CHAPTER 2

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2.1 Introduction

Public expenditure is simply the value of goods and services bought by the State. In broad terms, public expenditure is a simple concept: it denotes the dispensation by the state, on non-market criteria, of economic resources that it has acquired from firms and households. However, the detail is highly complex because the modern state is such a difficult concept to analyse.¹⁰

As Valentino Piana states, inter alia, public expenditure contributes to current effective demand; even as it increases the public endowment of goods for everybody, it gives rise to positive externalities to economy and society, the more so through its capital component.

In a democracy, public expenditure has to be an expression of people's will, managed through political parties and institutions. At a practical level though, public expenditure is characterised by a high degree of inertia and law-dependency, which tempers the will of the current majority. Public expenditure is

¹⁰ In the economic and political science literature, this word is used both abstractly and as a synonym for government or public power. In India, frequently the term 'government' is used, with distinctions made between central government and state governments which, taken together, constitute the 'general government' sector.

generally financed through taxes, public debt, money emission and international aid. Several classifications of public expenditure are possible.

Public expenditure can be classified in terms of the kind of goods and services bought. It can be classified according to the official body and organization from which budget it is paid.

It can also be classified according to the macro-function at which it is directed. In different places and over time, those macro-functions have largely changed their level of priority and even the social acceptance of the idea that it is the State that must care for them. In particular, as a much sketched framework, one may distinguish at least three general models of State to which public expenditure corresponds:

1. the minimal State, where only justice, public order, foreign policy and some other basic functions should be carried out by the State, relying on private initiative for the others;

2. The welfare State, where the State cares about the people's well-being directly, also through expenditure in schooling, health, support for the poor, the old, the disadvantaged;
3. The developmental State, where the State takes the responsibility of fostering economic development, also through expenditure in infrastructure, support for firms, export and production in general.

Both the welfare and developmental States include the items of the minimal State. Military expenditure and special policies are common traits of the three models, may be in different proportions. Comparing macro-function shares in public expenditure, one can get insights into the kind of State under analysis. Needless to say, the State does not exert its influence on economy and society through public expenditure only, but also, for example, through laws.

2.2 Statement of the Problem

Situated in South West India, Karnataka is one of the leading States in the country in terms of economic development. It is the eighth largest State in terms of geographical area (1.92 lakh square kms) and population (5.27 crores)\(^2\).

The State is better known for its service sector which accounts for more than half of its GDP. The agricultural and the industrial sector contribute nearly 25 per cent each\(^3\). The manufacturing sector of the State is focused on production of sugar, paper and cement. Within the service sector, Karnataka leads in biotechnology, IT and ITES. Units into biotechnology, IT and ITES are

\(^2\) Census, 2001
\(^3\) Source: www.kar.nic.in
concentrated in and around Bangalore though; it is common knowledge in India and abroad that Bangalore city is the *Silicon Valley* of India.

The State boasts of 20 ports, two of them, viz., the Mangalore port and the Karwar port being the major ones. Karnataka is a preferred investment destination notwithstanding its highly publicized infrastructure inadequacies of late.

With the complexion of the State's economy undergoing a paradigm shift owing to the foregoing factors, the income and expenditure profile of the State has also been changing. The result is that sectors which till date received scant or no attention have been clamouring for more attention while at the same time, sectors which have by and large been duly cared for all along will not settle for anything less. This perhaps is something which one finds in other States given the fact that their economy too, like Karnataka's, has been undergoing a similar transformation albeit in varying degrees.

The public expenditure of the State, in the circumstances, has tended to assume a different trend altogether, rendering its management a more difficult task. In the process, the growth of public expenditure has been threatening to go out of control. Public income, on the other hand, has been seldom keeping pace with the growth of public expenditure. Amongst the remedies attempted is a variation in the pattern of public expenditure too. These factors need to be studied and
analysed thoroughly to understand clearly the issues involved and draw meaningful inferences. This will help in suggesting appropriate measures to remedy the situation.


