

Growth Trend Of Public Expenditure In India - A Post Reform Approach

M. Santhi¹, Dr. C. Ramesh²

¹(Reg. No: 11630) Ph.D. Research Scholar, Department of Economics, Aditanar College of Arts and Science, Tiruchendur – Affiliated to Manonmaniam Sundaranar University, Tirunelveli, Tamilnadu.

²Associate Professor and Head (Retd.), Department of Economics, Aditanar College of Arts and Science, Tiruchendur – Affiliated to Manonmaniam Sundaranar University, Tirunelveli, Tamilnadu.

This paper delves into the trends in public expenditure growth in India from a post-reform standpoint, focusing on the period from 1991-92 to 2019-20. Also this paper encompasses both revenue and capital expenditures, pinpointing significant trends and changes in spending patterns. Through an estimation of elasticity and growth rates of total expenditures, this paper provides valuable insights into the trajectory of India's public finances in the wake of economic reforms. The primary objective is to gain a deeper understanding of how government expenditure has evolved in the post-reform era from 1991-92 to 2019-20.

INTRODUCTION

The economic reforms of 1991 represented a pivotal moment in India's fiscal and monetary policies, resulting in a transformation of the public expenditure landscape. Following the reforms, India witnessed a heightened sense of fiscal responsibility, while government spending continued to play a crucial role in driving economic growth. This study delves into the evolving patterns of public expenditure, with a specific focus on total, revenue and capital expenditures, and their influence on India's economic trajectory. Through an examination of these trends spanning the last three decades, our objective is to understand the significance of public investment in nurturing development in post-reform India.

STATEMENT OF THE PROBLEM

India is basically a mixed economy. Up to nineteenth century, the study of public expenditure had been given less importance due to the wrong belief about the public expenditure i.e., the public expenditure was wasted. The followers of Adam Smith believed in the laissez-faire philosophy which leads to minimum role and functions to the state in social affairs in general and management in particular. This was realized only at the beginning of 20th century because of great depression 1930. In present day situation, there is enormous increase in public expenditure because of manifold increased functions of states. The states were considered as the 'Police State' in those days whereas it is considered as the 'Welfare State' now-a-days. Because of the expansion of state activities, the public expenditure is increasing year by year

in India. In the process of development for a due discharge of this vast array of functions the government spends more and more money. In other words, in recent years the government needs to spend an explosive amount of expenditure.

The growth rate of Indian economy was 3.5 percent from 1950-1990. During August 1990, the gulf war sparked off the chain of events leading to increased oil prices. Several developing countries experienced that the accentuation of reforms leads to reduced public expenditure on basic services and programmes directly related to social service development or human resources development. There is a need to introduce policies to raise the tempo of the overall development of the economy in the form of a Stabilization Policy (SP) and a Structured Adjustment Programmes (SAP).

1. What have been the major trends and patterns in the public expenditure in India since the initiation of economic reforms in 1991?
2. How has the composition of public expenditure (e.g., Capital Vs Revenue Expenditure, Social sectors Vs Economics Sector) evolved during the post-reform period?

OBJECTIVES

This study based upon the following four objectives:

1. To analyze the growth trend of revenue expenditure in India from 1991-92 to 2019-20.
2. To examine the growth rate of capital expenditure.
3. To assess the elasticity of total government expenditure during the post-reform period.
4. To understand the implications of these trends for India's economic development during post-reform.

HYPOTHESES

This study is based upon the following two hypotheses.

1. Total expenditure is less than unity.
2. Revenue expenditure grows faster than capital expenditure.

METHODOLOGY

The secondary data is used in this study. The total, revenue and capital expenditure data is collected from RBI Bulletin.

From the census report, the population figures were collected. Yearly-wise population data is estimated by the researcher. The compound annual growth rate of expenditure on various heads is estimated by using semi-log. The functional form used to estimate the yearly compound growth rate is $Y = ab^t$

Y = Dependent variable

t = Independent variable

a and b – parameters to be estimated.

In order to find out the growth of public expenditure in real terms, the influence of price changes should be eliminated.

ANALYTICAL DISCUSSION

TOTAL EXPENDITURE OF INDIA

The total expenditure of India is the aggregate spending by the Central Government on various activities, programmes and services. Role of public expenditure in physical and human capital formation over a period of time is remarkable. Even in the short-run, appropriate public expenditure will be more effective in boosting economic growth.

