CHAPTER 1

INTRODUCTION
Creation of economic and social overheads has been given a high priority in the development plans of the developing countries of the world. The creation of such overhead capital has been assumed to be the responsibility of the government in the developing countries because of the failure of markets to provide such capital. The role of the government, therefore, in promoting economic development through the development of economic and social overheads has assumed importance in the developing economies of the world.

The role of the government in economic development

Governments can promote both economic growth and equity by supplying the physical infrastructure needed for productive private investment, and by providing social services to meet the basic needs to improve the productivity of the population. Governments must provide "public goods" that benefit all citizens such as law and order and national defence. They should also be involved in providing goods and services with large external benefits to the society, such as primary education, basic health care, and immunisation programmes. Direct investment or regulation is needed to control monopolies caused by a single source of
supply or large returns to scale relative to the size of the market - water supply, sanitation and power, for instance. Finally, government subsidies on goods and services consumed by the poor are sometimes justified, but, to contain the cost, they should be accurately targeted.¹

Economic development has been engineered by paternalistic governments in most of the developing countries. There seems to be several reasons why the governments of developing countries are playing a more active role in generating economic development than those of western countries.

The most important reason is that to achieve industrialization, resources have to be created and put into use. But markets for these resources (for example, the foreign exchange market and the financial market) are either very inadequate or non-existent. The government, therefore, has to create an institutional framework for developing the market for these resources and guide the people to adopt themselves to it.

Second, inertia in the social atmosphere has to be removed and this calls for the government action. Employment has to be created right in the way and entrepreneurship has to be stimulated. The rudimentary market system existing in developing countries may be too inadequate and too slow to generate the process of development rapid enough to fulfill people's expectations.
Third, the developing countries are accustomed to being ruled by paternalistic Governments; the people look for the government assistance and support, even under normal circumstances. The government is called upon to solve all problems, including those that should be handled by private individuals and non-governmental institutions. The governments of developing countries are, thus, likely to intervene in the private sector of the economy.²

The basic condition for economic development is the creation of infrastructural facilities and social overhead capital, which require huge investment. The private market economy is unable to create the needed economic infrastructure and social overhead capital in developing countries like India. The creation of economic infrastructure such as electricity, irrigation, transportation and communication and social overhead capital such as education, medical and public health and social security measures have become the main responsibility of the governments in the developing countries. To provide all these facilities the governments have to spend huge amount of money through public expenditure policies.

**Importance of developmental expenditure**

Developmental expenditure is one of the most effective measures whereby different economic and social objectives of the country are sought to be realised. In fact, developmental expenditure has a multiplicity of aspects. The aspects of developmental expenditure mainly
consist of the acceleration of the rate of economic growth, equitable
distribution of income, improving the living standards, stabilisation of
economic activity and balanced regional development.

Developmental expenditure comprises expenditure on
economic services and expenditure on social and community services.
Expenditure on economic services is in the nature of investment which
adds to the fixed capital and expenditure on social and community services
is necessary to provide the "Merit goods" such as primary education,
preventive health care, drinking water supply and sanitation which
augment the stock of human capital in terms of better education, higher
degree of skill and improved health.

Public expenditure on economic and social overheads such
as agriculture and allied activities, irrigation, electricity, industry and
mines, roads and bridges, education, medical and public health assists
the productive process in the economy and thus, helps in raising the
aggregate output.

Developmental expenditure tries to bring regional balance
in the economy as well. In every State, there are some underdeveloped
regions. government expenditure can be effective in bringing prosperity
to such depressed areas through the allocation of greater proportion of
public expenditure on different socio-economic upliftment programmes
and thereby may ensure balanced regional development.
Government expenditure programmes have large effects on the distribution of income. It redistributes income both vertically and horizontally. Expenditure on the transfer payments (i.e. expenditure incurred on various social security schemes, such as old age pensions, veterans benefits, unemployment compensation/relief, sickness and invalidity benefits, family allowances, scholarships, subsidies on food and housing etc.) redistribute income vertically. All these expenditures add to the income of the recipients directly. Government spending on infrastructure, drinking water supply, and other social and economic services affect the income distribution horizontally. Such government expenditure provides benefits to the society at large. In particular, expenditure on education and health services improves the educational and health standards of the people and makes them more active agents of production. Public expenditure can, thus, be used for augmenting production, reducing income inequalities, improving living standards, ensuring balanced regional development, maintaining law and order and for stabilisation purposes.