### 2.3 Scope of the Study

The study seeks to examine the growth of public expenditure in the State of Karnataka during the period 1991 to 2005. The year 1991 represents a watershed in the annals of Indian economy. It was during this year that the government of the day decided that a paradigm shift was needed in its stance towards trade, industry and investment. This led to the government initiating measures to gradually liberalise its policy regime so scarce but precious investments could flow into the country freely. But such inflows could also hurt the local trade and industry which had long operated under a protectionist regime. So the liberalisation process was set in motion at a slow and steady pace to facilitate smooth transition for the local trade and industry. The idea was to ensure a level playing field between the local and foreign direct investors. This done, it was but natural for the local trade and industry to seek relaxation in foreign direct investment outward. This demand was conceded too and this led to globalisation of the Indian economy in phases.
Our trade and industry acquitted itself well on the global market and maximised the wealth of all stakeholders. Around this time it also dawned on the government that most of the public sector units in which it had invested the taxpayers' hard-earned money had turned white elephants and their capital base had been completely eroded. To rouse them from stupor and to stop further wastage of taxpayers' money, the government slowly but steadily started divesting from such units, the political opposition to the exercise notwithstanding. This privatisation exercise is not yet complete but a beginning has been made all the same. The cumulative effect of liberalisation, privatisation and globalisation led to resurgence of the economy. The country's economy went into overdrive leading to a radical transformation on the economic front. Revenues increased rapidly but so did the expenditure. Workforce was downsized but outflows on account of pension liability could not be controlled. Pension liability is threatening to become the albatross around the neck of various State governments. These developments necessitate a revamp of the fossilized ways in which public expenditure is being managed in the various States. It is against this backdrop this study seeks to trace the growth and pattern of public expenditure in the State of Karnataka.
2.4 Review of Literature

1. Valentino Plana (2003), Director of the Economics Web Institute, is a reputed economist and consultant and the author of the book, "How macroeconomics is changing, thanks to computer". He has been teaching Macroeconomics and Microeconomics at the Cracow University of Economics as well as Management at a private business school. Global in scope, the Economics Web Institute is a research centre for advancements in economics and management.

According to him, one of the principal challenges facing developing countries is the enlargement of the tax base. Progress can be made if currently informal enterprises could be encouraged to join the formal economy. Unlike in rich countries where informality is largely a result of the tax burden, the informal economy in developing countries is largely a result of high fixed costs of entry into the formal sector. The tax burden is lower in developing countries but the barriers to entry into the formal economy are higher. Raising barriers to entry is consistent with a deliberate government policy which aims to maximize state revenue. Barriers to entry into the formal sector generate market power, and hence profits, for the permitted entrants. These profits can be readily confiscated by the government through entry fees and taxes.
There can be no denying the truth in the Researcher's argument. The lower tax burden in the developing countries is offset by the higher fixed costs that arise when the entry barrier is sought to be crossed. This maximizes state revenue but these days such a policy can prove counterproductive.

The present dispensation all over the world, developed or developing, believes in minimizing entry barriers to maximize investments. The scale-up will take care of the shortfall occasioned by lower tax slabs. The strategy has a bearing on the growth and pattern of public expenditure of the government.

This aspect of public expenditure has not been examined by the author in his work. It is this gap that the present study seeks to bridge.

2. David Heald and Alasdair McLeod (2002), in 'Public Expenditure' in Constitutional Law, 2002, The Laws of Scotland: Stair Memorial Encyclopaedia, Edinburgh, Butterworths, para 482, agree that in broad terms, public expenditure is a simple concept: it denotes the dispensation by the state, on non-market criteria, of economic resources that it has acquired from firms and households. However, the detail is highly complex because the modern state is such a difficult concept to analyse. Consequently, care is always required in the interpretation of public
expenditure figures, particularly when these become the subject of heated political debate.

According to the two Researchers, there can be considerable argument about where the public sector (general government plus public corporations) ends and the private sector begins in public expenditure-related literature. The term ‘quasi public sector’ is used by academics, though not by official statisticians, as an umbrella term for organisations that are so ‘close’ to government (whether by virtue of financial dependency or effectively being under its control) that it becomes misleading to exclude them from consideration of the public finances. Universities and housing associations, both nominally private, are obvious examples.

The interpretation of public expenditure data can be complicated by factors external to public expenditure definitions. A government might reduce the reported level of public expenditure by confiscating resources: for example, by means of military conscription, with pay set below market wages; or by seizing privately owned land for road building, with compensation set below market values. Such devices reduce reported levels of public expenditure, though most economists would question their efficiency and equity in peacetime conditions. However, tax expenditures (that is, granting relief to taxpayers provided that they organise their
consumption in a particular way) are extensive and can be sufficiently important in numerical terms to influence the interpretation of public expenditure trends and inter-country comparisons.

Exhaustive public expenditure (that is, expenditure on goods and services) should be carefully distinguished from transfer payments. The key difference is that, in the former, the state takes decisions about the pattern of final output. Decisions have to be taken about both scale (that is, expenditure totals) and composition (for example, the relative priorities attached to defence and education). On the input side, the market is generally maintained, with the state bidding for factors of production in competition with firms and households. However, certain markets for public sector inputs may be distorted by the state's monopoly power and the monopoly power of unionised public employees.

