviors of revenue and expenditure are determined. But the irony of fate is that there has been a general tendency among the economists to think and write only on the problems of All-India scaling and ignore the importance of the study of regional development. Therefore, there is need of the present paper to examine contribution of public expenditure in economic development of India during the years of 1990 to 2005

3. THEORETICAL FOUNDATION

Public Expenditure determines the welfare and standard of living of the people. Higher Government Expenditure increases

public utilities. There is no uniform theory of public expenditure effects. Different Economist have different feelings about study of public expenditure. We have discussed some major theories of public expenditure as follows.

The mercantilists gave an important idea on fiscal principles which were that people should "be taxed according to the benefits they received from the state. Since the state had to protect the nation, the expenditure required for the same was only to come from taxation.

The classical approach to the subject of public expenditure was based on the assumption that government is merely an agent for the people and has to spend the people's money directly and sparingly. This approach was based on assumption of non-interference by the Government and therefore there was no need for theory of public expenditure.

Wagner expounded that the "Law of increasing expansion of public and particularly state activities" which is referred to as the "Law of increasing expansion of fiscal requirements". The Law suggests that the share of the public sector in the economy will rise as economic growth proceeds, owing to the intensification of existing activities and extension of new activities. According to Wagner, social progress has led to increasing state activity with resultant increase in public expenditure.

Keynes has propounded only one theory i.e, the theory of public expenditure (theory of investment), which made him the greatest economist of the 20th century. This is the pivotal theory around which all theories developed by Keynes' cluster. In other words, all the economic doctrines are the direct offshoot of the theory of investment. The theory of public expenditure was proved to be more successful in fighting the ill effects of Great Depression. The importance of public expenditure as a 'balancing factor' in the determination and distribution of national income owes its origin to 'General theory'. He could effectively prove that public expenditure can be used as a balancing factor.

Nurkse (1953) "states that public expenditure assumes a new significance in the face of the problem of capital formation in under-developed countries". Therefore in this context, public expenditure holds the same position in the discussion of public finance as planning holds in the study of economic development. "Just as consumption is the end of all activities, so public expenditure is the end of all fiscal affairs of the State", Mehta and Agrawal (1960). Harries (1958), Samuelson(1954), Musgrave (1959) and number of other economists have a feeling that the study of public expenditure in developing countries has received far less economic attention .

Thus, the principal objective of public expenditure in the economic development of underdeveloped economies is to expand productive capacity by raising the level of real capital as compared to its role in developed countries where it has to expand both productive capacity as well as the level of monetary demand. It implies that in expanding productive capacity of contributing to the growth of investment, fiscal dynamics in

underdeveloped countries has to keep the demand-generating effect of growing investment in control. Thus, modern theory of public expenditure makes it clear that no economy can go ahead in the race of economic development, without accepting the importance of the role of public expenditure in the economy. In conclusion, one may say that there is only one principle of public expenditure, which states that the State should incur its expenditure in such a manner as to achieve maximum benefit for the whole economy.

The phenomenon of public expenditure growth has been subject for researchers to find out what causes expansion of public expenditure. Wagner (1883) introduces a model that public expenditures are endogenous to economic development, i.e. growth in the economy also causes public sector expenditures to expand. Keynes (1936) and his supporters, however, raise the thought that during recession times the use of fiscal policies boosts economic activities, i.e. expansionary fiscal policies, expanding public expenditures etc., increase community output. **Wagner's law and the Keynesian** theory present two opposite perceptions in terms of the relationship between public expenditure and growth in community output. While according to Wagner's approach causality runs from growth in community output to public expenditure, the Keynesian approach assumes that causality output to public expenditure, growth in community output in times of recessions.

Wagner's model is not the only one explaining the growth of growth expenditure. There are also some other models. For example, the model of the displacement effect and the theory of bureaucracy are also most common ones, explaining the expansion of public sector expenditure from different angles.

4. OBJECTIVES OF THE STUDY

The main objective of the present study is to understand how public expenditure has contributed to economic development of India during the period of our study by contributing towards infrastructural development, increase in employment and income, increase in the level of education and also improving in the health of the people (expenditure and investment in Human Resources Development "HRD"). We also want to study that how this public expenditure during the period of our study has contributed to development of agricultural sector, industrial sector and service sector in the Indian economy.

