

DYNAMICS OF PUBLIC EXPENDITURE IN KARNATAKA: AN ANALYSIS OF ITS TRENDS AND PATTERNS

Shankaranand G and R R Biradar**

Economic growth and its distribution across different sections of the society, ipso facto, depends on the patterns of public expenditure in developing countries like India. The study is based on secondary data attempts to examine the trends and patterns of public expenditure during 1980-81 to 2011-12 in Karnataka. This study found that compound annual growth rate (CAGR) of public expenditure has been accompanied by an increase in the Gross State Domestic Product (GSDP). The increase in per-capita public expenditure in Karnataka was much faster after the reform period. The total public expenditure as a percentage of GSDP decreased during the post reform period as compared to that of pre-reform period. The compound growth rate of public expenditure on revenue account was higher as against the capital expenditure during the same period. The growth of non-plan expenditure was registered to be higher than that of development expenditure in Karnataka. The CAGR of plan expenditure was higher compared with that of non-plan expenditure. The study argues that there has to be increase in both revenue expenditure and capital development expenditure in Karnataka.

Key Words: *Public expenditure, Development and Non-Development Expenditure, Plan and Non-Plan Expenditure, Gross State Domestic Product, per capita Expenditure.*

INTRODUCTION

Technocratic model of economic growth based on trickle- down mechanism failed to reduce poverty and inequality automatically. Therefore, the importance of public expenditure to address the problem of poverty and income inequality is felt increasingly important. The public expenditure has been considered to be one of the important policy instruments for sub-national government which will be expected to engender large effect on economic growth. The effective total public expenditure in the state determines the development policy of the government. The principles and policies made by the government for total public expenditure leads to economic growth. The greater productive public expenditure will affect growth positively or negatively depends upon whether government currently under or over provides the services (Barro, 1990:122). In an under developed country, the public expenditure has a prominent in role formulating policy and programme through which it tries to reduces regional disparity. In developed countries, the role of public expenditure is to maintain smooth rate of economic growth in order to stabilize and stimulate economic activities. In developing economy like India, the government through its public expenditure policy may encourage private sector by making rapid investments and increased production.

The public expenditure theories explain the growth of public expenditure in both developed and developing economies. The positive theories of public expenditure by Wagner (1890) states that law of increasing state activity which mean, process of industrialization in an economy leads to increase in per capita income and output, then the public sector gradually grow as a proportion of total economic activity. Peacock-Wiseman (1967) found that the public expenditure does not increase in smooth and continuous manner, rather it increases in large scale social disturbances or crisis. The public expenditure increases from the three concepts which comprises; i) the movement

**Ph.D Student and Associate Professor, Department of Studies in Economics, Karnataka University, Dharwad*

from the older level of expenditure and taxation to a new and higher level is the displacement effect. ii) the inadequacy of the revenue as compared to with the required public expenditure creates an inspection effect. iii) the apparent tendency for central government economic activity to grow faster than that of the state and local level governments is known concentration effect. Keynes (1936) was of opinion that the direction of causality runs from public expenditure and economic growth during the recession. Thus fiscal expenditure acts as a stimulus to growth with stability.

REVIEW OF LITERATURE

Several studies found that the bi-directional or un-directional causality confirming the Wagnerian view that the economic growth causes public expenditure nor the Keynesian view that the Public expenditure causes economic growth. (Singh and Sahni, 1984:635) indicated that the bidirectional causality between public expenditure and national income. On one hand, the public expenditure causes national income and on other hand, the national income causes public expenditure in India. (Ram, 1986) indicate that government size exercises a statistically significant positive effect on growth in India over the period 1960-80. (Deverajan et.al, 1996) shows that the increase in the share of current (revenue) expenditure has statistically significant effect on growth from 1970 to 1990 with annual data of 43 developing countries. The trivariate analysis by (Loizides and Vamvoukas, 2005:150) found that public sector size granger causes economic growth or in other way round either the short or the long run in one developed and two developing countries of UK, Greece and Ireland countries. It is evident from the trivariate analysis by (Olukayode, 2009) evident that private, government investment and consumption spending have positive but insignificant effect on economic growth in Nigeria. The GSDP has strongly caused public expenditure in Orissa state during 1990-91 to 2009-10 (Mohanty, 2011: 57). A study by (Gangal.et al, 2013: 195) found the unidirectional causality that Public expenditure granger causes Gross Domestic Product (GDP) or GDP granger causes shocks in public expenditure in India.

OBJECTIVES OF THE STUDY

The objectives of the study are to :

- examine the growth of public expenditure during the pre-and post reform period in Karnataka;
- explore the plausible association between the public expenditure and economic growth and poverty in Karnataka
- offer policy suggestions to work out the appropriate composition of public expenditure so that the economic growth in the state can be made more faster and inclusive.