In the case of transfer payments, the state redistributes purchasing power from the hands of one group of individuals (taxpayers) to those of another group (beneficiaries). The composition of final output depends upon the consumption decisions of individual recipients, thereby respecting consumer sovereignty. Decisions about the scale of such compulsory redistribution of purchasing power must be taken through political processes. It is difficult to map the resulting highly-complex patterns in a welfare state: from the young to the old; from the more affluent to the less
affluent; and the considerable amount of ‘churning’ that takes place (that is, the same individual simultaneously pays tax and receives benefits).

At any given level of public expenditure, there are important choices between policy instruments that lead to exhaustive public expenditure and those that involve transfers. Public expenditure figures in an industrialised economy are huge in absolute terms, and comparisons between years are naturally affected by changes in price levels. For the purpose of analysis, public expenditure data is often either converted into constant price terms or measured in relation to a macroeconomic aggregate such as Gross Domestic Product (GDP).

Well presented though is the paper presented by the authors, it is incomplete since it has not treated developing economies. Developing economies like China and India are going to be the future economic powerhouses of the world. The former is the world’s fourth largest economy and the latter is the world’s fourth largest economy in PPP terms. A study of this kind would not be complete unless and until at least one of the BRIC (Brazil, Russia, India and China) economies is covered. As a result, the Researchers miss the wood for the trees.

This conspicuous gap arising from sidelining the BRIC economies is sought to be bridged by the present study.
3. Sebastian Hauptmeler, Martin Heipertz and Ludger Schuknecht in "Expenditure Reform in Industrialised Countries: A Case Study Approach" (Working Paper Series, No: 634 / May 2006) found that those nations which had undertaken 'ambitious reform' gained more economically than 'timid reformers'. Hauptmeler et al examined reforms of public expenditure in industrialised countries over the past two decades. They distinguished ambitious reformers from timid reformers, and analysed in detail the reform experiences in eight case studies of ambitious reform episodes.

According to them, major public expenditure cutbacks can be risky for politicians - attracting opposition, sometimes demonstrations and strikes, and potential loss of office and it is worth it, all the same.

Ambitious expenditure reform episodes coincided with more profound improvements in the soundness of public finances than timid ones and yielded significant scope for tax cuts. Furthermore, countries that undertook ambitious expenditure reforms experienced more favourable trend output developments. The study provides some evidence that positive confidence effects of ambitious expenditure reforms were potentially strong and coincided with a quick rebound in growth.

The authors note that public expenditure reform was part of a more comprehensive structural reform agenda:
In all cases, ambitious expenditure reform was part of a comprehensive agenda that changed countries’ economic policy regime significantly. Reforms included in most cases improved fiscal, institutional, labour market incentives, taxation, privatisation and other measures to enhance macroeconomic stability.

Interestingly, the findings of the Researchers coincide with the results India has achieved in the recent post – FRBM (Fiscal Responsibility and Budget Management Act) scenario. Presenting the 2006-07 Annual Budget, the Finance Minister reiterated his determination to adhere to the targets set under the Fiscal Responsibility and Budget Management Act by lowering the fiscal deficit from 4.1 per cent in financial year 2005-06 to 3.8 per cent in financial year 2006-07 and revenue deficit from 2.6 per cent to 2.1 per cent over the same period. This is expected to be achieved through more effectively targeted spending, tax revenue buoyancy as the economy maintains a scorching GDP growth rate and through more efficient and effective tax administration. Eventually, these targets have been achieved though.

Path-breaking though are the findings of the study undertaken by the Researchers, it does not say much about management of public expenditure. A treatment of this aspect of public expenditure would have
complemented this highly readable work which focuses on tax reforms. The present study seeks to overcome this lacuna.

4. Christopher S Adam and David L Bevan in “Fiscal Deficits and Growth in Developing Countries” (Department of Economics, Discussion Paper Series, University of Oxford, 2002) examine the relation between fiscal deficits and growth for a panel of 45 developing countries. Their study finds evidence of a threshold effect at a level of the deficit around 1.5% of the GDP. While there appears to be a growth payoff to reducing deficits to this level, this effect disappears or reverses itself for further fiscal contraction. The magnitude of this payoff but not its general character necessarily depends on how changes in the deficit are financed (through changes in borrowings, etc) and how the change in the deficit is accommodated elsewhere in the budget. They also find evidence of interaction effects between deficits and debt stocks with high debt stocks exacerbating the adverse consequences of high deficits.

