CHAPTER - I

INTRODUCTION
The concept of public expenditure has a great importance in the process of economic development because public expenditure is directly related to the development of the economy. Public expenditure is the expenditure incurred by the public authorities (Central, State and local government) either for the satisfaction of the collective needs of the citizens or for promoting their social and economic welfare activities. It is a branch of public finance which is constituting a study of the money expending activities of the government.

Now-a-days public expenditure is playing a crucial role in the public finance. In the democratic set-up public welfare State is the basic need of the people of the country. The reason behind it is that the people are not capable to meet the expenditure on various items of public welfare such as education, health services, social welfare, agriculture, water & power development services, transport & communication, debt services, administrative services, pensions etc. So naturally they expect that the Government should come forward to meet out expenditure on those services.

The aim of public expenditure is to promote the welfare works for the development of the country. It is not only the responsibility of the State government but it is equally important responsibility of the central government. In the present time major portion of the national income is spent on the public works specially in the developing countries. Day-by-day
development & non-development expenditure of the Government is increasing rapidly. Nurkse (1953)\(^1\) believes that public expenditure is playing its significant role in capital formation in the under-developed countries. Mehta & Agrawal (1960)\(^2\) both have stressed upon fiscal affairs of the State through public expenditure. The high level of employment and production, income-generation, proper resource-allocation, stability of prices and equal distribution of income can be done through public expenditure.

Hicks (1961)\(^3\) has emphasized that in the under-developed countries, the economic development can be accelerated through public expenditure. Meier & Baldwin (1964)\(^4\) both have supported the version of Hicks. Nag (1968)\(^5\) has given another picture of expenditure. He believes in the diagnostic approach of the public expenditure whereas Lewis (1955)\(^6\) believes in the economic growth of the country through human capital because he feels that in the developing economy, there is scarcity of capital formation due to vicious circle of poverty.

The important aspects of public expenditure which are responsible for promoting the process of economic development of the country may be as below:

1. to promote and accelerate the growth of productive investment in the economy; (2) to mobilise the maximum volume of real and financial resources for investment; and (3) to make a serious effort for rational distribution of growing national output.
The United Nations Report (1956) has described the role of public expenditure in the economic development with reference of the under-developed countries on the following direction:

1. to remove existing inequalities in the distribution of income and wealth by expanding the internal markets and reducing unessential imports; 2. to check inflationary pressures prevailing in the economy with the hope of growing economic development; 3. to give adequate incentive to the development projects for desired results which helps the economic development in the desired directions for the goodness of the people; and (4) to accelerate the tempo of economic development, it is essential to increase the total volume of savings.

Public expenditure is an important fiscal weapon for the economic stability and equalities in income distribution in the country. For the above purposes government budget should require two-fold changes in the fiscal role. In the first place, the government budget should be raised in such a manner which can promote the additional output/employment in the country and secondly, the revenue should be generated through productive items.

CLASSIFICATION OF GOVERNMENT EXPENDITURE -

The present study is based on functional classification or budgetary classification of government expenditure.
According to this classification the Government expenditure has been divided into two broad categories-

(1) Revenue expenditure
(2) Capital expenditure

Revenue expenditure has again been classified into four sub-categories -

I. General Services (Non-development expenditure)-

A. Organs of State- State Legislature, Governor, Ministers’ Council, Election and Justice - administration.
B. Fiscal Services - Collection of different taxes and other fiscal services.
C. Debt Services - Appropriation for reduction or avoidance of debt, Interest payments etc.
D. Administrative Services - Secretariat general services, District administration, Police, Public works and Other administrative services-Treasury, Stationary & Printing etc.
E. Pensions and Miscellaneous General Services.

II. Social & Community Services (Development expenditure)

A. Education, Art & culture.
B. Medical & Public Health Services.
C. Housing & Town - development.
D. Labour & Employment.
E. Social Security & Welfare.
F. Relief on Natural Calamities.
G. Other Social & Community Services.
III. Economic Services (Development expenditure)
   A. General Economic Services.
   B. Agriculture & Allied Services - Agriculture, Community
development and Other services.
   C. Industry & Minerals.
   D. Water & Power Development.
   E. Transport & Communication.

