

Analytical Assessment of Expenditure Quality in Uttarakhand State

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Abstract

Public expenditure play significant role in socialist structure of government, Uttarakhand is one of the socialist states of united India. The expenditure trend is Uttarakhand over the period of time has been a matter of research and evaluation. This paper will be analysing the quality of expenditure in the state, it will assess whether the capital expenditure in the state is higher or revenue expenditure dominate the overall expenditure in the state. Capital expenditure is considered as a development driven expenditure on the other side revenue expenditure is considered as non-development expenditure. This paper will also be assessment of plan and non-plan expenditure trend in the state over the period of time. The assessment of expenditure quality index is calculated on the basis of their relative ratio to total expenditure and expenditure to GSDP ratio.

Keywords: Capital expenditure, Revenue expenditure, Plan expenditure.

Hypotheses:

Introduction

India is federal structure of government, in which Centre and States have their own subjects in the lists mainly Centre lists, State lists and Concurrent lists. In the federal system, clear distinction of power has been made between Centre and the State. But India is not only a federal State but also having a socialist structure of the constitution, and being a socialist Country, Centre and State both have play significant role in the welfare of the country and its citizens. Both Centre and the State have to bear development expenditure like, expenditure on education, social welfare, social securities, health etc. Therefore, both levels of governments have to bear the public expenditure on their own. It is necessary to have a soundness of revenue account of the government for the smoothness and well-being of the State. However, there are many economists who opposed the role of government and they treated public expenditure as waste of money. But, simultaneously there are some economists who favour the public expenditure to the maximum limits; even these economists were the protagonists of social and government expenditure. In today era, there is mixture of public and private expenditure in the economy, but still the major sectors of the economy is headed by the government in all over economy.

Role of Public Expenditure in Developing Economy

During nineteenth century, the role of public expenditure was very limited and very little attention was given on the role of public expenditure during that time (Adam Smith-1776). Even these economists set the periphery of public expenditure only up to police, justice and security (Prof. Parnell-).

The economists of that time used to believe that, public expenditure is waste of money; therefore there should be restrictions of public expenditure and instead of public expenditure there should be private expenditure for the economic development, and according to them it is the private investment should be encouraged which play prominent role in the economy. But (Professor John Maynard Keynes-1936) emphasised on the role of public expenditure to the maximum extent. However, there are many economists who have emphasised on the role of public expenditure in developing and developed economies. (Prof. Pigou-1928) ability to pay theory emphasised to the optimum level at the point which satisfaction obtained from last rupees spent is equal to the satisfaction lost in respect of the last rupee. (Prof. Musgrave-1959) also indicated the role of public expenditure on various activities. (Prof. Erik Lindahl-1919) gave the importance of benefit received theory. (Prof. Samuelson-1954) also

emphasised on the role of public expenditure on public goods. Although, there are many theories who emphasized the causes of continuous increased of public expenditure in developing and developed economies. (Prof. Adolph Wagner-1864) shows that public expenditure is increasing, due to three main responsibilities of the State.

1. Expenditure on Internal Security
2. Expenditure on Culture and welfare which includes health, education, baking etc.
3. Expenditure on External Security.

Later on (Prof. Peacock and Wiseman-1960) also maintained three main causes of increasing public expenditure of the State and these are (i) Inspection effect (ii) Concentration effect (iii) Displacement effect. It is therefore, important to know that the role of public expenditure in developing or underdeveloped economies is greater than the developed and advanced economies. Most of the underdeveloped economies are in the grip of poverty and unemployment and there is supply shocks which forced the economy in the backwardness, therefore the role of government in development economies in wider.

In such kind of economies all the social responsibilities lies at the disposal of government. The main items on which government has to bear the whole responsibility of expenditure are transport, education, health, public security etc. apart from this there are many subsidiary items on which government has the sole responsibility of expenditure like space projects, employment, price control. Therefore, in developing economies government has to play vital role in the welfare of the economy and the citizen of the country.