The Researchers have focused on the fiscal issue of most practical interest where variations in distortionary taxes and / or productive expenditures may be partly offset by changes in deficit financing. In the process, not much attention has been paid by the Researchers to the growth and pattern of public expenditure. This has given rise to a research gap which the present study seeks to bridge.
5. According to Swarnim Wagle and Parmesh Shah of the Participation and Civic Engagement Group in the World Bank, the mainstream public economics literature makes the case that government intervention ought to be considered in two instances, i) when market failures occur because of externalities, public good properties, incomplete information, and lack of competition, or ii) when market activities worsen distribution of income. After establishing at least one of these, the government chooses among a range of instruments to redress the resultant allocative as well as productive inefficiency. The instruments include regulation, tax or subsidy redress, and public-funded private provisioning. In developing countries where absolute poverty, often rural and agro based, is the biggest development challenge, provision of basic services like primary education and health, infrastructure, income generating and employment activities warrants state involvement for the reasons stated. Because public spending is financed by domestic and international taxpayers (in the form of development credit), efficacy of public spending is not only important from a development effectiveness lens, but also because of accountability to the financiers of public spending which includes the poor who pay indirect taxes. That governments step in to correct market failures does not mean, however, that they themselves do not fail. Their typical constraints are:
Information constraints: the distance between the state apparatus and poor people can distort both the content and speed of the flow of information required for effective anti-poverty planning and intervention.

Capacity constraints: Even if it was known what ought to be done, states in developing countries may lack the financial and human resources to undertake desired development actions.

6. Vathsala Ramji, Sujatha Suresh and Srinivasan, V.K of the Indian Institute of Economics, Hyderabad, in “A Study on Management of Public Expenditure by State Governments in India”, prepared for the Planning Commission of the Government of India, argue that: the character of expenditure rather than the size of the deficit is more important; the composition of the budget and direction of expenditure influence the growth of GDP; the level and patterns of expenditure as well as the means through which resources are raised directly affect the income and expenditure streams. They further find that State budgets recorded more revenue surpluses than deficits during the first six five year plans and deficits if any during this period was relatively small, but from the mid eighties onwards, the revenue deficits became a regular feature of the State Budgets increasing from Rs. 4582.4 crores in 1989-90 to Rs. 56801 crores 1999-2000.
The Researchers have definitely come out with a telling analysis. But the dynamics of the present-day economy of the country may no longer abide by the trend the learned Researchers have portrayed. To this extent, the study suffers from a shortcoming.

Again like most studies reviewed in the earlier paragraphs, this study does not focus on growth and pattern of public expenditure. Instead, it views public expenditure as an instrument to redress the allocative as well as productive inefficiency.

7. Himanshu Deshmuk, Kamalakar Chaudhari, Yogesh Powar, Anand Parhar and Arun Shejwal (2006) in “Fiscal Consolidation in India” conclude that significant consolidation post-fiscal reforms was essentially brought about through cut in investment expenditure, as rise in committed revenue expenditure could not be curtailed. Within a short span, it became increasingly obvious that the Indian approach to fiscal correction was not sustainable. While reduction in investment spending affected future growth prospects with consequent slowdown in revenue receipts, interest payments on public debt continued to grow, resulting in reversal of fiscal consolidation process in the latter half of the 1990s. Downward rigidity in the revenue deficit, which amounts to dis-saving by the government sector, had significant implications for the growth target of 8 percent set in the Tenth Five Year Plan. This required an investment rate of about 32 per
cent, whereas, over the years, the investment rate has stagnated at around 24 to 25 per cent of GDP. Acceleration of saving and investment rate will critically depend upon the efforts to restore balance on the revenue account.

The key factors underlying the growing resource gap across the States are uneconomical level of user charges particularly in the power sector, sluggishness in the Central transfers due to low buoyancy of Central taxes and the rising interest payments. Restoration of revenue balance both at the Central and the State level would require that user charges are adequately raised, the tax collection machinery is overhauled to achieve better tax compliance, returns on government investment in PSUs are raised through appropriate pricing policies eliminating implicit subsidies and the burden on the fiscal is lowered through phasing out of unviable public sector units. The introduction of VAT should eliminate the practice of competitive tax concessions.

The authors' conclusions represent the ground reality – they obviously believe in calling a spade a spade. In a democracy like India, the government has to satisfy the requirements of a cross-section of the populace, at least to some extent. Thus a little bit of deviation from what the book lays down becomes inevitable. Achieving a trade-off between the two viz., discipline in public expenditure and fulfilment of the
aspirations of at least the poorest of the poor, is the need of the hour which the authors do not tackle. To this extent, this study suffers from a gap.

8. Indira, A of the National Centre for Advocacy Studies, Mumbai, in “Budget as an Instrument to Transparency”, while frankly admitting that budget is a political statement of the government in power, argues that today, the world over, there is a move towards understanding budgets and being pro-active so that the budget can act as an effective tool for better governance. Towards this many states in India have come forward to legislate the right to information to ensure transparency. There is a plethora of information disseminated through the print media, television and internet. Even so awareness of issues is lost in the melee.