One of the striking changes which has taken place during the second half of the twentieth century was that most developing countries of the world have been inspired by the idea of a "Welfare State." Though they are willing for economic growth, they face tremendous demand for the welfare of their people. As a result, the egalitarian objective is explicitly emphasised in the development programmes of developing countries. The egalitarian objective seeks for equalisation of opportunities
to all because all, being equal, have claims in this respect. In developing countries, therefore, public expenditures are assigned the role of not only accelerating the growth of the economy through appropriate resource allocation but also ensuring better distribution of income and the like. While acceleration of the rate of economic growth undoubtedly remains the permanent objective, the social and distributional aspects of public expenditure have also emerged as major policy objectives.

The problem in developing countries is not one of deficiency in consumption demand, but of low levels of saving and investment. Increase in the levels of expenditure, especially, the investment expenditure on economic and social overheads is imperative to enhance the rate of capital formation, because capital formation is a fundamental requirement for economic development. Private savings are very low in the early stages of development and hence the governments usually must play a major role in accumulating capital. Investment in infrastructure, particularly during the early stages of development, is of crucial importance as it sets the frame work for subsequent investments by both the private and public sectors. Furthermore, even in the later stages of development, the private sector may not be able to generate the massive funds required to establish certain industries, despite their long-run profitability. The government may also to create certain "linkages" that will permit the private sector to flourish in the future. Lastly, the government must often assist in the creation of human capital through educating and training the labour force.
REVIEW OF LITERATURE

The literature on public expenditure has grown rapidly in recent years. But a few decades back it was considered that the area of public expenditure was a neglected and unexplored subject for research by economists and social scientists. This concern has been shared by those writers who believe that "in contrast to many important empirical studies of taxation in developing countries, there are relatively few similar studies in the field of public expenditure in developing countries." In fact, such views were expressed by many western writers including Samuelson and Musgrave. Even in India similar opinions were voiced. "The area of public expenditure has not, however, obtained as much emphasis as it deserves in Indian public finance research. The positive aspects of Indian public expenditure analysis remain largely an unexplored field." However, in the past few decades, particularly after 1950s, gradually many have evinced interest in the study of public expenditure and consequently the literature has increased. The available literature on the growth of public expenditure may be broadly categorised into (1) International studies, (2) National studies and (3) Regional studies.

International studies on public expenditure

The following are the important international studies on the growth of public finance.

Wagner's hypothesis of public expenditure

Adolph Wagner (1890), a German economist presented a
systematic approach explaining the theory of public expenditure and factors responsible for its growth. His approach was correlative to the growth of community output and public expenditure as was observed in a number of western european countries.

The main thrust of Wagner's hypothesis was on the functional relationship between the growth of economy and its relative growth of public sector activity. According to him, the government expenditure must increase at an even faster rate than output.

**Peacock and Wiseman's study**

The empirical study of Peacock and Wiseman (1961)\textsuperscript{6} emphasizes the time-pattern trends of public expenditure in the United Kingdom from 1890-1955. Their analysis is based on three separate but related concepts, viz., displacement, inspection and concentration effects.

According to them, during the period of study the relative growth of British public sector occurred on a step-like pattern rather than on a continuous basis. That is to say, the government fiscal activities have risen step-by-step to successive new plateaus during the period, due to the impact of major social upheavals like war and depression. These upheavals create a "Displacement effect" resulting in the replacement of the previous lower expenditure and tax levels by new and higher budgeting levels. This displacement effect occurred several times during the secular period of study during 1890-1955 in the United Kingdom.
Further, they also suggested that the social disturbance will force the people and the government to inspect the efficiency and adequacy of previous measures to meet the problems which would have been considered trivial but which assume different dimension of urgency and importance due to social disturbance. All the factors that contribute for the increased public expenditure, are grouped under what Peacock and Wiseman call as “Inspection effect” associated with displacement effect.