Types of Expenditures

Expenditure on various items can be classified on the basis of their nature and on which it is spent, moreover it is important to know that the expenditure incurred by the government is for the development project or these expenditures are for non-development projects. There are mainly two categories of expenditure bear by the government (i) Revenue Expenditure (ii) Capital Expenditure. However, the sub-categories of expenditure can be further classified like plan revenue expenditure, non-plan revenue expenditure and plan capital expenditure and non-plan capital expenditure. Capital expenditure always creates an asset in the economy which, helps to generate income and the standard of the economy in the future. On the other hand revenue expenditure bear to pay salaries, pensions and such kind of expenditure do not create assets in the economy. Therefore, every economy tries to increase the level of capital expenditure in relation to revenue expenditure.

Expenditure trends in Uttarakhand

Expenditures are an integral part of development, there is direct relationship between expenditure and the level of development in the economy. But, the level of development depends upon the nature of expenditure, if the development expenditure is greater than the non-development expenditure than their will higher growth rate and vice-

versa. In the present study there has been bifurcation between the capital expenditure, revenue expenditure and plan expenditure to analysis the patterns of expenditure in the State.

Expenditure Quality Index

Expenditure quality index is an important measurement to know the pattern of expenditure in the State. As aforesaid that there are various kinds of expenditures which, the State has to bear. Revenue expenditure, capital expenditure, plan expenditure and non-plan expenditure are important index's to know the fiscal health of the state.

Trends of Revenue Expenditure in the State

Revenue expenditure is a kinds of expenditure which is incurred by the government in the short-run, such kind of expenditure does not create an assets not reduce the liability of the government, these expenditure are recurrent is nature, the purpose of revenue expenditure is to smooth the government machinery. Revenue expenditure includes pension, debt, salaries and interest payment etc. The trends of revenue expenditure in Uttarakhand have always been higher than the capital expenditure. In the year 2000-01 the total revenue expenditure of the State was Rs.2938.16 crore and at the same time the capital expenditure of the state was Rs.208.26 crore, in the year 2001-02 the revenue expenditure of the state was Rs. 3675.59 core and Rs.4361.52 crore in the year 2002-03, the rapid increase in revenue expenditure in the subsequent years in the state have always one of the major challenges to control. In the year 2012-13 the total revenue expenditure of the state was Rs.13960.22 crore, Rs.23086.44 in the year 2015-16, Rs.25271.51 crore in 2016-17 and Rs.29082.69 crore in the year 2017-18.

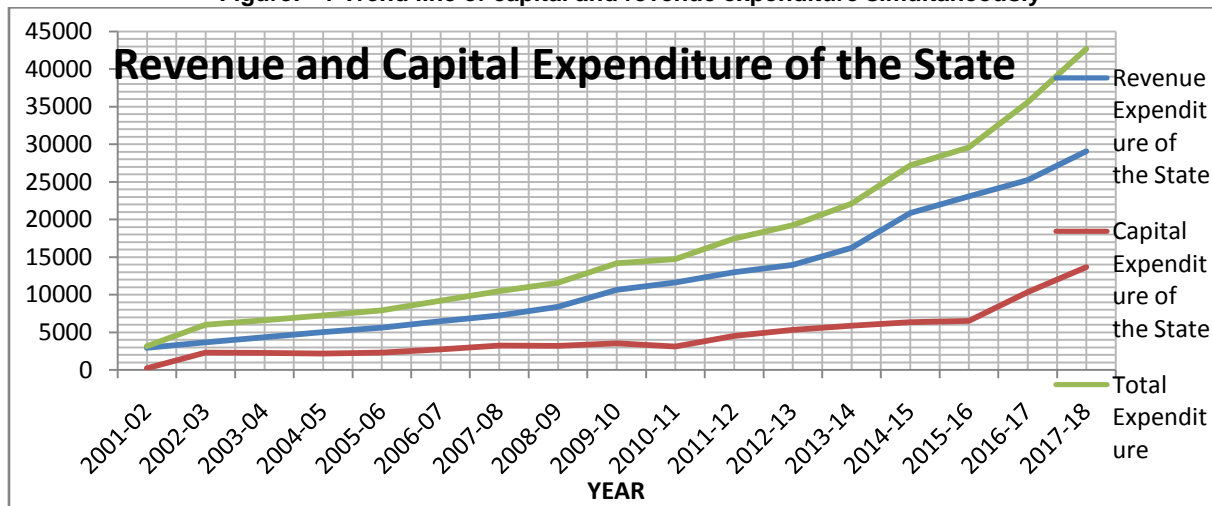
Trends of Capital Expenditure in the State