DATABASE AND LIMITATION

The study is based on secondary data and is collected from the various sources such as Directorate of Economics and Statistics, Bangalore; Finance Department (GoK); Economic Survey (GoK) and CSO (Central Statistical Organisation) attempts to examine the trends and pattern of public expenditure during 1980-81 to 2011-12 for three decades in Karnataka. The reason behind the use of data from 1980-81 to 2011-12 is to check fiscal growth performance during pre and post-reform period. The public expenditure divisions which are considered for the study comprises; Revenue and Capital, plan and non-plan, development and non-development expenditure. Hence, the time series data on these divisions have been collected from the Accounts at a Glance, Finance Department (GoK). Further, the data for the development and non-development expenditure is collected only for the period 1990-91 to 2011-12 due to non- availability of data for earlier periods. The growth

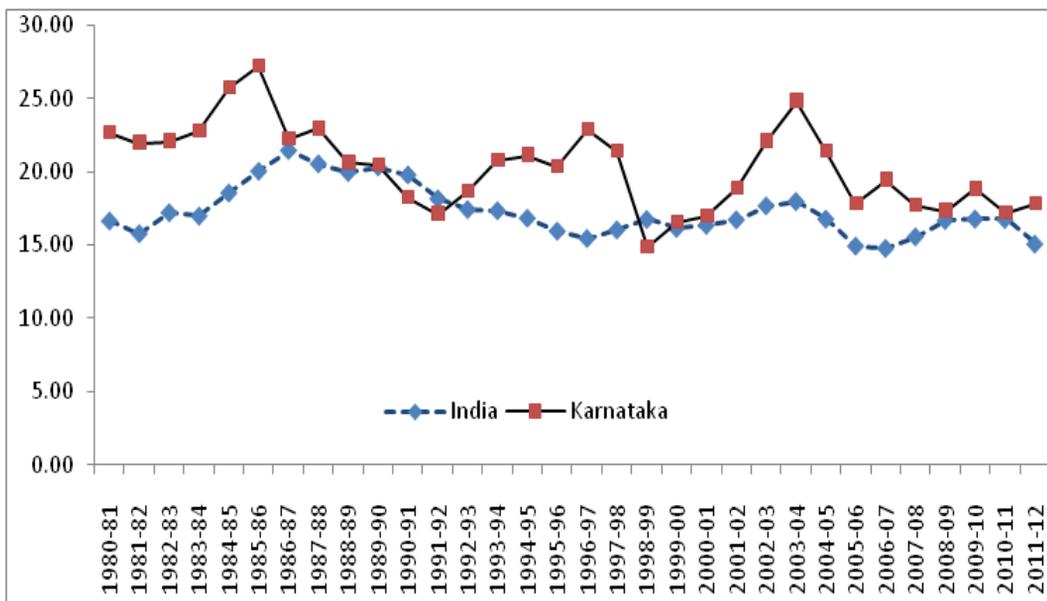
has been measured in terms of GSDP (Current and constant prices), which has been collected from the CSO (Central Statistical Organisation) with various base years. The per capita expenditure is estimated from projected population for the study period. To analyze the data, the tools like CAGR (Compound Annual Growth Rate) and percentage have been used. The limitation is such that the data for development and non-development expenditure from 1990-91 to 2011-12 is not available.

RESULTS AND DISCUSSIONS

Public Expenditure to Gross State Domestic Product

The Public expenditure as percentage to GSDP in Karnataka is higher than India overall. The total public expenditure to GSDP in Karnataka is found to be reducing both in pre and post-reform period over the last three decade. The public expenditure as a percentage of GSDP in Karnataka has been reduced from 0.23 percent during 1980-81 to 0.18 percent in 2011-12. Similarly, it has started increasing from 0.23 percent in 1980-81 to 0.27 percent during 1985-86 about 0.04 percent point increased than short down, up to 1991-92 beginning of reform period. During the first decade of reform period it increased slightly, but in second decade of reform period increase was seen only in 2004-05, and for the rest years it declined slowly in Karnataka which is depicted in Figure 1.