IV. Compensation & Assignment to Local Bodies & Panchayati Raj
    Institutions.

    Capital expenditure has also been classified
    into three sub-categories:

    I. General Services (Non-development expenditure)-
       A. Public works.
       B. Other General Services.

    II. Social & Community Services (Development expenditure)-

    III. Economic Services (Development expenditure)-

    Under the social & community services and
    economic services all the items are included which are described
    above under the revenue expenditure.

    The present study is concentrated on detailed
    analysis of general services (non-development expenditure) of the
    government of Madhya Pradesh under both ( revenue and capital )
    accounts.
BUDGETARY POSITION OF THE GOVERNMENT OF MADHYA PRADESH
(1970-71 TO 1989-90)-

Overall budgetary position of the government of Madhya Pradesh at current and constant prices shows continuously increasing trend. The per annum growth of expenditure is roughly 21 percent, whereas the growth rate of revenue is 16 percent per annum. It means on revenue account expenditure has increased at a faster rate than the revenue of the government. The capital account has also shown an increasing trend. The total receipts and expenditures on both accounts have shown continuously increasing trend during the study period. The budgetary position of the government of Madhya Pradesh is in surplus in almost all the years in the revenue account while it is in deficit in most of the years under the capital account (as is clear from the Appendix table No.1).

Expenditure programme is a part of fiscal policy of the Government. The government performs different social and economic activities such as education, medical and health services, administrative services, debt services, fiscal services, pensions, water & power development services, agriculture and allied services, transport and communication services etc. The operation of the government expenditure is the result of a series of value judgments. The government expenditure is determined by the requirement of community and ideology of the government. The general pattern of the objectives of public expenditure is to provide minimum services to the society and to promote
the effective utilisation of human and non-human resources which are available in the economy.

OBJECTIVES OF THE STUDY-

Government expenditure is increasing day by day due to different reasons. So the topic of research AN ECONOMIC ANALYSIS OF THE NON-DEVELOPMENTAL EXPENDITURE OF THE GOVERNMENT OF MADHYA PRADESH has been chosen. The main objectives of the study are as below:-

(1) To find out the growth and trend in various items of non-development expenditure—to fulfill this objective an attempt has been made to calculate the compound rate of annual growth of expenditure on different items such as organs of State, fiscal & debt services, administrative services pensions and miscellaneous general services etc.

(2) To compare the non-development expenditure of the Government of Madhya Pradesh with the neighbouring State Governments and total of all the State governments— for this purpose the non-development expenditure of the governments of Andhra Pradesh, Bihar, Gujarat, Maharashtra, Rajasthan, Orissa and Uttar Pradesh and non-development expenditure in all India level have been taken into consideration;

(3) To find out the factors responsible for increase in non-development expenditure— the impacts of different factors such as per capita income, central transfers, price-rise etc. on non-development expenditure have been found out to fulfill this
aim;

(4) To know the impact of Government expenditure on price-rise—to meet this objective the impact of Government expenditure on whole-sale price index and consumer price index (as measures of price-rise) has been found out;

(5) To suggest measures to control the non-development expenditure.

RESEARCH METHODOLOGY

The study has gone through the multistages of the research methodology. The methodology of the topic is classified into five headings—

1. SELECTION OF THE TOPIC—

The present study has chosen the topic AN ECONOMIC ANALYSIS OF THE NON-DEVELOPMENTAL EXPENDITURE OF THE GOVERNMENT OF MADHYA PRADESH SINCE 1970-71. After 1970-71 the non-development expenditure has increased rapidly. Before 1970-71 (From 1957-58 to 1969-70) this expenditure has increased by 6.57 percent per year while in the 70's and 80's it increased by 12.08 percent and 18.39 percent per year respectively. Due to this rapid growth of non-development expenditure in recent years, the present topic has been chosen for the study so that the different aspects of non-development expenditure of the Government in the State can be explored.
2. PERIOD OF THE STUDY-

The present study covers the period of 20 years from 1970-71 to 1989-90.

3. SOURCES OF DATA-

The present study is based on secondary data. The data are collected mainly from various issues of the bulletin of Reserve Bank of India, reports of the 'Budget in Brief' of Madhya Pradesh, Report on Currency and Finance, Compendium of Directorate of Economics and Statistics of Madhya Pradesh and other different reports.

4. ELIMINATION OF PRICE CHANGES-

In this study, the growth of Government expenditure is measured both in money term (at current prices) and real term (at constant prices). For deflating the Government expenditure a special index is prepared on the basis of wholesale price index. In preparing index, wholesale prices of all commodities for the year 1970-71 are taken as base year prices.