Each and every state always aspire to increase their capital expenditure in comparison to revenue expenditure. Capital expenditure creates assets in the economy and helps to generate the income. Capital expenditure has backward and forward linkages in the economy; there is direct relationship between capital expenditure and level of development. Moreover capital expenditure is bear by the state for long run achievements and income generation. Every economy tries to increase its capital expenditure to the maximum extent, capital expenditure not only boosts the economy but also increase the social standard of the people, capital expenditure also helps to create infrastructure in the economy. However, the trend of capital expenditure in Uttarakhand is less than the revenue expenditure during the study period. In the year 2000-01 the capital expenditure of the state was Rs.208.26 crore, in the year 2001-02 it was Rs.2309.46 crore, Rs.2257.11 in the year 2002-03, Rs.2182.88 crore in the year 2003-04. Although the absolute amount of capital expenditure in the state increases in the subsequent years but capital expenditure to GSDP ratio is less than the revenue expenditure. In the year 2011-12 the capital expenditure of the state was Rs.4488.21 crore, in the year 2013-14 it was Rs.5872.13 crore, Rs.10337.94 crore in the year

2016-17 and in the year 2017-18 the total capital expenditure was Rs.13642.82 crore. The low ratio of capital expenditure in comparison to revenue expenditure is not a good sign for the state economic

development; Uttarakhand needs to increase its capital expenditure and reduce its revenue expenditure for balance and sustainable economic development.

