CHAPTER 1

INTRODUCTION

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 of 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 in a large degree. The importance of public expenditure has also increased because of its nature and volume affects 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.

Public expenditure is like a barometer which measures the course of economic development as well as the administrative skill of the government in a country. The relationship between economic growth
and the magnitude of public expenditure has been the subject matter of a lively controversy among the economist in India. There has been different shades of opinion in regard to the feasibility and desirability of achieving economic growth with the help of the enlarged volume of public expenditure. As a matter of fact, public expenditure has grown abnormally in India and abroad; but the study of public expenditure, unfortunately, has received a step-motherly treatment and suffered from an alarming neglect. Economist of all camps have laid to much emphasis on the study of public revenue and doctrine of taxation and the study of the behaviour of government expenditure has always been treated with indifference in the early days of development of fiscal science. Old economists allotted a limited role to the state's functions. They were of the view that the functions of the state were restricted only to the maintenance of law and order in the country and its protection from external invasion. Thus, the limited nature of the functions of the state as the cause which kept public expenditure in a watertight compartment. In other words, during pre-Keynesian era when the classical theories ruled the roost, the doctrine of public expenditure was never conceived to be an important part of fiscal administration. It was Keynes who for the first time popularised the necessity of government's expenditure as a means of economic development as well as an effective tool to fight the ill-effects of depression in advanced European countries.
Very 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 behaviours of revenue and expenditure are determined properly. However during the last two decades, attempts have been made towards studying the behaviour of public expenditure on the basis of empirical data and historical facts with a view to examining the level of economic development in the country after heavy allotment of funds to be incurred on public welfare programmes and observing the structural changes in government expenditure as a proportion of national income. 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. It is true that macro studies (All India) essential but it is more true to study the economic changes of the country on micro level so as to remove the problem of regional desparities from the economy.

In Manipur there is a dearth of the study on public finance. The scholars of Manipur have shown little interest in conducting research works in this field despite knowing well that public finance particularly the behaviour of public expenditure is a conditioning factor of economic upliftment. This negligence prompted the scholar to work in this field and the selection of the topic i.e.,... A Study of the Growth of Public Expenditure in Manipur was taken up.
Manipur is one of the most backward states in India despite the affluence of her natural resources. While many states in our country, equipped with moderate natural resources, small area and concise manpower are more developed on economic front than Manipur, there are several reasons which are responsible for the backwardness of the state of Manipur; out of which, lack of proper planning of public expenditure, its magnitude, the lack of productive directions have been imperative. The role of fiscal policy is the sine-qua-non in the process of economic development.

*Purpose of the study:*

The main purpose of this work is to study the benefits received by the people out of huge amount of public expenditure incurred by the Government of Manipur. In other words, this study establishes a statistical synthesis between behaviour of public expenditure and economic development and leads to some definite and concrete conclusions regarding the frame work of fiscal policy in the state of Manipur. The present work makes an attempt to present a rational, integrated and consistent approach to the conceptual and practical problems of Manipur. The work presents the analysis and results of an empirical-cum-analytical, objective research, of the impact of the pattern and changing structure of public expenditure on economic development in Manipur from 1980-81 to 2000-2001. Though the period of analysis was limited from 1980-81 to 2000-2001 at the time of registration, the study attempts to update the data to make the work
more recent. This research work emphasizes to elaborate the matter more sagacious and comprehensive.

**Limitation of the study:**

The study has its own limitation on the fact that the period of the study cannot cover the period before 1980-81 due to date constraint and availability of time.

**Hypothesis:**

It is hypothesized that public expenditure policy of the State of Manipur during the period of research work is not in accordance with the principle of public finance, thereby not causing desirable effects on economic development of the state of Manipur. So far the public expenditure made by the Government of Manipur has failed to achieve the economic growth of the state since the state Government has not made any concrete fiscal policy.

**Date Base and Methodology:**

All the sophisticated methods of Social Scientific analysis such as, buoyancy analysis, co-efficient analysis have been done in order to make analysis more comprehensive and coercive.

The tool of analysis used in doing all the latest techniques and methods using by the researchers such as data published by the Comptroller and Auditor General of India, Reserve Bank of India,
Public Accounts Committee, Annual Financial Statement, Economic and Statistics Department of different states, Books, Journals, Publication made by the Authorities. All sophisticated tools of data analysis and interpretation will be used whenever necessary. Appropriate diagrams such as pie chart and bar chart to illustrate the information to the common people will be used. Deductive method will also be used wherever necessary to draw conclusions and formulate the effective policies and to make suggestions thereof.

It will be worthwhile to be mentioning that until recently in India specialists in the field of public finance were confined to the study of effects of budgeting trends and development of normative theories focusing at explaining how the behaviours of revenue and expenditure are determined properly. However, during the last four decades the analysts have been trying to make in studying the behaviour of public expenditure on the basis of empirical data and historical facts with a view to examining the level of economic development in the country particularly in Manipur which seems to be found quite neglected after heavy allotment of fund to be incurred on public welfare programmes for the upliftment of the most deplorable sections of the society in the federal structure of the constitution.