5. HYPOTHESES OF THE STUDY

The study aims at examining the role of public expenditure in economic development of which may have the following important hypotheses:

- (1) Public expenditure has promoted the growth of marginal and average rate of savings in the economy by raising income of the people of India and mobilized the public resources for investment.
- (2) Public Expenditure has promoted and accelerated the growth of productive investment in the economy and subsequently economic development in India.
- (3) Public Expenditure has promoted and maintained a reasonable measure of economic stability so as to attain and sustain the maximum rate of growth of the economy.
- (4) Public Expenditure has made a serious effort for rational distribution of growing income and wealth.
- (5) Public Expenditure has played important role in growth and development of Agriculture, Industry and Service sectors in India.
- (6) Public Expenditure has played an important role in infrastructural development of transportation, communication, electrification, banking and insurance in India.
- (7) Public Expenditure has contributed to increase the level of education, health, employment and income in India.

6. RESEARCH METHODOLOGY

In this study, we are going to apply the tabular analysis. Therefore, varieties of sources would be consulted together for relevant statistical information on the real and monetary variables in order to establish functional growth rates of public expenditure on economic development using ratio method to test various hypotheses,

7. SOURCES OF DATA

The sources of data are exclusively built on secondary survey. The required statistical information (secondary data) would be collected from various sources, and has been used for analysis purpose, and those are from the following sources:

- (1) Reserve Bank of India (RBI), Annual Reports.
 - (1) Economic and Financial statistics Review (Reserve Bank of India)
 - (2) Indian Economic Survey (Fiscal and Real Sector), the Ministry of Finance, "Government of India" New Delhi.
- And also data collected from other reliable sources.

8. REVIEW OF LITERATURE

Many studies have been carried out in India and abroad which are of greater significance. Among a few significant studies on public expenditure and economic development, mention may be of following works:

Tapas K. Sen and Krishanu Karmakar (2000) observed that the human development sectors, overlapping substantially with the social services, are primarily in the domain of the states in terms of the constitutional assignment of functions in India. In the urgent and substantial task of raising the level of human development of their citizens, the basic challenge faced by most of the states of India is to break the vicious circle of poverty, low human development and low income. Low levels of income across the population also limit the ability of the state governments to finance human development through their own resources. This is clearly indicated by the strong association between public expenditures and per capita incomes often noticed by researchers, both across states and over time.

Muhlis Bagdigen & Hakan Cetintas (2001) expounded that in most countries, data based on public expenditure as a fraction of national output show that public sector has an inevitable trend of growth in the long run (Scully, 1989). Turkey is one of these countries. Her public expenditures as a fraction of national output show that public sector has an inevitable trend of growth in the long run. Turkey is one of these countries. Her public expenditures have been expanding for decades.

Manhvale and Terukazu Suruga (2004) observed that the existing endogenous growth theory considers either the effects of FDI or public expenditures on economic growth separately. As far as we concerned, no theoretical growth model has taken into account the interaction effect of these two factors. As found out by Le and Suruga (forthcoming), there is evidence that excessive spending in public expenditures can hinder the beneficial impact of FDI. This article examines some other potential relationships between FDI and public expenditure and proposes that more efforts should be contributed in building a theoretical model which presents the interrelationship between these factors in determining the long-term economic growth rate.

Deepa Ravat and Chauhan (2007) explained that the pattern of the education sector in India, based on the assumption of the future requirements of the economy shows that the higher expenditure on primary education does not fulfill the needs of the economy as a whole. If, we want to develop the economy in this new era of globalisation, then the public expenditure on secondary education and on higher education must be increased we cannot produce the skilled manpower as per the requirements of the various sectors of the economy especially the industrial sector and service sector. The authors are of the view that the expansion of secondary and higher education should not be brought about at the cost of reduction in expenditure on primary education. Rather the allocation for secondary and higher education should be filled up by involving the private sector with proper safe guards. The private sector in education should not be allowed to function purely on profit making motives. Hence a highly empowered regulatory framework is required to monitor the working of the private sector in education.

