CHAPTER - V

TRENDS OF PUBLIC EXPENDITURE IN GUJARAT
- AN OVERVIEW

Introduction:

In this chapter we discuss the trends of government expenditure growth during last 30 years i.e. from 1963-64 to 1992-93. The Chapter is divided into two sections. In section one we analyse the trends of expenditure by economic categories. In section two we provide similar analysis for expenditure by functional categories. A proper understanding of the government expenditures requires a close examination of each of the components and their behavioral patterns over time. Therefore in chapter VI we provide a detailed analysis of various sub-categories of expenditure under the economic classification as well as functional classification.

The attempt in this chapter is to trace the growth of state government expenditure in nominal as well as real terms. Analysis is attempted also in terms of expenditure per head of the population as well as expenditure - State Domestic Product (SDP) ratio.

Just as changes in prices affect continuously the growth of government expenditure, changes in population and development (per capita SDP) also have an influence on the growth of government expenditure. The reason for
considering population as an important factor influencing expenditures is that with an increase in population, the demand for governmental services would also grow. A given level of services may no longer be sufficient for an increased level of population. Therefore, in fact, many studies have considered population as a permanent factor influencing the growth of government expenditure. Similarly, economic development is also an equally important factor influencing the growth of government expenditure. As the level of development increases, new forms of consumption will arise and the government financed communal consumption will also increase. This is particularly likely to happen in the initial stage of development. For example, in a developing country like India, with increased income the demand for more and better quality of infrastructure facilities such as education, health, transport, electricity etc. may increase. As a consequence the government expenditure as a percentage of GDP may go up. This is so because, the level of services is so low in relation to population size that even with a very small increase in the level of GNP the greater provision of services by government might be called for.

As stated earlier, from the view point of economic analysis, the government expenditure should be classified into economic and functional categories. This is because the expenditure in the government budget is generally classified departmentwise in order to secure legislature control and administrative accountability. The budget so presented reveals merely the financial transactions and not the economic and social significance of the transactions. Therefore the economic significance of the different items of expenditure can not be easily made out directly from the study of the budget because the magnitudes of the budgets
are detailed and scattered. For example, from the study of the budget documents, as they are, it is not possible to get a clear idea of capital formation resulting from the budgetary resources, savings of the state government, government's contribution in generation of state domestic product, etc. The budgetary operations of the government need to be sorted out and reclassified into appropriate economic groups to understand the economic and social effects of government expenditure. The presentation of the budget in this form, called economic classification, yields more detailed information of the government transactions and is useful for evaluating the government's programmes with respect to particular services and also helps in understanding the nature of the impact of budgetary operations on the state of the economy.

SECTION I

Economic Categories:

(A) Total Government Expenditure in Nominal Terms

The state government expenditure has grown tremendously in nominal terms from Rs. 10630 lakhs in 1963-64 to Rs.779438 lakhs in 1992-93 an increase by roughly 73 times during the period of just 30 years (Annexure-1).

The expenditure thus grew at the rate of almost 16 percent per annum during the entire period. In the sixties, that is between 1963-64 to 1969-70, the growth rate of expenditure in nominal terms was 14 percent but during other two sub-
periods i.e. between 1972-77 and that between 1978-93 growth rate of expenditure was 16 percent (Annexure-2).

The per capita nominal expenditure increased from Rs. 50 in 1963-64 to Rs. 1833.97 in 1992-93, increasing almost 37 times in 30 years. The growth in expenditure for the period 1963-71 was 12 percent which increased to 14 percent for the period 1978-93. Thus even if we discount for the growth in population as one of the important factor influencing expenditure growth, there is tremendous increase in the state government expenditure (Annexure 3 and 4).

(2) Total Government Expenditure in Real Terms
(at constant 1980-81 Prices)

In real terms the total expenditure increased from Rs. 44911 lakh in 1963-64 to Rs. 3117752 lakhs in 1992-93. Thereby in clear contrast to the growth of expenditure in nominal terms, the growth of state government expenditure in real terms was much less - 7 times only as against 63 times in nominal terms for the same period. The sub-period growth rates display a different pattern in real terms as compared to that in nominal terms. For example, while expenditure in nominal terms increased at an average compound growth rate of 14 per cent, 16.4 per cent and 15.3 percent during 1963-64 to 1970-71, 1971-72 to 1976-77 and 1977-78 to 1992-93 respectively, expenditure in real terms increased at an average annual compound growth rate of 6.3 per cent, 6.1 per cent and 7.8 percent respectively, during the same periods. It is very clearly evident that substantial

* All sub-periods growth rates are calculated using kinked exponential model.
growth in the state government expenditure took place mainly in 80s and more so after 1985-86. Even after discounting for the price rise the growth rate of expenditure in real terms for the 30 years period 1963-64 to 1992-93 has been 7.1 per cent (Annexure 5 and 6).

The expenditure in per capita real terms increased from Rs. 211 in 1963-64 to Rs. 733.5 in 1992-93. Thus per capita real expenditure increased only by 3 times as against 7 times increase in total real expenditure and 32 times increase in per capita nominal expenditure. The per capita government expenditure in real terms (at 1980-81 prices) increased from Rs. 210.8 in 1963-64 to Rs.330 in 1978-79 and Rs. 628.8 in 1992-93.