She pointedly contrasts the situation when the protectionist period, when there were more of direct controls over industry and people awaited the budget rather nervously. People looked forward to hearing the eminent jurist, Mr Nani Palkhivala’s comments on the budget. However after liberalization and the advent of the New Economic Policy there is more openness. The industry is hopeful of a more equitable playing field and the complete withdrawal of the license raj. The large majority still does not understand all that is contained in budget. This is because most are satisfied with knowing what they need to know.
She adds further that liberalization has reduced the degree of control exercised by the Centre in many areas leaving much greater scope for state level initiatives. The 73\textsuperscript{rd} Constitutional Amendment giving more powers to Panchayat Raj Institutions (PRI) has further strengthened this process. Greater decentralization has meant a direct transfer of funds to the local levels. Each State has passed its own Panchayat Raj Act. Under the Act 29 departments have been transferred to the Panchayat Raj Institutions (PRIs). She rightly remarks that though the responsibilities have been passed over, full financial powers are still not fully with the PRIs. And hence in most states PRIs act as a conduit to transfer the funds allocated to them in the State Annual Budget.

She further points out in her study that all kinds of deficits have been rising over the years. The most alarming is the revenue deficit. It means that there is not only a revenue shortfall but also an increase in borrowings and debts. While the expenditures are inflexible the receipts are vulnerable to wide fluctuations owing to various factors. This gets reflected in the deviations between actuals and projections. It also brings forth the need for compatibility between plans and budgets. In fact it directly affects the show of fiscal marksmanship and transparency of budgets. Fiscal marksmanship is the degree of accuracy between estimates and actuals of budgetary data. The lack of fiscal marksmanship or forecasting accuracy of the budget may result in distortions in fiscal management, if
the forecasting errors are significantly large. She rightly concludes that the sanctity of the budget is lost if there is a large variation between budget estimates and revised estimates.

The author has identified and more importantly, highlighted the rather scant respect paid to accuracy while drafting the budget by the people concerned. The author deserves to be congratulated for highlighting this fact which many knew and still know of but do not bother to publicize. Her reference to rising deficits rings true too.

But the study would have been complete had the author explained how a trade-off could be achieved between discipline in public expenditure and fulfilment of popular aspirations. This gap in the study needs to be bridged.

9. Prabhat Patnaik, Professor of Economics, Jawaharlal Nehru University, New Delhi, in “A Case for More Public Expenditure” in Frontline (Volume 19, Issue 4, Feb 16-Mar 1, 2002) avers that increasing real net exports, is only one way of increasing demand in the economy. A far more certain and effective way is through an increase in government expenditure. If the economy is saddled with massive surplus food grain stocks as well as unutilized industrial capacity, especially in capital goods production, an increase in public expenditure that creates demand for these goods, even
if financed by a fiscal deficit, would be preferable to letting the demand constraint persist. What is more, when much of these unutilised stocks or capacity is within the public sector itself, a fiscal deficit-financed government expenditure programme that creates demand for these goods would have absolutely none of the adverse effects usually associated with a deficit, since it would not even increase the net indebtedness of the government as a whole.

According to him, an employment generation programme, financed by a fiscal deficit would put purchasing power in the hands of the rural poor. Since much of the money spent on such a programme would flow back to the Food Corporation of India through the purchase of food grains by the beneficiaries, or to other public sector companies which would directly or indirectly provide the material inputs needed for the programme, the net indebtedness of the government taken as a whole would increase insignificantly despite the increase in the fiscal deficit. Even if there is some increase, that should not be a matter of concern. This is so because it would have contributed to an increase in employment and incomes. Such an employment generation programme, in other words, would kill several birds with one stone: it would alleviate poverty and malnutrition; it would get rid of food grain stocks whose persistence currently threatens the very continuation of procurement operations that are so vital a source of support for the peasantry; and if properly conceived, would generate
rural infrastructure and contribute to an increase in agricultural growth and an improvement in the quality of life. And it would do all this without any adverse effects on the economy. We could in short get a bonanza for nothing.

The author is convinced that increase in public expenditure need not be viewed with cynicism as is done most often, given certain circumstances. In fact increase in public expenditure will not add significantly to the country's financial burden in the said circumstances. Creation of demand and jobs will result if public expenditure is increased. However, the question is how long will the said circumstances obtain? For example, our economy is no longer saddled with massive surplus food grain stocks as was the case when the author undertook the study. As a matter of fact, the government has decided to import wheat to bolster its low buffer stock. Similarly, we are no longer saddled with idle industrial capacity. In fact, most industries are adding to existing capacities! Thus the author's suggestions are contingent upon the circumstances he has envisaged remaining a permanent factor. Unfortunately it is not the case. This leaves a gap in his study which the present study seeks to bridge.