Figure: - 1 Trend line of capital and revenue expenditure simultaneously



Source: - Annual financial statement of Uttarakhand

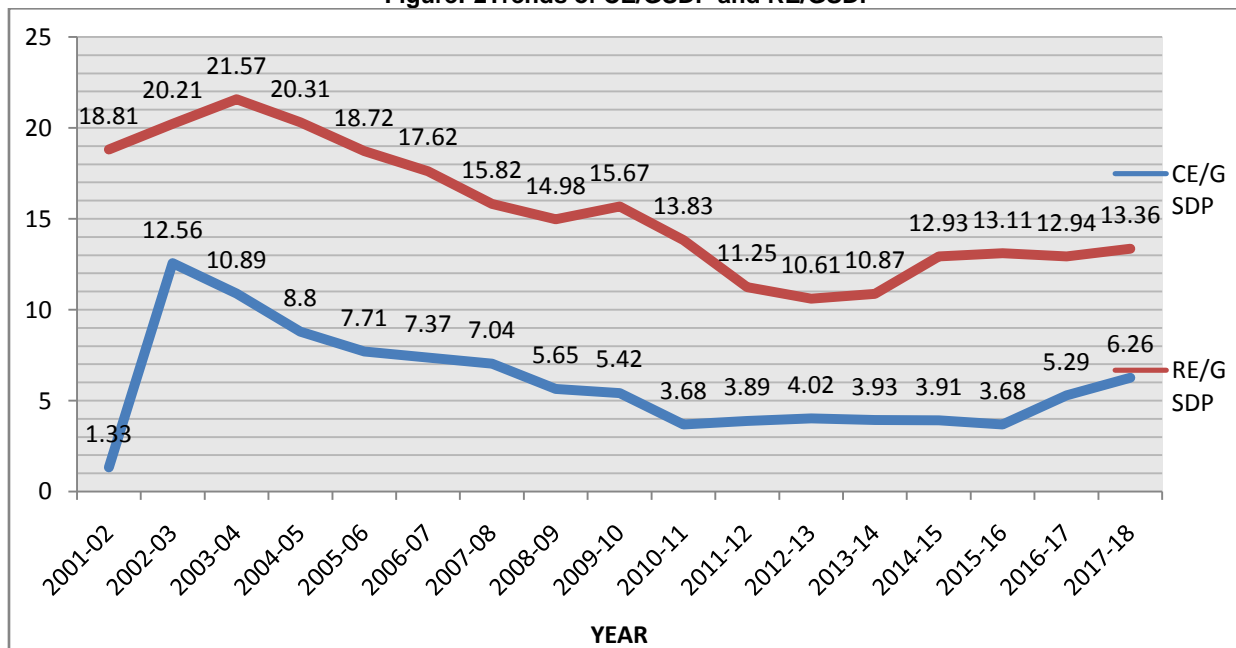
Revenue Expenditure to GSDP Ratio

This is one of the key indicators used to know the expenditure quality of the state, this index shows, if revenue expenditure is increasing or higher than, there is not a proper utilisation of resources in the economy and vice-versa. In Uttarakhand, this ratio is quite high and since 2001-02 to 2017-18 the average revenue expenditure of the state is 15.44 per cent, the ratio is higher than the capital expenditure of GSDP ratio. However, there has been a sharp decline in the revenue expenditure to GSDP ratio of the government but, still the ratio is higher than CE/GSDP ratio.

Capital Expenditure to GSDP Ratio

Capital expenditure to GSDP ratio is an indicator to measure the quality of expenditure in the economy. If CE/GSDP ratio is higher than the RE/GSDP ratio