Figure 1 : Trends in Total Public Expenditure as Percentage of GSDP in Karnataka (%)



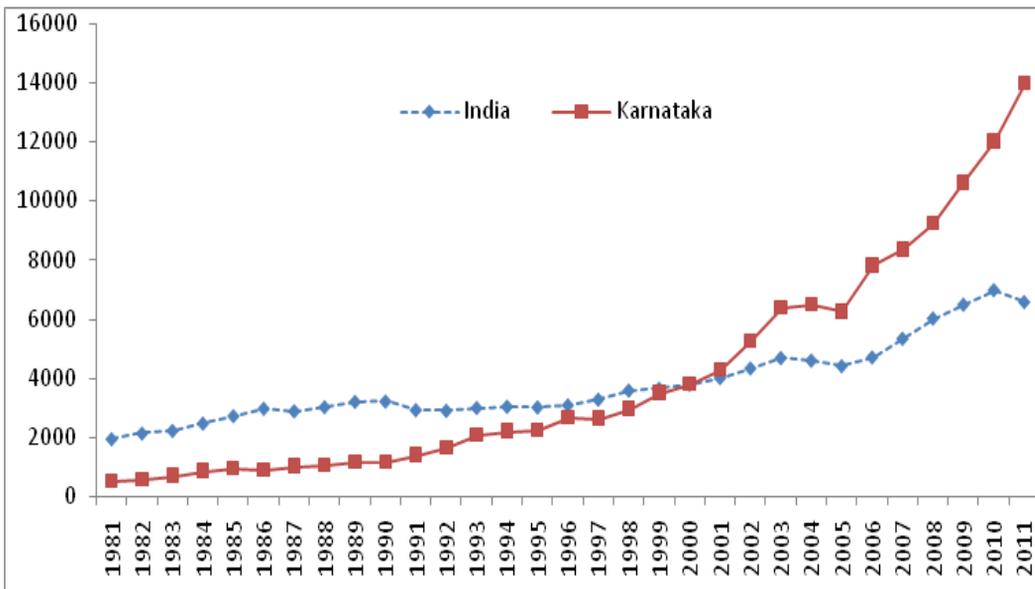
Source: Department of Finance, Government of Karnataka, Bangalore, Reserve Bank of India (RBI), GoI and Economic Survey, 2012-13 (GoI)

Per capita Public Expenditure in Karnataka

Figure 2 indicate that there has been an increase in per capita availability of public expenditure at constant prices over a period of time in Karnataka. Whereas, at all India level, it is higher in the beginning as compared to Karnataka and after the reform period, Karnataka increased at a faster

rate. The per capita expenditure during 1981 stood at Rs.514, which gradually increased to Rs.1389 in 1991, with an increase of around 10 percent. Whereas in pre-reform period, the growth in the per-capita public expenditure was almost flatter. It gradually turned out to be steeper after the reform period. In the first decade of the post-reform period, the per capita expenditure registered a growth rate of 11.9 percent, with an increase from Rs.1389 in 1991 to that of Rs.4290 during 2001. However, during the second decade, the growth rate of per-capita public expenditure marginally picked up by 0.58 per cent points. It stood at 12.52 percent, with an increase from Rs. 4290 in 2001 to Rs. 13957 in the year 2011.

Figure 2 : Per capita Public Expenditure in Karnataka (in Rupees)



Source : Department of Finance, Government of Karnataka, Bangalore, Reserve Bank of India, (GoI) and Economic Survey, 2012-13 (GoI)

GROWTH OF PUBLIC EXPENDITURE IN KARNATAKA

Data provided in Table 1 indicate that annual growth of total expenditure at actual and constant rates and in GSDP at current and constant prices from 1980-81 to 2011-12. The aggregate total expenditure in real term is about 5.36 percent and in case of GSDP at constant prices it is about 6.15 percent from 1980-81 to 2011-12. The growth of total public expenditure at real terms was 3.97 percent per annum in 1980-81 to 1989-90 which increased drastically to 6.14 percent during 2001-02 to 2011-12. Further, the growth of total public expenditure drastically increased during post reform period as compared to pre reform period. Similarly, the GSDP at constant prices also increased from 5.01 percent during 1980-81 to 1989-90 of pre reform period and further increased at a faster rate during post reform period about 6.70 percent. Here, I found that there was positive and significant growth of public expenditure and GSDP (economic growth). In case of current prices, the growth of total expenditure and GSDP slowly increased after the reform period.