During the period of their study, they also discovered one more factor viz., “Concentration effect” involving public expenditures effected at various levels of the government which tend to concentrate in the central government. This happens when a country undergoes the process of economic growth. The concentration effect is different from displacement effect, in the sense that it operates in the normal as well as disturbed times.

Vivekra’s study on the United Kingdom

Vivekra (1963) in his study of public expenditure in the United Kingdom presents a historical survey of the growth of public sector covering broadly two centuries. In this study, the changes in the size and structure of the public sector are linked to other historical developments such as changes in total wealth as indicated by estimates of gross national product and changes in population. Vivekra also points out the irregular time pattern of growth of public sector which is attributed
to the changing structure of the government expenditure. This is supported by the statistical evidence of the income elasticity of individual categories of public expenditure differing very widely. Thus, the study points out that more realistic conclusions are derived by considering the relationship between individual components of the government expenditure and economic growth than the aggregate expenditure.

**Thron's study for a sample of 52 countries**

Richard Thorn's study (1967) presents the results of the empirical analysis for a sample of 52 countries. He presents the hypothesis that social forces which are closely related to the process of development are a major determinant of the observed tendency of public expenditure to rise faster than national product and that this rise in public expenditure has certain implications for the structure of the government revenues.

He emphasises the view that the forces which shape the pattern of the government expenditures and revenues emerge from the dynamic process of growth itself. Presenting cross-section studies of developing and developed, low growth and high growth countries, he states that low growth countries have a greater social expenditures than high growth countries and developed countries have a greater social expenditures elasticity than less developed countries. His propositions are substantially supported by empirical analysis. He particularly focusses attention upon the growth and changing role of the urban sector as an explanation of the growth in social expenditure.
Lotz Study

Lotz (1970)\(^9\) has investigated variations in the composition and size of the government expenditures among developing countries. It was found that government spending patterns are associated not only with the level of per capita income, but also with other economic and social factors viz. urbanisation, monetisation, literacy etc.

Goffman and Mahar’s study on Caribbean countries

Goffman and Mahar (1970)\(^10\) in their empirical study relating to six Caribbean countries consisting of Haiti, the Dominican Republic, Costarica, Panama Honduras and Guyana State that the growth of public expenditure may be affected by the process of economic development itself. While the study reveals a general tendency for the public sector’s share in the community’s output \([E/Y]\) to rise during the period under study, it is very doubtful about the Wagner type income-expenditure relationship because of the large variations in the income elasticities within and among nations. They came to the conclusion that neither Wagner’s law nor the Peacock-Wiseman’s displacement effect adequately explain the behaviour of relevant aggregates.

Reynolds and Smolensky’s study on the USA

Reynolds and Smolensky’s study (1971)\(^11\) gives interesting results. They used the incidence assumptions to apportion expenditures among households grouped by income level. The three largest expenditure categories are general expenditure, education expenditure and cash
transfers. Half of the general expenditures are distributed on a per household basis and therefore, represent a relatively large share of a poor person's income. Finally, cash transfers, a large component of which is public assistance, is also pro-poor. Therefore, the poor gain relatively more from public programmes than do the rich.

Christine Andre and Robert Dolorme's study on France

Christine Andre and Robert Dolorme (1978)\textsuperscript{12} in their time series analysis of the public expenditures and revenues for the period 1872-1971 in France, cast doubt on the relevance of the two frequently proposed hypotheses viz., Wagner's 'Law of increasing state activity' and Peacock-Wiseman's 'Displacement effect'. Their empirical study points to the irregular growth of public expenditure in France, marked by profound transformation by levels of administration, field of application and economic categories. They also suggested of that a different approach to the explanation of public expenditure is needed, which is to be based on historical dimension of the phenomenon and on the explicit theory of the State.

Selowsky and Meerman studies on Colombia and Malaysia

Selowsky (1979)\textsuperscript{13} and Meerman (1979)\textsuperscript{14} investigated primarily the distribution of public subsidy in education and health care, and the distribution of public utilities (electricity, water and sewage disposal).
Some evidence was presented concerning the distribution of public expenditure in other areas, such as agriculture, garbage collection and street lighting; but it is far from comprehensive and both the authors deemphasised its importance. Most of their results are presented by annual income group and town size (or rural/urban). Meerman responding to Malaysia’s ethnic diversity, also presented the results by racial group and region.