5. TOOLS AND TECHNIQUES USED IN THE STUDY-

To analyse the data, the following statistical techniques have been applied-

A. Co-efficient of variation (C.V.)
B. Compound growth rate (C.G.R.)
C. Straight line trend
D. Income elasticity of expenditure
E. Multiple linear regression analysis

A. CO-EFFICIENT OF VARIATION (C.V.)-

Magnitude of pattern of variation has been measured with the help of co-efficient of variation using the following formula-

$$\frac{\sigma}{X \times 100}$$

where,

$$\sigma$$ = Standard deviation

$$X$$ = Arithmatic mean

B. COMPOUND GROWTH RATE (C.G.R.)-

To explain the differences in the growth of Government expenditure under different heads or to study the growth pattern of Government expenditure, exponential growth rates of expenditures have been computed. For evaluating annual compound growth rate, the following semilog trend equation has been used-

$$Y = AB^t$$ or $$\log Y = \log A + t \log B$$

Where -

$$Y$$ = Expenditure

$$t$$ = Time

$$A$$ and $$B$$ are co-efficients

C. STRAIGHT LINE TREND-

To findout the trend of different items of Government expenditure in straight line form, the following formula
of least square method has been used-

\[ Y' = a + bx \]

where-

\[ y' = \text{Trend value} \]
\[ a = \text{Intercept} \]
\[ b = \text{Annual growth rate in expenditure} \]
\[ x = \text{change in time (deviation from mid year)} \]

D. INCOME ELASTICITY OF EXPENDITURE-

Income elasticity can be defined as the percentage change in expenditure as a result of unit change in State income. It has been calculated using the log-linear relationship-

\[ E = \alpha y^\beta \text{ or Log } E = \log \alpha + \beta \log y. \]

Estimate \( \beta \) gives the elasticity of expenditure with respect to income.

E. MULTIPLE LINEAR REGRESSION ANALYSIS-

The following linear regression model is used to find out the impact of different variables on non-development expenditure for the period under the review (1970-71 to 1989-90)-

\[ Y = a + b_1x_1 + b_2x_2 + b_3x_3 + \ldots \ldots b_nx_n = R^2 \]

where-

\[ y = \text{Non-development expenditure} \]
\[ a = \text{Constant (intercept)} \]
\[ b's = \text{Co-efficients of different variables (x's)} \]
\[ x's = \text{Independent variables} \]
\[ R^2 = \text{Co-efficient of determination} \]

Statistical significance of the impact of variables has been tested with the help of "t"-test:

\[ t = \frac{b_i}{s_{bi}} \]

\( b_i = \text{Co-efficient of variables} \)
\( s_{bi} = \text{Standard error of the estimates} \)

The overall significance has been tested by "F"-ratio test using the following formula:

\[ F = \frac{R^2/(k-1)}{(1-R^2)/(N-K)} \]

Where:
- \( R^2 = \text{Co-efficient of determination} \)
- \( k = \text{No. of beta co-efficients (including intercept's value)} \)
- \( N = \text{No. of observations} \)

Under this analysis, three variables have been selected as independent variables viz. per capita income (\( x_1 \)) central transfers (\( x_2 \)) and price-rise (\( x_3 \)). It is important to clear that why these variables have been chosen in this study. Per capita income has been taken as a measure of economic development and to know the impact of central Government's financial support to the State's non-development expenditure and to know the impact of price-rise on non-development expenditure SDP deflator has been taken as a measure of price
rise and with the help of this variable this impact has been found out.

LIMITATIONS OF THE STUDY-

The present study is based on secondary data. The data are collected from various issues of Bulletins of Reserve Bank of India and 'Budget in Brief' of the Government of Madhya Pradesh. Unfortunately some required data were not available such as detailed information about the composition of debt of the government of Madhya Pradesh and maturity pattern of debt. The issues of budget of Madhya Pradesh from 1970-71 to 1989-90 in detail have not been available at Bhopal or at any statistical office. Due to this non-availability of data the composition of debt and maturity pattern could not be incorporated in the study. So, this study is having the limitations. In this study contributing factors to increase debt services such as quantum of debt and sources of debt are incorporated but the composition of debt and maturity pattern of debt are not incorporated due to non-availability of detailed budget information.
REFERENCES-


8. According to the Government Budget.