10. Jayati Ghosh in “Bashing Subsidies Again” (Frontline, Volume 22 - Issue 01, Jan. 01 - 14, 2005) argues rather cogently that government after
government has indulged in subsidy-bashing just to conceal its inability to raise tax revenues. Public expenditure has not been rising.

According to him, subsidy-bashing is a favourite pastime of neo-liberal reformers, who have spent the better part of the past 13 years blaming the level of public spending on subsidies for virtually all fiscal problems, and have used this smokescreen to divert attention from the inability to raise tax revenues. And declarations by the government as well as explicit attempts to reduce direct subsidies on food and fertilizer have been important parts of the economic reform programme since 1991.

The author rubbishes these allegations because direct subsidies paid by the Central government amounts to a very small proportion of the gross domestic product (GDP). Indeed, the ratio of all direct subsidies paid by the Central government to GDP has actually fallen from around 1.85 per cent in the triennium beginning 1990-91 to 1.6 per cent in the triennium ending 2003-04. And this is really a trivial amount not only in terms of the past, but also in relation to international experience. In countries of western Europe, for example, direct subsidies in the form of unemployment benefits and social security can make up as much as half of the current spending of governments.
Because direct subsidies are so low, the obsession with reducing them has also necessarily required that the attention be shifted from direct to "indirect" subsidies, calculated on the basis of working out the excess of expenditure over receipts for all major items of government expenditure.

According to the author, even at the macroeconomic level, government expenditure plays a critical role in maintaining levels of economic activity, and to characterise much of this as implicit "subsidy" is therefore highly misleading. In market-based systems where savings and investment decisions are taken by atomistic decision-makers based on their guesses and expectations of an uncertain future and of the decisions to be taken by others, there is an inherent tendency towards an unemployment equilibrium. Faced with the prospect, governments tend to intervene with counter-cyclical demand management policies aimed at dealing with the prospect of a recession, and in some cases they attempt to mitigate the adverse consequences of unemployment through mechanisms such as unemployment benefit.

The irony is that in fact public expenditures have not been burgeoning - as a share of GDP, non-interest public expenditure has actually been falling in recent years, and this is part of the economic problem of the country. This falling share of public expenditure has been associated with much less infrastructure development, poor and declining public services, and a
collapse of employment generation. So the economic agenda should really be to think of ways of increasing public expenditure, not cutting it further. The focus on reducing expenditure only comes about because of the failure to raise tax revenues. And this has been an integral part of the fiscal strategy associated with neo-liberal reform. The cuts in indirect and direct tax rates have been associated with falling Central tax to GDP ratios, but the Finance Ministry does not appear to see reversing this trend as a priority.

Well, the author has convincingly rubbished the cynicism generally associated with increased public expenditure. His argument is as insightful as it is forceful. But it does not go beyond proving that increased public expenditure is unjustly blamed for the government’s failure to raise revenues through effective transaction. To this extent, this study suffers from a lacuna.

there are hardly any subsidized goods and services for which the government aims at equal consumption. Such an application requires a normative distribution of expenditure. The normative distribution of expenditure is derived from a normative distribution of consumption and the distribution of normative charges. Central elements are the needs of consumers and their financial capacity. The normative distribution of consumption is based on government intentions with respect to the goods and services under consideration.

Incisive though is the evaluation exercise undertaken by the authors, their emphasis is on the applicability or otherwise of the usual measures of dispersion while judging the distribution of public expenditures over subsidised goods and services across income categories. Thus it does not seek to fulfill the objectives which the present study has set for itself.

12. Government of Karnataka (1974) under the Directorate of Evaluation and Manpower Planning Department has attempted to present the analysis of growth and structure of development expenditure of Karnataka state government during the period 1957-589 to 1971-72. The study has set a narrow scope of analysing development expenditure in the given form and hence no attempts have been made to give theoretical orientation to the study. As the study itself puts it, "attempts have therefore made only to present by quick analysis of the available data from
budget papers. The pattern of growth of development expenditure obtaining in the state over the period of 15 years (1957-58 to 1971-72) chosen for the study ...attempts also have not been made to apply intricate theories and sophisticated techniques of public finance while analysing the compiled data”.

Hence the report does not provide a comprehensive picture of Karnataka state government expenditure. Aspects like factors governing public expenditure and the impact of government expenditure are left uncovered. Economic significance of government expenditure, in terms of consumption, capital formation etc., which would throw light on financial performance of government are not dealt with. By and large many aspects of public expenditure of Karnataka state remain unexplored.