Not only their methodology but also their results are broadly similar. The distribution of primary education is pro-poor, secondary education is neutral and post-secondary education is strongly pro-rich. Public health care in both countries (although organised on quite different principles both between and within the countries) appears to be equally distributed. The better-off make more use of public utilities, partly because the demand for the services is elastic with respect to income (Meerman) or housing characteristics (Selowsky).

**World Bank Study**

Sanjay Pradhan and Vinaya Swaroop (1983)\(^\text{15}\) of the World Bank, carried out a review of the changes that have taken place in the levels and composition of public spending in two distinct country groups. These countries have attempted to bring down fiscal deficits, often by reducing public spending, as part of their economic stabilization and structural adjustment programmes. Some critics, including UNICEF, maintain that the fiscal austerity of these policy-based lending programmes forced
Governments to curtail social sector spending, particularly for health and education.

While levels of public spending have decreased, misallocation of public expenditures remains a problem. Among the positive developments have been reductions in fiscal deficits, the squeezing out of many inefficient projects, and a decline in military expenditure. At the same time, aggregate social sector spending has been protected from cuts. Little progress has been made in reducing excessive public sector employment.

During periods of fiscal austerity, governments always find it easier to cut capital spending than to reduce current expenditures. The rapid growth in public sector employment and wages that was common in the 1960s and 1970s has been checked. But in doing so they reduced real wages, causing productivity levels to drop sharply. Budgetary share of public spending on the goods and services declined in Africa's Subsaharan countries. Schools are without teaching materials, lack of drugs in health clinics and rehabilitated roads are once again becoming impassable.

Aggregate spending on health and education followed similar trends for many countries and the allocation of expenditures within the social sector remains a problem. In Pakistan and Uganda expenditures have been diverted from basic social services to defence, despite high rates of infant mortality, illiteracy and mal-nutrition. Public spending policy
should be carefully tailored to individual countries, based on a detailed assessment of the need. Retrenchments of employment in surplus organisations is essential. When defence spending is crowding out necessary public spending, resources should be allocated away, from military expenditures towards basic services.

I.M.F. Study

I.M.F.\textsuperscript{16} policy advice to its member countries has placed greater emphasis on the need for fiscal discipline through reductions in unproductive public expenditures. To shed light on this subject a recent internal study was undertaken by the I.M.F. Fiscal Affairs Department to assess the nature and depth of this advice for a sample of 17 member countries. Unproductive public expenditures are those public outlays that can be reduced without affecting the government outputs such as the provision of law and order and basic education and health services. Unproductive spending can trigger large fiscal deficits, a correspondingly lower level of public sector output, and a tax burden that is heavier than necessary. Reducing unproductive public expenditures is particularly important in countries burdened with low revenue and high spending. Reducing wasteful spending can save scarce financial resources and would yield a large increase in global financial resources.

Unproductive public spending was identified in a number of expenditure categories in both program and non-program countries, including wages and salaries, subsidies and transfers, military
expenditures and social sector outlays. In response I.M.F. policy advice has underscored the potential benefits of reducing unproductive expenditure for achieving equitable and efficient fiscal adjustment.

**National studies on public expenditure**

Apart from the studies relating to international aspects, there are studies which focus attention on general issues of public expenditure pertaining to India. Some of the important studies on public expenditure of India are as follows.

**Mahalanobis Committee Report**

About three decades ago, Mahalanobis Committee (1964) found that during the first two Five Year Plans (1951 to 1961), inequality in the levels of living increased in real terms between the poorer and the richer sections of the population, but concluded that increase in the inequality of the level of living was relative to the period of low prices and did not therefore necessarily imply a deterioration in the real level of living during the period as a whole. There was very little on the contribution of public expenditure (or programmes) as such on the levels of living. Its concern was with the aggregate effect of economic activity - private and public on the levels of living and with public expenditure alone.

**Purushothamdas Thakurdas Research wing Report**

The study made by Sir Purushothamdas Thakurdas Research wing, (1966) presents a factual picture of the finances of the government of
India from 1950-51 to 1964-65. Besides presenting the relevant data in a consolidated form for a period of 14 years, his work endeavoured to analyse the important issues and focused attention on them in such a manner that further exploration and a critical examination may be possible.

