

PUBLIC EXPENDITURE MANAGEMENT IN BIHAR

Anup Kumar

RESEARCH SCHOLAR, DEPARTMENT OF COMMERCE
PATLIPUTRA UNIVERSITY, PATNA

ABSTRACT

The concept of public expenditure plays an important role in public finance. It is the expenditure incurred by the public authorities i.e. Central Government, State Government and local bodies for the satisfaction of collective needs of the citizens for the promotion of economic and social welfare. These functions include education, public health, social security, irrigation, drainage, roads, buildings, etc. In this paper, an attempt has been made to examine the public expenditure management in Bihar in terms of expenditure from consolidated funds, composition of government expenditure, percentage composition of total expenditure and growth rates of expenditure.

Keywords: Public Expenditure Management, Revenue Expenditure, Capital Expenditure, Consolidated Fund

INTRODUCTION

The concept of public expenditure plays a very prominent role in public finance. In previous century, the economists gave very little attention to public expenditure as there was no sound and clear classification of expenditure by the Central Government, State Government and Local Government.¹ There were no principles for these public expenditures. Basically, the functions of the government were restricted to justice, police and arms. They were also of the confirmed belief that government expenditures are totally wasteful and money can be best utilized by the private persons rather than government in the ancient times. With the passage of time, the situation has altogether changes and economic activities have become complex which has forced the economists to pay a great attention to public expenditure. Thus, in modern times, the subject of public expenditure has earned great significance.

Public expenditure is the expenditure incurred by public authorities i.e. Central Government, State Government and Local Bodies for the satisfaction of collective needs of the citizens or for promotion of economic and social welfare. The development functions include education, public health, social security, irrigation, canal, drainage, roads, buildings, etc. These functions of social welfare have increased public expenditure to a greater extent. In short, it has gained a significant place in the study of public finance as the place of consumption in economics due to two reasons – first, the economic activities of the state has increased manifold and second, nature and volume of public expenditure has greatly affected the economic life of the country in a different manner i.e. it has affected production and distribution and general level of economic activities.

REVIEW OF LITERATURE

Gaur, A.K. (1988) in his study, discussed about federal structure of India. According to him,

the dynamism and versatility of Indian federal structure have been changing ever since its inception due to constant pulls and pushes exerted by its participating governments. He has stressed on an urgent restructuring in the existing centre-state fiscal relationship in the light of present Indian federation with a view to ensuring amicable relationship between centre and states.²

Mehta, J.K. (1973) in his study classified public expenditure into two groups – constant expenditure and variable expenditure. He himself recognized that every item of public expenditure cannot be placed wholly under one or other class and hence, he has remarked that “such a clear cut distinction cannot be found in practice.”³

David Alan Aschauer (1989) considered the relationship between aggregate productivity and stock and flow government-spending variables. The empirical results indicated that (i) the non-military public capital stock is dramatically more important in determining productivity than is either the flow of nonmilitary or military spending, (ii) military capital bears little relation to productivity, and (iii) a ‘core’ infrastructure of streets, highways, airports, mass transit, sewers, water systems, etc. has most explanatory power for productivity. The paper also suggests an important role for the net public capital stock in the ‘productivity slowdown’ of the last fifteen years.⁴

Shantayanan Devarajan, Vinaya Swaroop and Heng-fu Zou (1996) noting that the literature has focused on the link between the level of public expenditure and growth, they derive conditions under which a change in the composition of expenditure leads to a higher steady-state growth rate of the economy. The conditions depend not just on the physical productivity of the different components of public expenditure but also on the initial shares. Using data from 43 developing countries over 20 years they show that an increase in the share of current expenditure has positive and statistically significant growth effects.⁵

Tao Zhang and Heng-fu Zou (2001) have observed in their paper the negative association between fiscal decentralization and provincial economic growth to be consistently significant and robust in China. For India, however, they have found that fiscal decentralization is positively and even statistically significantly, associated with state economic growth. The state allocation of public spending in various sectors is broadly consistent with “growth maximizing,” whereas increases in the central allocation of its budget among development projects, non-development projects, and social and community services by cutting the center’s spending on all other functions can promote regional growth.⁶

Gerhard Glomm and B. Ravikumar (1997) have reviewed some of the recent developments in endogenous growth models. Specifically, their focus is on the growth effects of productive government spending in dynamic general equilibrium models. They used a simple overlapping generations model as their basic framework and illustrated the role of taxes and spending. They then examined several related issues: non-rivalry in publicly provided goods, existence and uniqueness of competitive equilibrium, endogenous public policy, ways of financing public expenditures, composition of publicly provided goods and services, and private alternatives. Finally, they have reviewed some empirical results related to output elasticity of public capital and educational expenditures.⁷