Though this is not an exhaustive survey of the literature that has gone into this area, we feel that it does provide analytical frame-

14.64 %, 13.59 %, 12.57 %, 12.82 %, 14.01 %, 13.45 %, 19.27 %, 22.24 % during the Ninth plan period, Tenth and Eleventh plan period. The growth rate by transport expenditure during the annual plan period shows that there has been a continued rise in the amount of Transport expenditure for 1989-90 to 2004-05. This increase of transport expenditure is due to growing needed government to accelerate the tempo of economic development by enlarging the scope of domestic Market and international Market and thereby further stimulating economic specialisation, by helping the exploitation of additional resources by making them accessible, and by establishing and by enlarging the area of related industries.

Education expenditure to total expenditure has increased at the rate of 4.55 % during the Eighth plan period, 3.97 %, 4.01 %, 3.96 %, 3.98 %, 4.10 %, 4.89 %, 5.90 %, 5.90 %, 6.39 %, 6.23 %, 7.10 %, 6.27 % and 4.79 % during the Ninth plan period, Tenth annual and Eleventh plan period respectively.

The growth rates of Education expenditure during the annual plan period shows that there has been a continuous rise in the amount of Education expenditure for 1989-90 to 2004-05 in India, the continuous rise in the amount by Education expenditure as due to growing need of government to increase the stock of human capital through investment in education. Expansion in basic education systems through the increase in the tax revenues of the Government reducing inequalities that prevail.

Health expenditure to total expenditure has increased at the rate of 1.64 %, during the Eighth plan period, 1.78 %, 1.43 %, 1.78 %, 1.43 %, 1.67 %, 1.47 %, 1.69 %, 1.79 %, 5.62 %, 7.46 %, 10.28 %, 8.44 %, 8.70 %, 7.51 % and 5.84 % during the Ninth plan period, Tenth, Annual, and Eleventh plan period respectively. The growth rates of Health including Medical expenditure during the Annual plan period shows a gradual rise in the amount of Health expenditure from 1989 - 90 to 2004-05 in India.

This is due to growing need of government to improve health care outcomes and equity in access, improve public health care facilities and services and public health investment.

The percentage of other services expenditure has gradual increasing trend of 20 % during the Eighth plan period, 20 %, 20.48 %, 22.04 %, 21.61 %, 24.79 %, 25.80 %, 21.26 %, 11.74 %, 20.94 %, 22.46 %, 22.57 %, 25.22 % and 29.01 % during the Ninth plan period annual tenth and eleventh plan period respectively.

We are now in a position to review contribution of public expenditure and economic development of India (in terms of developmental and non-development expenditure) during the period of our study.

From the analysis of data, we have seen that the percentage growth of development expenditure has a gradual increasing trend at decreasing rate while on the contrary the percentage growth of non-development is increasing gradually. This means that the entire fiscal operation of public revenues and expenditure has undergone vast changes during the planned economic development. Further we have also observed proportional increase of the total expenditure budgeted for economic and social services in the National economy. Thus we found expenditure on development schemes has been economised to a great extent and the income saved has been channelised into non-development activities; Further more, we found expenditure on non development heads like civil administration, direct demand on revenues debt services etc has no doubt increased simultaneously.

We have observed that growth of expenditure non-development activities is due to growing administrative and protective actions of government in response to more complex legal and economics relations, increased urbanisation and rising cultural and welfare expenditure. Another reason is the decentralization of administration and the increase in the expenditure. Another reason is the decentralisation of administrative and the increase in the expenditure of local bodies.

Above figures show that percentage growth of expenditure on Agricultural and allied services, rural development and special area programmes, Irrigation and flood control energy, Industry and Minerals, Education and Health have a gradual increasing trend at a decreasing rate. while the percentage growth of expenditure on transport and other services have increased during the Eighth plan period, Ninth Annual, Tenth and Eleventh plan period respectively. Here we have observed that growth of expenditure on development schemes have undergone vast changes during the period of planned economic development by the government of India.

11. CONCLUDING REMARKS

We are now in a position to review contribution of public expenditure and economic development of India (in terms of development and non-development expenditure) during the period of our study, i.e. Post Reforms period of 1990 to 2005.