**Mukherjee's study**

Mukherjee's study (1965)\(^1\) is an exercise in the reconstruction of historical statistics and relates to the developments of the first half of the twentieth century. Moreover, he has not made any effort to go beyond his statistical results to establish a theoretical link between aggregate economic activity and the activity of public sector.

**Panchamukhi Study**

Panchamukhi (1967)\(^2\) presents the applied theory of public expenditure. He brings out the importance of cost-benefit analysis in the process of public expenditure. His study represents a step towards clarifying the economic aspects of the effects of expenditure on education and health, the knowledge of which is essential for making rational decisions in these fields.

**Reddy's First study**

K.N. Reddy (1972)\(^3\) in his first study has analysed a secular and time pattern of the growth of public expenditure in India from 1872 to 1968. His approach to the problem follows the path indicated by Peacock and Wiseman. In an effort to establish a theoretical link between the growth of public expenditure and the national income of a country, he
examined the applicability of Wagner's hypothesis to India. While examining the shorter periods (i.e. periods after the two world wars and Independence of the country), he analysed the relevance and validity of the concept of displacement effect propounded by Peacock and Wiseman.

**Zahir Study**

Zahir (1972) examined the role of public expenditure in the field of income distribution during the period 1951-52 to 1965-66. He concluded that the growing public expenditure in India has made very significant contribution towards the achievement of social justice which is a very important objective of public policy in our country.

T. Mathew's (1972) study on public expenditure covered the period from 1937 to 1956. It analysed the patterns and various components of public expenditure and their impact on economic development of the country. In this study he attempted to examine whether the changes in the pattern of public expenditure were due to the deliberate Fiscal Policy of the government or they were the outcome of several factors and circumstances that were within the perview of the government.

**Reddy's Second Study**

Reddy (1976) in his second study covering the 25 years period from 1951 to 1975 reveals how employment in public sector had grown faster than total employment in the organised sector during the period in the country. He notes that expenditure per head of population varies from State to State. To a very large extent, this variance is explained by
per capita federal transfers to States up to 1962. Since then the influence of the explanatory variable has declined and this points to the fact that federal transfers moved by and large, in favour of relatively underdeveloped States.

**Gupta Study**

Gupta (1980)\textsuperscript{25} estimated the distribution of benefits from the combined expenditure of the Central government, State governments and Union Territories by using “money flow approach”. According to Gupta, public expenditure benefits those who receive it as their income. After all, those who receive payments from the government are better off with the payments than without them. This approach may distort the results since the objective of the government is negatively viewed. It forgets the fact that the objective of the government is to serve people and not look after itself (at the expense of the people).

**Bhattacharya study**

Bhattacharya (1984)\textsuperscript{26} made a rigorous econometric analysis of major issues relating to public expenditure, inflation and growth in the Indian economy during the planning era. It discusses the theoretical implications of the government budgetary constraints for public sector revenue and expenditure on the one hand, and for output, employment, investment and prices on the other. A special feature of the study is that it shows how various government budgetary instruments and policies are interdependent on each other and how these interdependences act as
constraints on the government policy options with respect to inflation, growth and balance of payments. The theoretical developments in the 'government budget constraints' and their implications for stabilization policies are incorporated in both theoretical and empirical analysis in his study.

Maitra Taresh study

Maitra Taresh (1986)\textsuperscript{27} tried to estimate "Budget incidence" by using deductive reasoning and inductive reasoning. Perhaps this is the first of its kind which made systematic effort to estimate expenditure incidence. It covers expenditure on education, public distribution which account for only one-fifth of total expenditure. In his study, indirect taxes exceeded expenditure on the public services. Consequently, the general level of the distributive schedule derived from the consumption of the public services were lower than what it would have been had the excess taxes been spent and accounted for in the budget incidence analysis.

Jamal Khan's study (1993)\textsuperscript{28} examined the growth and pattern of public expenditure and its financing in India from 1950-51 to 1989-90. In his study, he analysed the growth and structural changes in plan and non-plan expenditures, developmental and non-developmental expenditures of the government of India.