it is a good sign for the economy. The CE/GSDP ratio in Uttarakhand is not satisfactory, after the formation, Uttarakhand did not increase the CE/GSDP ratio to the rapid pace. The average CE/GSDP of the state during the study period is 5.96 per cent which is very less than the RE/GSDP ratio at the same period. Therefore, it is necessary for the state to increase the CE/GSDP ratio for the sound economic development in the state.

Figure:-2 Trends of CE/GSDP and RE/GSDP



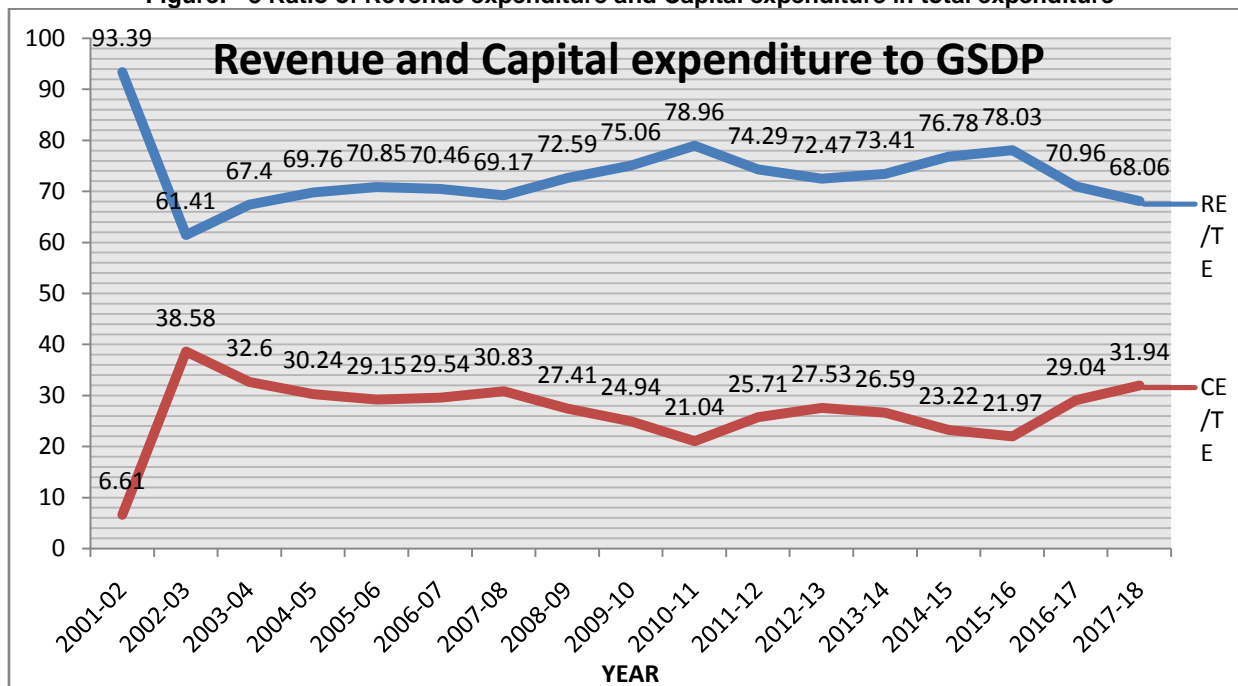
Source: - Calculated by scholar on the basis of data released by finance department Uttarakhand

As the graph and table shows the trends of capital expenditure and revenue expenditure in the state. Revenue expenditure of state is higher than the capital expenditure in the state, as well as RE/GSDP is greater than the CE/GSDP ratio. It is important for the state to increase the CE/GSDP ratio for the sustainable economic development and sound fiscal health.