Table 1 : Compound Annual Growth Rate of Expenditure and GSDP in Current and Constant Prices (%)

Period	CAGR (Total Expenditure)				GSDP and GDP			
	Karnataka		India		Karnataka		India	
	Current (Actual)	Constant (Real terms)	Current (Actual)	Constant (Real terms)	Current	Constant	Current	Constant
1980-81 to 1989-90	11.25	3.97	15.10	6.97	12.53	5.01	12.80	4.83
1990-91 to 2000-01	12.96	5.55	11.95	3.68	13.59	6.25	14.12	5.68
2001-02 to 2011-12	12.80	6.14	13.25	6.69	13.03	6.70	14.44	7.81
Over All	12.99	5.36	13.36	5.73	13.71	6.15	13.71	6.06

Sources : Accounts at a glance, Finance department (GoK), CSO (Central Statistical Organization) and Reserve Bank of India (GoI)

Revenue and Capital Expenditure

Revenue expenditure is incurred for the purpose other than creation of assets and it is like the consumption expenditure of government. Whereas the capital expenditure is important for financing loan received by the government from central or market. There is prior evidence that capital expenditure is an accommodative component that is compressed at times of fiscal stress (Rajaramam et.al, 2000). Table 2 presents that the total revenue expenditure has grown at higher rate of 6.61 percent, as compared to total capital expenditure of 3.09 percent per annum from 1980-81 to 2011-12. The capital disbursement has grown highest during 2001-02 to 2011-12 with about 8.89 percent per annum as compared to revenue expenditure of 5.43 percent in reform period as compared to post reform period.

Table 2 : Growth Rate of Revenue and Capital Expenditure in Karnataka(%)

Period	Karnataka			India		
	Revenue	Capital	Total	Revenue	Capital	Total
1980-81 to 1989-90	7.06	-0.75	3.97	7.91	5.14	6.97
1990-91 to 2000-01	6.46	1.68	5.55	5.78	-3.54	3.68
2001-02 to 2011-12	5.43	8.89	6.14	7.19	3.80	6.69
Over All	6.61	3.09	5.36	6.79	2.29	5.73

Sources: Accounts at a glance, Finance department (GoK) and Reserve Bank of India (GoI)

Though, the capital expenditure has quite a small share in the total expenditure in Karnataka, but its share has been largely seen an increase in the current decade. This sharper rise in capital account has largely occurred during the current decade due to the recovery task taken by the state government finances following pronouncement of FRA (Forward Rate of Agreement) and increase in revenue position.

Development and Non-Development Expenditure

Development expenditure consists of expenditure on social and economic services. The expenditure on social and community services aims at raising the standard of living and improving the productivity efficiency of people. Development expenditure is a tool at the disposal of governments for enhancing the level of economic growth (Gayithri, 1988:158). Whereas the non-development expenditure includes on collection of taxes and duties, administrative service, interest payments and debt servicing, pension and miscellaneous general expenditure. Tables 3 depict the development and non-development expenditure in Karnataka during reform period.

Table 3 : Growth Rate of Development and Non-Development Expenditure in Karnataka (%)

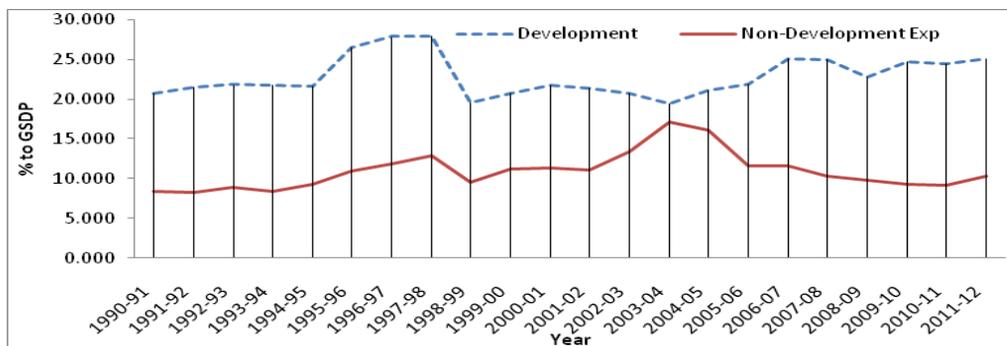
Period	Karnataka			India		
	Development	Non-Development	Total	Development	Non-Development	Total
1990-91 to 2000-01	5.13	7.48	5.87	0.89	5.79	3.42
2001-02 to 2011-12	6.95	4.69	6.23	7.81	4.30	5.94
Over All	6.51	6.55	6.52	4.79	5.31	5.03

Sources: Accounts at a glance, Finance department, (GoK) and Reserve Bank of India (GoI)

The growth of non-development expenditure was highest about 6.55 percent as compared 6.51 percent of development expenditure during 1990-91 to 2011-12. The growth of non-development expenditure was highest with 7.48 percent. Whereas, the development expenditure was less during the first decade of 1990-91 to 2000-01. The development expenditure during current decade was stood highest with 6.95 percent as compared to that of non-development expenditure of about 4.69 percent during 2001-02 to 2011-12. The non-development expenditure reduced in recent decades due to reduction of interest payments on public debt.