Niloy Bose, M.E. Haque and D.R. Osborn (2007) in their paper examined the growth effects of government expenditure for a panel of 30 developing countries over the 1970s and 1980s, with a particular focus on disaggregated government expenditures. They found two primary observations. First, the share of government capital expenditure in GDP is positively

and significantly correlated with economic growth, but current expenditure is insignificant. Second, at the disaggregated level, government investment in education and total expenditures in education are the only outlays that are significantly associated with growth once the budget constraint and omitted variables are taken into consideration.⁸

OBJECTIVES OF STUDY

The objective of the present study is to examine the public expenditure management in Bihar in terms of expenditure from consolidated fund, composition of government expenditure, percentage composition of total expenditure and growth rates of expenditure

METHODOLOGY OF THE STUDY

The present study is based on the secondary information and data has been compiled from the publications of Government of India, Government of Bihar and Reserve Bank of India especially, Report on Currency and Finance, Annual Report, Handbook of Statistics on the Indian Economy and other necessary reports and documents. Books authored by well-known scholars/writers on the subject have been the basis of conceptual analysis in the study. The source of primary information is based on discussions with higher government officials.

DISCUSSION & FINDINGS

Public Expenditure Management in Bihar

The expenditure of the state government is classified under three major functional categories – General Services, Social Services and Economic Services. Apart from revenue expenditure and capital outlay on these services, the other areas of spending are repayment of loans and advances on the capital account, and grants to local bodies and autonomous institutions. The state government also gives loans for various purposes to its Public Sector Undertakings, Urban Local Bodies, Panchayati Raj Institutions, and to its own employees. It is to be noted that while the repayments of principal amounts of loans are made from the capital account, interest payment is made from the revenue account, under the General Services.

Table 1 presents the expenditure of the state government under various heads for the period 2011-12 to 2020-21. Table 2 and Table 3 present the structure of the expenditure during this period. Finally, Table 4 presents the annual growth rates of various expenditure items. These four tables together give us an insight into the expenditure pattern of the state government.

Expenditure from Consolidated Funds

Table 1 shows the expenditure from consolidated funds in Bihar under heads like general services, social services, economic services, grants in aid, capital outlay, discharge of public debt and loans and advances by State during the year 2011-12 and 2020-21.

Table 1: Expenditure from Consolidated Fund (Rs. crore)

Expenditure Heads	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
General Services	17730	18645	22018	26408	27972	30607	33374	38691	41628	51954
Social Services	18729	23107	26395	31713	35943	40737	45769	58284	55333	79187
Economic Services	10038	12710	14060	14445	19696	23417	23476	27918	26571	33604
Grants in Aid	3	4	4	4	4	4	4	4	2	6
Capital Outlay	8852	9585	14001	18150	23966	27208	28907	21058	12304	38745
Discharge of Public Debt	2922	3070	3120	3609	4125	4215	4654	7230	7110	7035
Loans and Advances by State	1906	2086	807	369	621	114	243	1471	666	1230
Total	60180	69207	80405	94698	112328	126302	136427	154655	143613	211761

Source: Data compiled from GoB, Bihar Economic Survey, Various Issues.

It is clear that the highest expenditure is social services whose figure was Rs. 18,729 crores in 2011-12 which increased to Rs. 79,187 crores in 2020-21, thus registered an increase about 4.23 times during the year. The other leading expenditure heads are general services and economic services. The expenditure of general services was recorded Rs. 17,730 crores in 2011-12 which increased to Rs. 51,954 crores and registered an increase about 2.93 times during the year. While the expenditure on economic services was recorded Rs. 10,038 crores in 2011-12 which increased to Rs. 33,604 crores in 2020-21 and it increased by 3.35 times during the same period. Capital outlay is another expenditure which has increased sharply and came over economic services. The expenditure on capital outlay was recorded Rs. 8,852 crores in 2011-12 which increased to Rs. 38,745 crores in 2020-21 registering an increase about 4.38 times during the year 2011-12 and 2020-21. The total expenditure during the period under the study observed an increase of Rs. 151,581 crores thus registered an increase about 3.52 times during the period.