13. Thimmaiah (1977) analysed the growth and pattern of Karnataka state government expenditure during the period 1957-58 to 1977-78. The study classified the expenditure under five important categories, viz., expenditure on police state function, merit goods, economic infrastructure, social welfare and lastly, production. The study has tested the applicability of Wagner’s law of increasing state activity and Johnson’s behavioural hypothesis of public expenditure in case of Karnataka and found that neither of them operates in case of Karnataka. However, this work does not probe further into the factors governing the growth and
pattern of government expenditure and the impact of expenditure on the state economy.

14. Singh (1979) analyses the growth and pattern of Rajasthan state government expenditure during the period 1956-57 to 1975-76. The study gives a comprehensive picture of Rajasthan state government expenditure as it has dealt in depth with the composition of government expenditure under various functional and economic categories. It has analysed determinants of public expenditure and also the financing of government expenditure by the government. A simultaneous analysis of the physical progress achieved in important sectors of the economy is presented to assess the impact of government expenditure on the economy. Empirical verification of some of the important expenditure theories is also attempted.

However, methodological lacunae are discernible in the study with respect to testing of Peacock and Wiseman and Wagner's theories. The effect of drought, famine, etc is discussed on par with that of war at national level to test for Displacement Effect. This can be questioned because the Displacement Effect under war conditions occurs because of increase in the taxable capacity of the government caused by an increase in the tolerable burden of taxes of the people. Such results are apparently absent under famine conditions. Similarly Wagner's law refers to an
increase in the relative importance of government in which case the appropriate specification as suggested by many studies (Musgrave, 1969 and Bird, 1970) should have been $E / Y = f(Y)$ representing changes in the proportion of government expenditure in GNP with the changes that occur in GNP itself. But the study has taken into consideration the absolute size of government expenditure which is inappropriate for testing Wagner's law.

15. Singh (1983) has attempted to observe the expenditure pattern in Bihar state during 1947-48 to 1979-80. The study has analysed the trends and patterns of government expenditure under development and non-development expenditure in Bihar. But the study has not gone beyond presenting the trends to assess the impact of government expenditure in Bihar. An important factor left out by the study is the classification changes brought about in budget heads during 1961-62 and 1974-75 which makes the time series data non-comparable. The classification changes if ignored would give scope for absurd results. According to 1974-75 classification changes, the title of expenditure head 'Famine Relief' was changed to 'Relief on account of natural calamities'. The study which does not take note of these changes has given the expenditure pertaining to this category under two different heads, 'Famine Relief' for the period till 1973-74 and 'Relief on account of natural calamities' as a separate column for the later period. Similarly prior to 1974-75, the
expenditure pertaining to roads and bridges, housing, etc, which were shown as part of 'public works' head, were later furnished under separate major heads from 1974-75. The author, unaware of these changes, shows a decline in the share of 'public works' category. Taking the 'public works' category as one series without accounting for such changes has skewed the results.

16. Dutta (1985) has analysed the expenditure growth and pattern for an individual state, viz., West Bengal in India during 1951-52 to 1973-74. The author arrives at the conclusion that the size of government expenditure is influenced by per capita income, urbanisation and the financial transfers from the Centre. It also shows that the cost of administration is relatively large and at the same time the resource mobilisation effort by West Bengal is not satisfactory. Central transfers have been shown to be assuming greater significance. The study also has made use of cost-benefit analysis to assess the performance of a few government departments in West Bengal. Hence the focus has been by and large on the determinants of public expenditure and the cost-benefit analysis, thus giving lesser scope for the analysis of public expenditure behaviour.

17. Arora (1987) has analysed the growth and pattern of public expenditure in Jammu and Kashmir during the Fifth and Sixth Five-Year plan periods,
i.e., from 1974-75 to 1984-85. The expenditure pattern has been traced under plan and non-plan categories and revenue and capital accounts. The study observes that the emphasis of the government was more on creation of capacity without making them viable. However the study does not take into consideration the influence of price and population factors on the growth of government expenditure; also, the analysis of expenditure under various functional and economic categories which can throw light on the nature of government activity is neglected.

18. Gowda (1988) has examined the impact of public expenditure of Karnataka state on the growth process vis-à-vis the effect of growth on public expenditure. The author has made use of 'macro-dynamic technique' to study the growth process and analyse the interdependence between growth and the budget components. An examination of allocation of public expenditure among different sectors during the period 1960-61 to 1977-78 has led the author to conclude that the allocations were motivated by political considerations and hence the state's economic growth was affected by such decisions.