Figure 3 indicate the development and non-development expenditure as a percentage to GSDP at constant prices. During reform period the share of development expenditure as a percentage of GSDP marked highest as compared to the share of non-development expenditure in Karnataka. The non-plan expenditure as a percentage to GSDP decreased during current decades of reform period in Karnataka. Whereas the share of development expenditure was highest but remained flatter during above period.

Figure 3 : Development and Non-Development as a percentage to GSDP (%)



Source: Department of Finance, Government of Karnataka, Bangalore

Plan and Non-Plan Expenditure

The expenditure under various heads of the budget on schemes listed as part of a particular plan is termed as plan scheme. The planning schemes may either be initiated during a particular plan or may be the spillover of previous plans. But the proposal to increase non-plan expenditure is to propose to finance government expenditure. Table 4 highlights that the total plan expenditure stood highest with about 7.40 percent whereas, non-plan expenditure stood comparatively less of 4.46 percent from 1980-81 to 2011-12. Similarly, the non- plan expenditure reduced at faster rate during recent periods 2001-02 to 2011-12 about 4.24 percent per annum as against to 9.95 percent in plan expenditure due to austerity measures adopted by Government of Karnataka such as restriction on fresh recruitment, vehicle purchases, foreign tours and trainings, holding government functions in star hotels and still large amount of expenditure is locked up under committed expenditure like salaries, pensions, interest, subsidies and administrative expenditures. The plan and non- plan expenditure were very less during pre reform of 1980-81 but gradually increased during the post reform period of 1990-91.

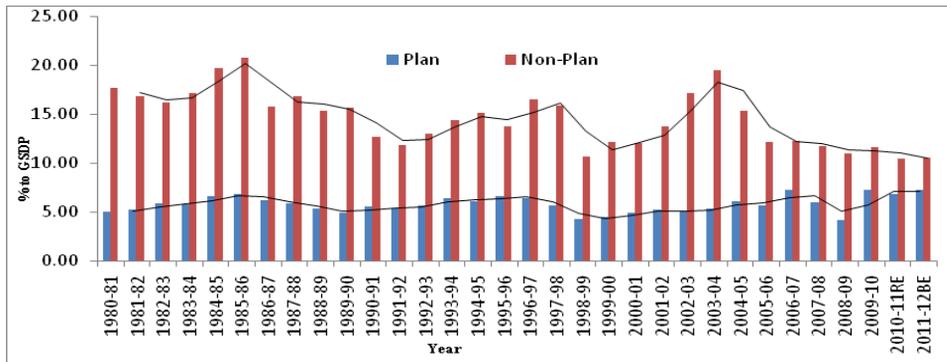
Table 4 : Growth Rate of Plan and Non-Plan Expenditure in Karnataka(%)

Period	Plan	Non-Plan	Total
1980-81 to 1990-91	5.73	1.58	2.64
1991-91 to 2000-01	4.86	5.90	5.59
2001-02 to 2011-12	9.95	4.24	6.14
Over All	7.40	4.46	5.36

Sources: Accounts at a glance, Finance department, (GoK)

Figure 4 presents that the plan and non-plan expenditure as a percentage to GSDP in constant prices in Karnataka. The non-plan expenditure as a percentage to GSDP was stood highest, when compared to the share of plan expenditure.

Figure 4 : Plan and Non-Plan Expenditure as a percentage to GSDP (%)



Source : Department of Finance, Government of Karnataka, Bangalore

The non-plan expenditure as a percentage to GSDP decreased at a faster rate from 0.18 percent in 1980-81 to 0.11 percent during 2011-12. In case of plan expenditure slowly increased 0.05 percent in 1980-81 to 0.07 percent in 2011-12.

CONCLUSION

The important findings of the study are summarized as follows. 1) The study found that there is positive and significant growth of public expenditure and GSDP in constant prices. 2) The continuous increase in per-capita public expenditure in Karnataka was much faster in after the reform period. 3) The total public expenditure as a percentage of GSDP found to be decreased in post reform period as compared to that pre-reform period. 4) The expenditure on current (Revenue) account was marked highest as against to capital expenditure during reference period. 5) The growth of non-plan expenditure was stood highest than the development expenditure in Karnataka. 6) There has been found that growth of plan expenditure was much higher to that of non-plan expenditure in Karnataka. It suggests that there is need to be increase the share of public expenditure in GSDP in Karnataka because the development policy of the government depends on the trends of total expenditure in the state. The plan expenditure has to increase much as compared to non-plan expenditure in Karnataka. There has to be increase in capital expenditure in Karnataka. There is needed to be increase in the plan expenditure rather than non-plan expenditure in Karnataka.

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