Sham Bhat study

Sham Bhat and Uma Shankar Patnaik (1996)\textsuperscript{29} examined the determinants of public expenditure and their variability across
congress and non-congress ruled Indian States for the year 1985-86. The explanatory variables considered for the analysis are per capita income, primary sector contribution, literacy rate, density of population, percentage of urban population in total population, percentage of Scheduled Caste and Scheduled Tribe in total population and dummy variable representing '0' for non-congress rules States and '1' for congress ruled States. Multiple linear regression equation has been used to identify the determinants. They arrived at a conclusion that in addition to socio-economic variables, change in political party in power significantly influences total expenditure, expenditure on education and expenditure on economic services.

The studies explained above examined the growth and pattern of public expenditure of the government of India as a whole and they did not explain the growth of public expenditure of the regional Governments i.e., the State governments in India.

**Regional studies on public expenditure**

The following are some of the important regional studies on public expenditure.

**Thimmaiah's study**

Thimmaiah (1977)³⁰ analysed, in his study various trends in growth of public expenditure in Karnataka State and tested the hypothesis of Wagner.
Ahuja study

Ahuja (1978) estimated the distribution of benefits from government expenditure for three districts - Kanpur (in Uttar Pradesh), Gaya (in Bihar) and Tanjavur (in Tamil Nadu) - on the basis of a sample survey conducted for the year 1974-75. These estimates, although useful to understand the position in those districts, seem to suffer from methodological weakness. As for example, he measured benefits as percentage of income by size groups. The result is overestimation of benefits to low income groups. For, in a country, with gross income inequalities, even on a pro-rate distribution of benefits of the government expenditure (that is, by using population as denominator) gives high percentage of benefits to poor since the base to which benefits are related to is already small. There is an inbuilt bias towards the poor in the measurement chosen.

Singh’s study

The study of Singh (1979) analysed the growth and pattern of the Rajasthan State government expenditure during the period 1956-57 to 1975-76. The study examined the factors involved in determining the growth of public expenditure and its financing.

Toye’s study

J. Toye’s study (1981) covers the period between 1955 and 1970 and it examined the major changes that took place in the structure of public expenditure of various State Governments in India over the period.
Misra study

Misra (1982) worked out the distributional impact of government expenditure for the State of Gujarat about the money spent direct to beneficiary groups. The net result of these exercises, according to Misra, was that “most of the government expenditure (on education and health) ultimately reaches those in secondary and tertiary sectors and very little goes to producers of food crops who are the actual majority in the country. The study essentially concerns with the benefits flowing to different sectors and not with assessing the impact on redistribution of income.

Reddy and Sudhakar Reddy study

K.N. Reddy and Sudhakar Reddy’s (1989) work entitled “Incidence of public expenditure in India”, studied the public expenditure in Andhra Pradesh. Taking allocable public expenditure as a whole per household benefits went largely to high income group during 1975-85. Per household benefits from expenditures on agriculture and allied services accrued to high income group. Within this major head, expenditure on agriculture and area development seem’s to have accentuated the inequalities while expenditure on schemes for small and marginal farmers and agricultural labourers, animal husbandry and dairy development reduced inequalities.

Raju’s study

The study of Raju (1989) examined the pattern and growth of public expenditure of Andhra Pradesh on different functional categories
during the period from 1956-57 to 1981-82. This study has also made an analysis of the determinants of public expenditure and its growth.

The above studies have, undoubtedly contributed to the growth of general literature on public expenditure. But, they did not cover various aspects of public expenditure like the determinants, factors responsible for observed trend, the effects of public expenditure on regional and sectoral development and the like. There has been very little research analysing the factors determining the disaggregated public expenditure in a developing State like Andhra Pradesh which with its strong agricultural base provides an altogether different set of determinants because of its distinct levels of income and societal organisation.

It can be observed from the above brief review of public expenditure studies that no systematic effort has been made by any study to examine different dimensions of plan and non-plan, development and non-developmental expenditure of Andhra Pradesh during the period from 1980-81 to 1996-97. It is in this context that the present study has been undertaken to bridge the gap that exists in the literature on public expenditure at State level in Andhra Pradesh.

**Need for the study**

public expenditure has become a focal point of study in the field of public finance research. It has become a powerful tool of public policy ever since Keynesian system provided a conceptual frame work for state intervention, which made the government not only desirable,
but opened the way for larger expansion of government services and activities.