The entire analysis of data will be made on the basis of empirical data furnished by the Comptroller and Auditor General of India, Finance Accounts published from time to time, Report submitted by
Estimate Committee of Manipur Legislative Assembly, Public Account committees, and all the financial documents furnished by the concerned department at public sources.

This work is systematically divided into seven chapters consisting of conclusions and suggestions as last chapter, followed by the bibliography at the end. The first chapter provides introductory note itself.

The second chapter discusses the review of literature of public expenditure developed by pre-classicist, classicist and Neo-classicist in the past with special reference to the development of the theory of public expenditure moulded by Keynes and post-Keynesian economist. It sketches a picture of the role of public expenditure in the context of an underdeveloped nature of the Indian economy in general and the economy of Manipur in particular. Here the role of public expenditure as an effective tool for the acceleration of the pace of economic development has been emphasized.

The third chapter deals with an effort to review revenue account expenditure on social and economic services. It provides the trend and growth of revenue account expenditure in Manipur in the last two/three decades or so, which is very irregular and erratic. The relative importance given on general services has been increasing whereas the relative importance of social and community services has
been declining. The revenue account expenditure rose tremendously by about 19 times during 1980-81 to 2004-05. The non-plan revenue expenditure constituted about 81% of the total revenue expenditure during the same period, whereas the plan revenue expenditure constituted only 19% during the same period. The buoyancy of revenue account expenditure to GSDP and total revenue receipts was more than 1% indicating that the growth of revenue account expenditure was much higher than that of GSDP and revenue receipts. This indicates that most of the expenditures incurred in the state during the last two/three decades was made for current consumption and maintenance of the current level of services and thereby contributing an insignificant amount to the creation of new assets. While examining, the pattern of expenditure on revenue account by its classification of heads of account, it is found that there is no any systematic planning and specific strategy of development. The state needs to follow a pattern of expenditure which will be more suitable to sustain a high rate of economic growth. More emphasis was given on social services during the last two/three decades and less emphasis was given on direct productive economic heads. Economic services has been given less priority. No concrete policy seems to be made while the expenditure is made in the State.

The fourth chapter deals with Capital Account Expenditure on Social and Economic Services in Manipur. The revenue account expenditure i.e. the expenditure met from the proceeds of taxation
and other receipts is usually inadequate and insufficient to boost up the pace of economic growth as amount of tax proceeds and other non-tax revenues are generally low in the state which were already caught into the vicious circle of Poverty. The rate of capital formation is also extremely low due to low income, low savings and low consumption. Most of the new developmental programmes are to be carried out from the borrowed funds. The capital account expenditure rose tremendously from 1980-81 to 2004-05 by about 29 times. The plan capital expenditure constituted about 98% of the total capital expenditure during the same period, whereas the non-plan capital expenditure constituted only 2%. While examining, the pattern of expenditure on capital account by its classification of heads of account, it is revealed that more emphasis is given to the development of social sector to economic services which are directly productive. No concrete policy seems to be made while the expenditure is made in the state. The expenditure is made on the basis of the day to day requirement basis. The formation of a long development policy is almost conspicuous by its absence.

The fifth chapter deals with the trend and growth of non-developmental expenditure, their relative importance and impacts on the economic development of the state. Expenditure incurred on general services, such as organs of State, fiscal services, civil administrative services, interest payments and servicing of debt and pensions and other miscellaneous services etc. are generally termed
as non-development expenditure. By its connotation itself, expenditure on such items seems to have no growth implication. But in fact, these items of expenditure are indispensable because faster economic development can not be brought about unless we have a strong, efficient and sound administrative machinery and a peaceful law and order condition. In short, though they are not directly productive but they help in bringing about economic development. The total revenue account expenditure on non-development services has been increasing significantly in recent years, though with some fluctuations. The capital expenditure on general services was quite meagre and its trend was erratic.

Chapter sixth concerns with financial administration and fiscal policy of the state. Financial administration with the means for accurately determining the revenue and expenditure needs of the State, enactment of revenue and appropriation laws for meeting these needs and the establishment of an audit and accounting system that would examine and furnish a detailed report on the matter in which these laws are administered. The present budgetary classification details the expenditure incurred on various items, year to year change in itemwise expenditure, as well as changes in total expenditure.

Chapter seventh is a final and concluding chapter which sums up the findings of the preceding chapters. Some valuable suggestions have also been given to tone up the efficiency of fiscal administration and to curtail the growth of non-development expenditure in order to
provide adequate resources in the hands of the Government for rendering economic and social services to the people of Manipur.

As such, the analysis and interpretation of the public expenditure pattern, the growth and the impact, are based on reliable data; and the conclusions derived from the study are likely to fill in the informational gaps and to serve as the basis for introducing necessary corrective measures.