The analysis of growth rate of expenditure in real terms (both total as well as per capita) clearly highlights the fact that there was a much faster increase in the expenditure in 80’s as compared to the pervious two decades. The sub-period growth in expenditure shows that the annual growth rate of total expenditure in real terms was 6.3 and 6.1 per cent for the periods 1963-71 and 1972-77 respectively, but jumped to 7.8 per cent for the period 1978-93. Similarly, the growth rate of expenditure in per capita real terms was 3.8 per cent and 2.8 per cent for 1963-71 and 1972-77 respectively but was 5.4 per cent for the period 1978-93 (Annexure-6 and 8).
(3) Total Government Expenditure in relation to
State Gross Domestic Product

Community output, just like population, is another factor influencing the growth of
government expenditure. Thus SDP is an important factor influencing government
expenditure. In fact, the Wagnerian hypothesis termed as Wagner's Law, highlights
income as one of the most important factor influencing government expenditure.
Wagner's Law suggests that as income rises, the demand for government
increases more than in proportion, primarily because of the technological
requirements of industrialization and urbanization that accompany it. Here however,
our concern is not to test the Wagner's hypothesis, but simply to observe whether
or not the government expenditure is increasing in proportion to SDP.

During the period 1963-64 to 1992-93 the share of total government expenditure
in SDP in real terms increased from 13 per cent to 27 per cent, thus doubling in
30 years. The government therefore have been taking away larger and larger
share from the community's output over a period of time. The ratio of government
expenditure to SDP increased on an average from 14 per cent in 60's to 17 per
cent in 70's and then to 24 per cent in 80's. Thus in real terms, government
expenditure has increased much faster than either population or state output
(Annexure 9 and 10).

It is interesting to note that while expenditure in nominal terms increased 63
times, expenditure in real terms (i.e. when the effect of price change is removed)
increased 6 times, expenditure per head of population increased 3 times and
expenditure in relation to community output (i.e. as ratio of SDP) increased 2 times.

**SECTION II**

**Functional Categories**

For the functional categories, continuous data was not available from 1963-64 to 1992-93. In fact there are gaps in the published data which were made available by the Gujarat Bureau of Economic and Statistics. The data for expenditure on functional category was not available from 1962-63 but from 1966-67, again it was available for 1966 to 1968 and not available for next there years, that is 1968-69, 1969-70 and 19709-71. The continuous data was thus available only from 1971-72 onwards. Therefore the growth rates could be calculated only from 1971-72. Also as a result of this, 22 years data from 1971-72 to 1992-93 has been divided only in two sub periods unlike three sub-periods for the data on economic categories. The following analysis is carried out keeping in mind these problems with regard to discontinuing of the data for functional category.

(1) **Government Expenditure in Nominal Terms**

Total functional expenditure increased from Rs. 14560 lakhs in 1966-67 to Rs. 871985 lakhs in 1992-93, thus increasing almost 60 times in 24 years. The expenditure grew at the rate of 17 per cent per annum between 1971-72 to 1992-93. The growth rate of expenditure was marginally higher in the first sub period of 1971-78 (18.2 per cent) than the growth rate in second sub-period i.e. between 1979-93 (17 per cent) (Annexure 11 and 12).
The per capita nominal expenditure increased from Rs. 63.50 in 1966-67 to Rs. 1915 in 1992-93. It increased 30 times within 24 years. It grew at the annual rate of 14.5 per cent between 1971 to 1993. There was a marginal increase in the rate of growth from first sub-period to the second. The growth rate increased from 14.47 per cent for the period 1971-78 to 14.52 per cent for the period 1979-93 (Annexure 13 and 14).

(2) Government Expenditure in Real Terms
(at 1980-81 constant prices)

In real terms the total expenditure increased from Rs. 45245 lakhs in 1966-67 to Rs. 348794 lakhs in 1992-93, an increase of almost 8 times. The average annual growth rate of expenditure for the 22 years period i.e. between 1971 to 1993 was 8.3 per cent as against 17 per cent increase in nominal terms. The growth rate was 7.9 per cent for the first sub period of 1971-78 and was 8.4 per cent for the second sub period of 1979-93. Thus there was a slight increase of expenditure growth rate in real terms as compared to slight decrease in expenditure growth rate in nominal terms from the first to the second sub period (Annexure 15 and 16).

In per capita real terms, the expenditure increased from Rs. 197 in 1966-67 to Rs. 821 in 1992-93. It thus increased only 4 times in per capita real expenditure terms as against an increase by 30 times in per capita nominal expenditure terms. The real expenditure grew at the rate of 5.7 per cent per annum between 1971 to 1993. The growth rate also increased at a faster rate in the second sub-
period as compared to the first sub period. The per capita real growth rate for the first sub-period 1971-78 was 4.57 per cent per annum which increased to 6.1 per cent per annum in the second sub period (1979-93, Annexure 17 and 18).

(3) Share of State Government Expenditure in State Domestic Product (at constant 1980-81 prices)

In 1966-67 the total expenditure in real terms was only 12.5 per cent of the state domestic product. However, it increased to 30 per cent in 1992-93. Thus it more than doubled in 24 years (Annexure 19). It may be emphasized here that government is withdrawing a greater share from SDP is not objectionable if this money is utilised in such a way that it leads to faster economic development. However, it is certainly objectionable if these resources are merely used for interest payments or repayment of debts or on establishments or for increasing the wage bill of the government without a simultaneous increase in employment opportunities. The structural aspects of expenditure growth are examined in next chapter (Chapter VI).