Composition of Government Expenditure

Table 2 shows the composition of government expenditure in percentage terms. The table shows that expenditure on social services is at the top. Its percentage was marked at 31.1 per cent in 2011-12 which increased to 37.4 per cent in 2020-21 with some variations in few years. Its percentage has always been marked above 32 per cent during all the years taken under study. Expenditure in social services is followed by expenditure in general services whose percentage was 29.5 per cent in 2011-12 decreased to 24.5 per cent in 2020-21. The percentage of expenditure on economic services was 16.7 per cent in 2011-12 which increased above 18 per cent in 2018-19 and 2019-20 but declined to 15.9 per cent in 2020-21. However, the percentage of expenditure on capital outlay increased from 14.7 per cent in 2011-12 to 18.3 per cent in 2020-21 with sharp decline in 2019-20.

Table 2: Composition of Government Expenditure (Percentage)

Expenditure Heads	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
General Services	29.5	26.9	27.4	27.9	24.9	24.2	24.5	25.0	29.0	24.5
Social Services	31.1	33.4	32.8	33.5	32.0	32.3	33.5	37.7	38.5	37.4
Economic Services	16.7	18.4	17.5	15.3	17.5	18.5	17.2	18.1	18.5	15.9
Capital Outlay	14.7	13.8	17.4	19.2	21.3	21.5	21.2	13.6	8.6	18.3
Discharge of Public Debt	4.9	4.4	3.9	3.8	3.7	3.3	3.4	4.7	5.0	3.3
Loans and Advances	3.2	3.0	1.0	0.4	0.6	0.1	0.2	1.0	0.5	0.6
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Data compiled from GoB, Bihar Economic Survey, Various Issues.

An attempt has also been made to study the pattern of percentage composition of expenditure by the state government in Bihar from 2011-12 to 2020-21 in its revenue and capital accounts including their sub-heads (Table 3). The share of revenue expenditure in

total expenditure has increased from 77.3 per cent to 78.7 per cent in 2012-13 and it decreased to 74.4 per cent in 2015-16 but increased to 86.0 per cent in 2019-20. However, its budget estimated is 77.8 per cent in 2020-21. At the same time, the share of expenditure in capital account increased from 22.7 per cent in 2011-12 to 25.6 per cent in 2015-16 but it started decreasing and reached to 14 per cent in 2019-20 but its budgeted estimate for 2020-21 is 22.2 per cent. In revenue account, the expenditure on social services has been major expenditure from 2011-12 to 2020-21. In capital account, development capital expenditure was marked at 17.2 per cent in 2011-12 which decreased to 8.1 per cent in 2019-20 while capital outlay was 14 per cent in 2011-12 which reduced to 7.6 per cent in 2019-20. It has been clear from these tables that the state government increased expenditure on servicing of capital outlay, discharge of public debt and loans and advances in recent years. The share of expenditure on discharge of public debt recorded at 5 per cent in 2019-20.

Table 3: Percentage Composition of Total Expenditure

Expenditure Heads	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
Revenue A/c	77.27	78.70	77.70	76.63	74.44	75.0	75.2	80.8	86.0	77.8
Non-Developmental Revenue Expenditure	29.08	26.56	26.94	27.48	24.50	23.9	24.1	24.7	28.7	24.2
Developmental Revenue Expenditure	48.19	52.14	50.76	49.16	49.94	51.1	51.1	56.1	57.3	53.6
General Services (Public Works)	0.39	0.39	0.45	0.42	0.40	0.3	0.4	0.4	0.3	0.4
Social Services	31.12	33.39	32.83	33.49	32.00	32.3	33.5	37.7	38.5	37.4
Economic Services	16.68	18.37	17.49	15.25	17.53	18.5	17.2	18.1	18.5	15.9
Capital A/c	22.73	21.30	22.30	23.37	25.56	25.0	24.8	19.2	14.0	22.2
Non-Developmental Capital Expenditure	5.57	5.12	5.04	4.63	5.99	4.2	4.2	5.7	5.9	4.1
General Service (Except Public Works)	0.69	0.66	1.14	0.81	2.30	0.9	0.8	1.0	0.9	0.8
Discharge of Public Debt (General Services)	4.86	4.44	3.88	3.81	3.67	3.3	3.4	4.7	5.0	3.3
Loans and Advances by State (General Services)	0.03	0.02	0.01	0.01	0.02	0.0	0.0	0.0	0.0	0.0
Developmental Capital Expenditure	17.16	16.18	17.26	18.73	19.57	20.8	20.6	13.6	8.1	18.1
Capital Outlay (General Services (Public Works), Social and Economic Services)	14.02	13.19	16.27	18.36	19.04	20.7	20.4	12.6	7.6	17.5
Loans and Advances by State (Social and Economic Services)	3.14	2.99	0.99	0.38	0.53	0.1	0.2	1.0	0.5	0.6
Total Non- Developmental Expenditure	34.65	31.68	31.98	32.11	30.49	28.1	28.3	30.3	34.6	28.3
Total Developmental Expenditure	65.35	68.32	68.02	67.89	69.51	71.9	71.7	69.7	65.4	71.7
Total Expenditure	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Data compiled from GoB, Bihar Economic Survey, Various Issues.