Government control and direction become necessary when the market mechanism fails to satisfy fully the hopes and aspirations of the people due to its imperfections and inadequacies. Thus, there is need for a well-designed public policy to guide, to correct and to supplement the market mechanism, resulting in the emergence of public sector, as an important segment of the economy.

Developmental expenditure is a reflexion of man's desire for community living. Community cannot exist without certain common services. Developmental expenditure improves the living standards of yours and ours. The prevailing notion is that it is a remote technical topic, something to do with only the government. The general public shows their concern with the payment part of it and remain indifferent to other aspects of the problem. On the contrary, it is every body's concern and it is for every one.

Developmental expenditure plays a crucial role in the economic development of a country. Through developmental spending, governments preserve and promote national/regional identity; and supply infrastructure for further development. As such, it influences both the course of economic growth and the distribution of benefits and provides social services to meet the basic needs of population.
Inspite of the paramount importance of developmental expenditure in day to day life of the citizens and in the economic development of the country, its role has been explored less extensively than that of tax policy. This concern has exercising the minds of several writers like Samuelson, Musgrave and others, who believed that the studies in the field of public expenditure are relatively few. Even in India, similar opinions have been voiced, as the area of public expenditure has not received as much emphasis as it deserves in Indian public finance research.

However in the recent past, several studies were made on public expenditure of India and related aspects. But, studies relating to growth of developmental expenditure of State governments in India are not many.

The present study, therefore, is a modest attempt in this direction i.e., study of growth and impact of developmental expenditure in Andhra Pradesh.

**Objectives of the study**

The primary objective of the present study is to examine the growth of developmental expenditure in Andhra Pradesh in the context of rapidly growing functions of the State and to measure the impact of developmental expenditure on different sectors of the economy. The following are the specific objectives of the present study:
1. To analyse the trends in the components of public expenditure in Andhra Pradesh;

2. To examine the changes in the structure of developmental expenditure in Andhra Pradesh;

3. To study the impact of expenditure on economic services on different sectors of the economy of Andhra Pradesh; and

4. To study the impact of expenditure on social services on the human development in Andhra Pradesh.

**Hypotheses of the study**

The present study tries to test the following hypotheses:

i. The growth of developmental expenditure is lower than the growth of per capita income of the State.

ii. There are no shifts in the components of developmental expenditure.

iii. The expenditure on economic services did not improve the different sectors of the economy.

iv. The expenditure on social services did not improve the human development in Andhra Pradesh.

**Data sources and methodology of the study**

The present study is both analytical and descriptive. The study is based on the secondary data mainly collected from the Budget
documents of the Andhra Pradesh government. The secondary data had been collected from the following sources.

1. Reserve Bank of India Annual Reviews on State finances.


Information has also been obtained through personal interviews and discussions with the officials concerned with developmental expenditure of the government of Andhra Pradesh.

The collected data have been analysed by using appropriate statistical techniques like averages percentages, annual compound growth rates and regression analysis.

**Period of the study**

The present study is confined to a period of 17 years from 1980-81 to 1996-97. The reasons for the selection of this period for the study are as under:

1. The new 1980-81 series of State Net Domestic product and Per capita income are available only from 1980-81 onwards.
2. The figures of actuals for different variables used in the study are available only up to 1996-97.

3. There have been significant political changes during this period with tremendous influence on the economic policies of the State.

Keeping the above constraints in view 1980-81 has been taken as the base year and 1996-97 has been taken as the latest year for recording the changes and growth in developmental expenditure of Andhra Pradesh.

**Chapter outline**

The study has been divided into six chapters. The first chapter explains the role of the government in economic development, the importance of public expenditure on developmental activities, the need for the present study, its objectives and hypotheses of the study along with the review of literature on the subject and the appropriate methodology adopted in the study. The trends in public expenditure of Andhra Pradesh along with its different classifications have been analysed in the second chapter. The changes in the components of developmental expenditure have been examined in the third chapter. The impact of expenditure on economic services on the different sectors of the economy is presented in the fourth chapter. The impact of expenditure on social services on human development is presented in the fifth chapter. Summary of research findings and suggestions have been given in the sixth and the last chapter.
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