Revenue and Capital expenditure to total expenditure

The share of revenue expenditure RE/TE, to total expenditure is higher than the capital expenditure CE/TE, to total expenditure in the state. In 2001-02 the ratio of RE/TE was 93.39 per cent which was very high and the ratio of CE/TE was only 6.61 per cent. However, in 2017-18 the ratio of RE/TE decreases and came to 68.06 per cent and CE/TE was 31.94 per cent. But, still, RE/TE dominant the total expenditure in the state. The calculation of RE/TE and CE/TE is pasted in appendix-10.

Figure - 3 Ratio of Revenue expenditure and Capital expenditure in total expenditure



Source:-Annual Financial Statement of Uttarakhand

Case 1

Revenue Expenditure is higher than the Capital Expenditure.

Null Hypothesis

The Revenue expenditure of the State government is higher than the Capital expenditure during the study period.

Alternative Hypothesis

The Capital expenditure of the State government is higher than the Revenue expenditure during the study period..

Final Statement

Revenue expenditure of the state is greater than the capital expenditure during the study period in the state.

Plan Expenditure of the State

Plan expenditure is that public expenditure which represents current development and investment outlays (expenditure) that arise due to proposals in the current plan. Such expenditure is incurred on financing the Central plan relating to different sectors of the economy. Government always strive to increase its plan expenditure in the economy, plan expenditure shows the pattern of expenditure in the economy. The aim of plan expenditure is to create

assets in the economy and generate the income in future. The main items of plan expenditure are electricity generation, irrigation and rural developments, construction of roads, bridges, canals and science, technology, environment, etc. the aggregate plan expenditure includes both revenue expenditure and capital expenditure. As well as, the assistance given by the Central Government for the plans of States and Union Territories (UTs) is also a part of plan expenditure. However in the budget of 2016 central government scrap the distinction between plan and non-plan expenditure. The trend of plan expenditure in Uttarakhand is lower than the non-plan expenditure since the inception. In the year 2001-02 the plan expenditure (plan revenue expenditure and plan capital expenditure) was Rs.585.69 crore, in the year 2002-03 it was Rs.1183.64, Rs.1637.61 in the year 2003-04, Rs.1637.61 crore, Rs.4192.41 core in the year 2008-09, Rs.3810.16 in 2009-10, Rs.12055.48 crore in 2015-16, Rs.18853.51 crore in 2016-17 and Rs.19962.96 crore in 2017-18. However, the absolute number of plan expenditure has increased since 2001-02 but still it is less than the non-plan expenditure. It is necessary to increase the plan

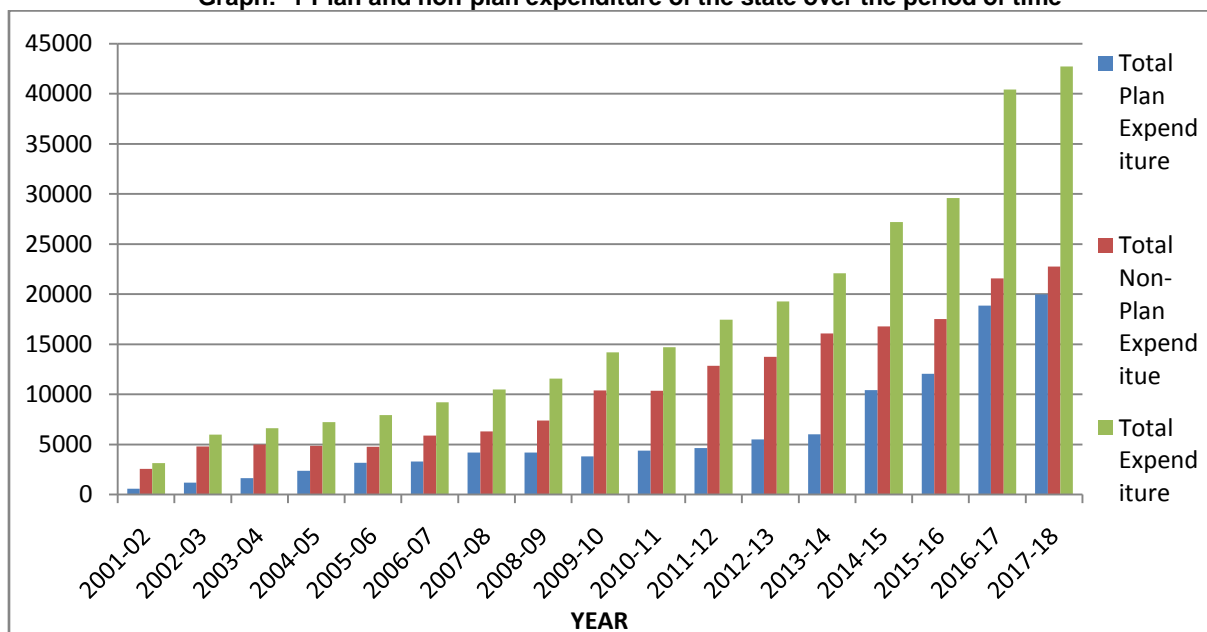
expenditure for the sustainable and sound economic development in the state. Higher the plan expenditure higher will be the level of economic development in the state.