From the analysis of data, we have seen that the percentage growth of development expenditure has a gradual increasing trend at decreasing rate while on the contrary the percentage growth of non-development is increasing gradually. This means that the entire fiscal operation of public revenues and expenditure has undergone vast changes during the planned economic development. Further we have also observed proportional increase of the total expenditure budget for economic and social services in the National economy. Thus we found expenditure on development schemes has been economised to great extent and the income saved has been channelised into non-development activities; Further more we found expenditure on non-development heads like civil administration, direct demand on revenues, debt services etc has no doubt increased simultaneously.

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In this paper, we have examined the analysis of growth of public expenditure on development and non-development activities. In further research there is a need to under take contribution of public expenditure and economic development in detailed perspective.

12. POLICY RECOMMENDATIONS FOR PLANNED ECONOMIC DEVELOPMENT

Based on our findings we would like to make following policy recommendations for National Planned Economic Development:

- (1) Development schemes like Agricultural, Irrigation, Energy and Industrial Development, require more attention on the part of the Government, to initiate a policy of sound economic development and to ensure the prosperity of the National economy.
- (2) We suggest that it would be most desirable if large parts of expenditure control is encouraged so that to regulate the flow of fund to productive and more purposeful channels and to discourage unproductive expenditure and extravagance to achieve faster growth. Instruments of executive control like administrative control, legislative or parlia-

- ment control, audit control etc. have been evolved both by the central and the state Governments and its transparency should be encouraged to prevail. The control of public expenditure is increasing. Broadly, there are two alternative methods in use, first one is pre-audit and second is the self-accounting system. By making a sharp distinction between the two. Mrs. Hicks has emphasised that the self-accounting system is obviously much more flexible than the pre-audit system". In a country like India this aspect must be taken into account.
- (3) In recent years government has shifted its" emphasis from expenditure on development schemes to non-development activities. Government has resorted to tax base, and effort is directed to tax compliance. On expenditure side government has tried to reduce non-plan expenditure by curtailing subsidies and reducing repayment of interest through economizing debt raising activities. Actually, more efforts are needed on fiscal front and many activities are out of tax net. Agricultural sector is totally outside the purview of tax net and the burden of subsidies is very high.
 - (4) Our past experience of 1990's and 2005's has shown that unplanned growth of economy during Eighth, Ninth, Annual, Tenth and Eleventh plan period has resulted in considerable changes in revenue expenditure and capital expenditure, beyond our capacity to absorb these shocks and it resulted into serious, inflationary pressures and imbalance of National economic development. We would like to suggest that just as there is an annual budgetary exercise, in the same way growth of economy has to be budgeted and planned, considering repercussions on other Crucial Monetary and fiscal policies. Central Monetary authority should be given greater autonomy, with regard to planning of economic development expenditure instead of asking it to play permissive role to accommodate what amount of credit needed by the fiscal authority, that is Government.
 - (5) Liberalization and globalization of early 1990's have now been accepted in India. Exogenous influence on our public expenditure and economic development system has increased and the task of the planned economic development is going to be much more difficult while designing and conducting appropriate monetary expenditure policy for achieving Macro economic goals. In this connection, we would like to recommend that there is an urgent need in India under changing economic scenario to review the role of Monetary authority and public administration. The RBI would be required to play key role in sterilizing influence of external capital inflow so as to minimize undesirable changes in the foreign exchange rate which is a key factor governing international economic relations. We therefore suggest that RBI should be liberated from the unwanted regulations and obligations imposed on its behaviour to serve the need of Government for monetary resources. This would call for amending the RBI Act and other related provisions. But it is a must in the present context.
 - (6) Unless we move to perfect market mechanism with free choices and pricing policies, growth objectives and stability would remain a far cry.
 - (7) For sustained economic growth, the revenue and public expenditure management should be given priority and monetary authority should adjust its tools to country act, the side effects of fiscal changes that have been effected. In nutshell Fiscal and Monetary Management efforts should be well coordinated to Macro fundamentals, because every fiscal action has monetary implication. Thus both fiscal and monetary policies must be intertwined. We are optimistic on our growth front and we hope with efficient fiscal, monetary debt and expenditure management we would be able to hit the target of National economic development.

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