Further, the growth rates of expenditure of Bihar from the year 2011-12 to 2020-21 have been presented in Table 4. The table shows that the annual growth rate in general services, social services and economic services were 16 per cent, 24.1 per cent and 28.1 per cent respectively in 2011-12 are estimated to be 24.8 per cent, 43.1 per cent and 26.5 per cent respectively in 2020-21. However; the capital outlay, discharge of public debt and loans and advances are estimated to growth rate of 280.5 per cent, 134.1 per cent and 214.9 per cent respectively in 2020-21.

Table 4: Growth Rates of Expenditure

Expenditure Heads	Annual Growth Rates									
	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21
General Services	16.0	5.2	18.1	19.9	5.9	9.4	9.0	15.9	7.6	24.8
Social Services	24.1	23.4	14.2	20.1	13.3	13.3	12.4	27.3	-5.1	43.1
Economic Services	28.1	26.6	10.6	2.7	36.4	18.9	0.3	18.9	-4.8	26.5
Capital Outlay	-3.7	8.3	46.1	29.6	32.0	13.5	6.2	-27.2	-59.4	280.5
Discharge of Public Debt	33.4	5.0	1.6	15.7	14.3	2.2	10.4	55.4	-32.5	134.1
Loans and Advances	72.9	9.4	-61.3	-54.3	68.5	-81.7	113.2	505.7	-41.6	214.9
Total	18.7	15.0	16.2	17.8	18.6	12.4	8.0	13.4	-1.7	-1.0

Source: Data compiled from GoB, Bihar Economic Survey, Various Issues.

CONCLUSION

Thus on the basis of discussion, it can be deduced that public expenditure is not only to ensure economic stability but also to accelerate the economic growth and promote employment opportunities in a backward state like Bihar. It plays a useful and very significant role in alleviating mass poverty existing in the state and reduces inequalities in income distribution among different sections of the society. Apart from these, public expenditure raises aggregate demand and thereby gets the economy out of recession. It also helps in managing aggregate demand to check the inflation in the economy. Hence, the role of public expenditure is highly significant in a backward state like Bihar.

References

- R.K. Lekhi and Joginder Singh, *Public Finance*, Kalyani Publishers, Ludhiana, 2015, p. 82
- Gaur, A.K., *Federal Finance in India – Emerging Trends*, Deep & Deep Publications, New Delhi, 1988, p. i.
- Mehta, J.K., *Public Finance*, Kitab Mahal, Allahabad, 1973
- David Alan Aschauer, "Is Public Expenditure Productive?", *Journal of Monetary Economics*, Volume 23, Issue 2, March 1989, pp. 177-200
- Shantayanan Devarajan, Vinaya Swaroop and Heng-fu Zou, "The Composition of Public Expenditure and Economic Growth," *Journal of Monetary Economics*, Volume 37, Issue 2, April 1996, pp. 313-344
- Tao Zhang and Heng-fu Zou, "The Growth Impact of Inter-Sectoral and Inter-governmental Allocation of Public Expenditure: With Applications to China and India," *China Economic Review*, Volume 12, Issue 1, Spring 2001, pp. 58-81
- Gerhard Glomm and B. Ravikumar, "Productive Government Expenditures and Long-run Growth," *Journal of Economic Dynamics and Control*, Volume 21, Issue 1, January 1997, pp. 183-204
- Niloy Bose, M.E. Haque and D.R. Osborn, "Public Expenditure and Economic Growth: A Disaggregated Analysis for Developing Countries" *The Manchester School*, Volume 75, Issue 5, September 2007, pp. 533-556



This document was created with the Win2PDF "print to PDF" printer available at <http://www.win2pdf.com>

This version of Win2PDF 10 is for evaluation and non-commercial use only.

This page will not be added after purchasing Win2PDF.

<http://www.win2pdf.com/purchase/>