Non-Plan Expenditure of the State

Non-plan expenditure is a kind of expenditure which does not create any assets and it is unproductive in nature. State bear non-plan expenditure to pay interest payment, subsidies, wages and salary to the government employees. Hence, non-plan expenditure is essential for the state but, it is also important to curtail non-plan expenditure in the state is one of the measure objectives of the state. The non-plan expenditure in Uttarakhand is

higher than the plan expenditure since the inception. In the year 2001-02 the total non-plan expenditure of the state was Rs.2560.73 crore, in 2002-03 it was Rs.4801.41 crore, in 2003-04 it was Rs.4981.01 crore, in 2004-05 it was Rs.4861.67 crore, in the year 2008-09 it was Rs.7372.25 crore, in 2009-10 it was Rs.10386.8 crore, in the year 2015-16 it was Rs.17528.29 crore, in 2016-17 it was Rs.21568.69 crore and in the year 2017-18 it was Rs.22762.55 crore. The absolute value of non-plan expenditure in the state is higher than the plan expenditure which need to decrease for the sound economic development in the state.

Graph:- 1 Plan and non-plan expenditure of the state over the period of time



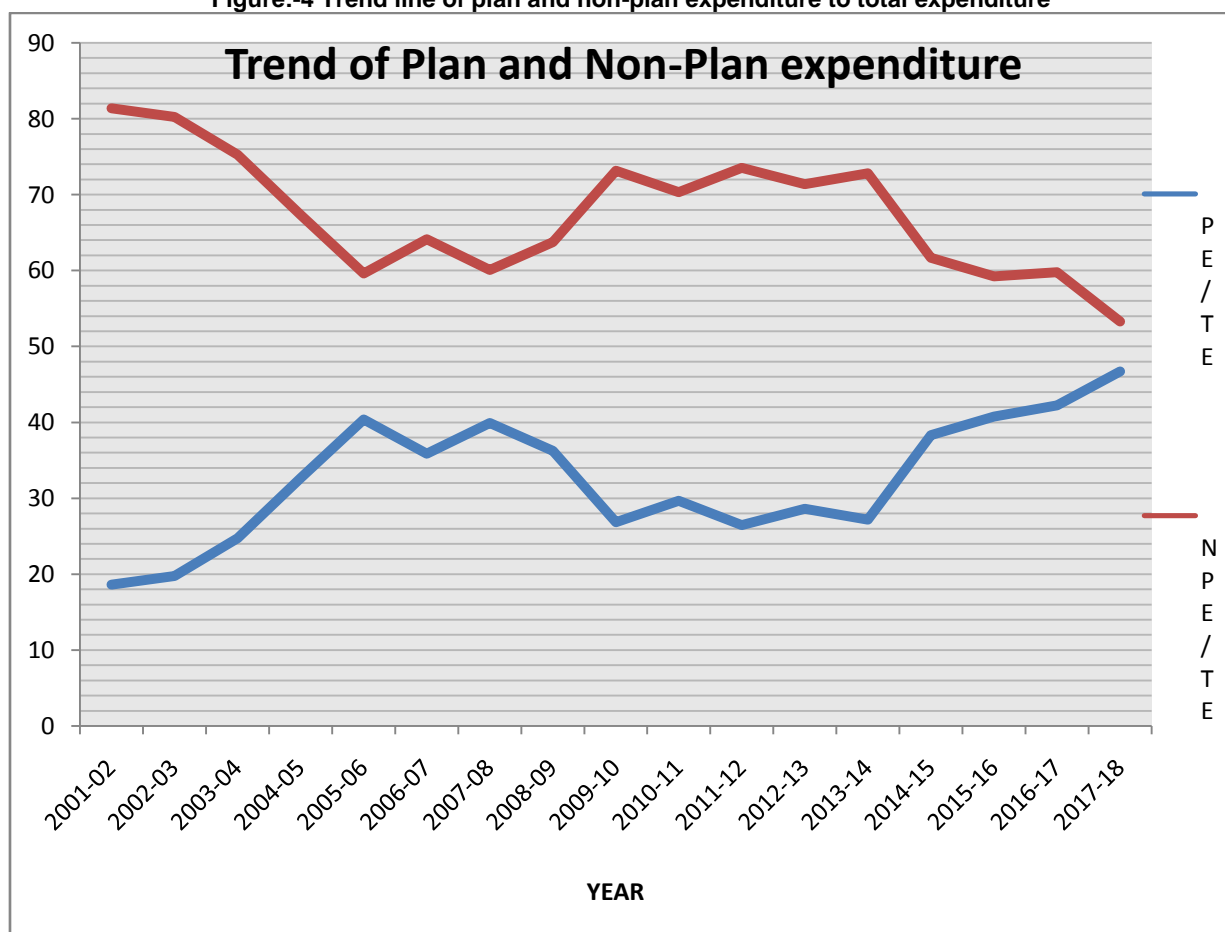
Source:-Annual financial statement of Uttarakhand

Ratio of plan and non-plan expenditure to total expenditure in the State

It is essential to know the ratio of plan and non-plan expenditure to total expenditure in the state, the ratio of these two gives the pattern of the expenditure. If the ratio of plan expenditure is higher than the non-plan expenditure then there will be higher level of economic development in the state vice versa. However, plan expenditure in the state is greater than the non-plan expenditure since the beginning. In the year 2001-02 plan expenditure ratio was 18.61 and non-plan expenditure ratio was 81.39, in the year 2002-03 PE/TE was 19.77 per cent and NPE/TE was 80.23 per cent, in 2003-04 PE/TE was 24.74 per cent and NPE/TE was 75.26 per cent, in the year 2008-09 PE/TE was 36.25 per cent and NPE/TE

was 63.75, in the year 2009-10 PE/TE was 26.83 per cent and NPE/TE was 73.17 per cent, in the year 2015-16 PE/TE was 40.75 per cent and NPE/TE was 59.25 per cent, in 2016-17 PE/TE was 46.64 per cent and NPE/TE was 53.36 and in the year 2017-18 PE/TE was 46.72 per cent and NPE/TE was 53.28 per cent. It is clear from the table that the PE/TE was very low in the initial years but, since 2015-16 the share of Plan expenditure is more than 40 per cent and on the other side the non-plan expenditure has always been higher than the 50 per cent. It is necessary to reduce the non-plan expenditure in comparison to plan expenditure for the sound and vibrant economic development in the State. However, the ratio of plan and non-plan expenditure is decreasing for couple of years but, still there is inequality and wider gap between the both in Uttarakhand.

Figure:-4 Trend line of plan and non-plan expenditure to total expenditure



Source:-Calculated by scholar from the data of annual financial statement Uttarakhand

Conclusion

Capital expenditure is still contributes the less proportion in the state and revenue expenditure, which does not create assets and liabilities, contributes the higher proportion in the state. The share of capital expenditure to GSDP ratio also less as compare to revenue expenditure to GSDP ratio in the state. On the other side plan expenditure contributes less proportion as compare to non-plan expenditure in the state. It is necessary for the state to increase capital expenditure for better output and for assets creation, on the other side plan expenditure needs to be increased for economic development in the state.

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