Even though the study is entitled "Public Expenditure under Planning – A Case Study of Karnataka", scanty treatment has been accorded to the analysis of public expenditure and the various components of public expenditure in Karnataka. The study also does not account for the factors
that have influenced the growth and pattern of public expenditure and no theoretical linkage between the growth and pattern of expenditure observed in Karnataka and the existing expenditure theories has been established. Another aspect neglected is the classification changes brought about in the budget heads during 19761-62 and 1974-75 which has resulted in wrong findings by the study. For instance, the expenditure head ‘public works’ which accounted for other items like housing, roads and bridges, etc prior to 1974-75 naturally had a larger share in the total expenditure but when these items were accounted separately from 1974-75, its share declined. The study which has not taken note of this sector states “next in importance was ‘public works’” throughout the first, second and third plan periods. The outlay for this sector has increased from 14.33% in 1957-58 to 31.10% in 1963-64 but from then onwards it reduced from 26.63% in 1964-65 to 10.48% in 1974-75. The study does not present a uniform set of expenditure data as, in between actual expenditure data series, revised estimates and budget estimates are presented which poses problems of comparison.

19. Gayithri, K (1988) in her thesis entitled “Growth and Pattern of State Expenditure – A Case Study of Karnataka” opines that there was considerable amount of growth in the expenditure in Karnataka even after accounting for price and population factors. Expenditure growth was much faster than that of the State Domestic Product (SDP). Even within
categories like revenue and capital accounts, a big chunk was in the nature of government consumption comprised of wages, salaries and pension to government employees. These trends cast a doubt on the usefulness of government expenditure in achieving economic growth. Hence there was a need to rationalise the expenditure policy.

Valuable though the findings of the Researcher are their relevance to the present-day situation when all the governments including the government of Karnataka have embraced fiscal reforms at the behest of the Centre waters down considerably. To this extent, the thesis suffers from a gap.

The foregoing studies at best make a passing reference either directly or indirectly, to the growth and pattern of public expenditure. They do not focus on the growth witnessed in the realm of public expenditure or the pattern witnessed in the realm of public expenditure. Much less, they deal with the growth and pattern of public expenditure in the Indian scenario.

2.5 Objectives of the Study

The objectives of the study are to:

1. Study the initiatives taken by the government in the area of fiscal and administrative reforms to achieve structural adjustment.
2. Critically examine the fiscal deficit levels in the context of public expenditure, financial management and accountability.

3. Examine the degree of deregulation and decentralisation achieved in the context of structural adjustment

4. Ascertain the legislative measures undertaken to raise grants to local self-governments

5. Ascertain the legislative measures initiated to facilitate capital value-based property taxation

6. Examine the provisions of the medium-term fiscal plan in so far as they relate to reduction of fiscal deficit, revenue deficit and stabilisation of borrowings.

2.6 Methodology of Research

The study relies fully on secondary data on account of the very nature of the topic being dealt with. For the purpose of studying the growth and pattern of public expenditure, the analytical method has been followed.
2.7 Sources of Data and Data Collection

Data has been sourced from the publications (printed as well as electronic) of the government of India, the government of Karnataka, the Reserve Bank of India, the financial press and supranational institutions like IBRD, IMF, etc.

2.8 Analysis of Data

The sourced data has been analysed with the help of appropriate statistical tools like correlation, percentage, etc.

2.9 Sampling Frame

All the public expenditure – related data for the period 1991-2005 has been considered as the universe in the sampling frame.

2.10 Limitations of the Study

Much as the Researcher has tried to ensure that the data collected and views sought are as close to ground reality as possible, it has to be admitted that the data and views considered for analysis can only be as accurate as the data published or the views expressed; the latter may be coloured however slightly on account of the bias on the part of the individual expressing the view. Since the possibility of accuracy being overlooked in publications emanating from the government or government-sponsored agencies is remote and the views collected are from senior and responsible officers in the government machinery,
the Researcher is convinced that the degree of inaccuracy, if any, could at best be negligible and hence cannot affect the accuracy of the findings of the thesis.

2.11 Chapter Scheme

The thesis is divided into five chapters as follows:

Chapter-1: Introduction

Typically introductory in nature, it explains how the concept of public expenditure has evolved over the years and what steps are being taken at the national as well as the State-level to manage the said expenditure optimally.

Chapter-2: Research Design

This chapter provides an insight into the design of the study. Additionally, it reviews literature on the topic being researched into. It concludes with the chapter scheme.

Chapter-3: Analysis of Data

This chapter analyses such data as is necessary to fulfil the objectives the thesis has set for itself; to make the analysis more effective, appropriate statistical tools have been used. To present the facts in a lucid manner, the data has been tabulated and charted as well, wherever called for.
Chapter-4: Summary of Findings

This chapter summarises the findings arrived at consequent upon analysing the data in Chapter-3.

Chapter-5: Summary of Recommendations

The Researcher's recommendations in the light of the findings arrived at in Chapter-4 are reflected in this chapter. Additionally, directions from the Researcher for future research also figure in this chapter.