TABLE 1: TOTAL EXPENDITURE OF INDIA FROM 1991-92 TO 2019-20

Year	Absolute Expenditure (Rs. in Crores)	Per- Capita Expenditure (In Rs.)
1991 – 92	111414	1316.33
1992 – 93	122618	1418.20
1993 – 94	141853	1606.85
1994 – 95	160739	1783.81
1995 – 96	178275	1939.25
1996 – 97	201007	2144.07
1997 – 98	232053	2427.84
1998 – 99	279340	2867.97
1999 – 00	298053	3003.96
2000 – 01	325592	3222.09
2001 – 02	362310	3522.02
2002 – 03	413248	3947.73
2003 – 04	471203	4424.44
2004 – 05	498252	4600.24
2005 – 06	505738	4592.19

Year	Absolute Expenditure (Rs. in Crores)	Per- Capita Expenditure (In Rs.)
2006 – 07	583387	5211.60
2007 – 08	712671	6264.69
2008 – 09	883956	7648.66
2009 – 10	1024487	8727.21
2010 – 11	1197328	10044.70
2011 – 12	1304365	10778.99
2012 – 13	1410372	11433.90
2013 – 14	1559447	12477.57
2014 – 15	1663673	13139.10
2015 – 16	1790783	13958.87
2016 – 17	1975194	15196.14
2017 – 18	2141973	16477.98
2018 – 19	2315113	17807.19
2019 – 20	2686330	20659.31
CAGR	12.30	10.52
<p>CAGR - Compound Annual Growth Rate Source: i) Absolute Expenditure – indiabudget. ii) Per – Capita Expenditure iii) CAGR Computed by the researcher</p>		

Table 1 shows the growth trend of public expenditure from 1991-92 to 2019-20 at current prices. The total expenditure increased from Rs. 111414 crores in 1991-92 to Rs. 2686330 crores in 2019-20 at current price. Per-capita expenditure at current price increased from Rs. 1,316.33 to Rs. 20,659.31 in 1991-92 and 2019-20 respectively. This shows the increasing trend of total expenditure in the post – reform period.

REVENUE EXPENDITURE OF INDIA

Spending on current account by the central government comes under the category of revenue expenditure. There is no creation of assets (or) reduction of liabilities by revenue expenditure. Salaries and wages, pensions, interest payments, subsidies, maintenance, etc., are the examples of revenue expenditure.

TABLE 2: REVENUE EXPENDITURE OF INDIA FROM 1991-92 TO 2019-20

Year	Absolute Expenditure (Rs. in Crores)	Per- Capita Expenditure (In Rs.)	Percentage to Total Expenditure
1991 – 92	82292	972.26	73.86
1992 – 93	92702	1072.20	75.60
1993 – 94	108169	1225.29	76.25
1994 – 95	122112	1355.14	75.97
1995 – 96	139861	1521.39	78.45
1996 – 97	158933	1695.29	79.07
1997 – 98	180335	1886.74	77.71
1998 – 99	216461	2222.39	77.49
1999 – 00	249078	2510.36	83.57
2000 – 01	277839	2749.52	85.33
2001 – 02	301468	2930.57	83.21
2002 – 03	338713	3235.70	81.96
2003 – 04	362074	3399.76	76.84
2004 – 05	384329	3548.42	77.14
2005 – 06	439376	3989.61	86.88
2006 – 07	514609	4597.19	88.21
2007 – 08	594433	5225.33	83.41
2008 – 09	793798	6868.55	89.80
2009 – 10	911809	7767.35	89.00
2010 – 11	1040723	8730.90	86.92
2011 – 12	1145785	9468.51	87.84
2012 – 13	1243514	10081.18	88.17
2013 – 14	1371772	10975.93	87.97

Year	Absolute Expenditure (Rs. in Crores)	Per- Capita Expenditure (In Rs.)	Percentage to Total Expenditure
2014 – 15	1466992	11585.78	88.18
2015 – 16	1537761	11986.60	85.87
2016 – 17	1690584	13006.49	85.59
2017 – 18	1878833	14453.67	87.72
2018 – 19	2007399	15440.34	86.71
2019 – 20	2350604	18077.40	87.50
CAGR	12.98	11.18	
<p>CAGR - Compound Annual Growth Rate</p> <p>Source: i) Absolute Expenditure – ii) Per – Capita Expenditure iii) Percentage to Revenue the researcher iv) CAGR</p> <p>indiabudget. Expenditure Computed by</p>			

Table 2 explains the growth pattern of revenue expenditure in India from 1991 – 92 to 2019 – 20. The revenue expenditure shows a consistent upward trend, with significant increases over time. Starting from Rs.82292 crores in 1991-92, it reached Rs. 2350604 crores by 2019-20, reflecting a compound annual growth rate of 12.98 percent. The rapid increase in revenue expenditure suggests a strong focus on recurrent expenses like social service expenditure and interest payments, reflecting the growing administrative costs of governance. Per – capita expenditure rose from Rs. 972.26 in 1991 – 92 to Rs. 18077.40 in 2019 – 20. Hence it expressed 11.18 per cent of growth during the post – reform. The revenue expenditure as a proportion of total expenditure is 73.86 per cent in 1991 – 92 whereas it is 87.50 per cent in 2019 – 20. The revenue expenditure is increasing year by year.

CAPITAL EXPENDITURE IN INDIA

Central Government's capital expenditure is the expenditure on the creation of assets which have a long-term impact usually exceeding one year. The expenditures which fall under the capital expenditure are infrastructure development, building construction, purchase of equipment and machinery, investment in public enterprises. The characteristics of capital expenditures are asset creation and long-term impact.

TABLE 3: CAPITAL EXPENDITURE OF INDIA FROM 1991-92 TO 2019-20

Year	Absolute Expenditure (Rs. in Cr.)	Per-Capita Expenditure (In Rs.)	Percentage to Total Expenditure
1991 – 92	29122	344.07	26.14
1992 – 93	29916	346.01	24.40
1993 – 94	33684	381.56	23.75

Year	Absolute Expenditure (Rs. in Cr.)	Per-Capita Expenditure (In Rs.)	Percentage to Total Expenditure
1994 – 95	38627	428.66	24.03
1995 – 96	38414	417.86	21.55
1996 – 97	42074	448.79	20.93
1997 – 98	51718	541.10	22.29
1998 – 99	62879	645.57	22.51
1999 – 00	48975	493.60	16.43
2000 – 01	47753	472.57	14.67
2001 – 02	60842	591.45	16.79
2002 – 03	74535	712.03	18.04
2003 – 04	109129	1024.69	23.16
2004 – 05	113331	1051.96	22.87
2005 – 06	66362	602.58	13.12
2006 – 07	68778	614.42	11.79
2007 – 08	118238	1039.36	16.59
2008 – 09	90158	780.12	10.20
2009 – 10	112678	959.86	11.00
2010 – 11	156605	1313.80	13.08
2011 – 12	158580	1310.47	12.16
2012 – 13	166858	1352.72	11.83
2013 – 14	187675	1501.64	12.03
2014 – 15	196681	1553.32	11.82
2015 – 16	253022	1972.27	14.13
2016 – 17	284609	2189.64	14.41
2017 – 18	263140	2024.31	12.28
2018 – 19	307714	2366.85	13.29
2019 – 20	335726	2581.91	12.50
CAGR	9.20	7.57	
<p>CAGR - Compound Annual Growth Rate</p> <p>Source: i) Absolute Expenditure – indiabudget. ii) Per – Capita Expenditure iii) Percentage to Capital iv) CAGR</p> <p>the researcher</p> <p>Expenditure Computed by</p>			

The above table 3 shows the growth pattern of capital expenditure of India between 1991 – 92 and 2019 – 20. Capital expenditure is also witnessed growth, albeit at a slower pace compared

to revenue expenditure. Starting at Rs. 29122 crores in 1991-92, it rose to Rs.335726 crores in 2019-20, with a compound annual growth rate of 9.20 percent. The per-capita expenditure increased from Rs. 344.07 in 1991-92 to Rs. 2581.91 in 2019-20 which brings the compound growth rate of 7.57. And the percentage to total expenditure is decreased from 26.14 per cent in 1991-92 to 12.50 per cent in 2019-20. Although capital expenditure grew, the slower pace compared to revenue expenditure highlights a possible underinvestment in infrastructure and long-term assets. This may affect long-term economic growth prospects.

ELASTICITY OF TOTAL EXPENDITURE

The relationship between the changes in government expenditure and Net National Product (NNP) at factor cost reveals by the elasticity of total Expenditure. The following formula is used to calculate the income elasticity of total expenditure of India.

$$\text{Elasticity of total expenditure} = \frac{(E_1 - E_0) / E_0}{(Y_1 - Y_0) / Y_0}$$

Whereas,

- E₀ – Total Expenditure in 1991-92
- E₁ – Total Expenditure in 2019-20
- Y₀ – NNP at factor cost in 1991-92
- Y₁ – NNP at factor cost in 2019-20

TABLE . 4 ELASTICITY OF TOTAL EXPENDITURE OF INDIA BETWEEN 1991-92 AND 2019-20

S.No	Types of Expenditure	Elasticity
1.	Total Expenditure	0.92
2.	Revenue Expenditure	1.09
3	Capital Expenditure	0.42

Source : Computed by the Researcher

The elasticity of total expenditure of India is 0.92, revenue expenditure is 1.09 and capital expenditure is 0.42 from 1991 – 92 to 2019 – 20, indicating that public spending grows at a slower rate than NNP growth. This suggests that public expenditure is relatively inelastic, with changes in NNP not leading to proportional changes in expenditure. The lower elasticity reflects fiscal discipline post-reforms, where the government aims to control spending in line with revenue growth.

CONCLUSION

This paper concludes that the public expenditure has been increasing year by year. The increasing trend of Central Government’s expenditure shows the responsibility of the Indian

Government towards the welfare of the people. For India to sustain its economic growth in the future, it must balance revenue and capital expenditure to ensure both short-term fiscal stability and long-term development.

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