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"A STUDY OF EXPENDITURE PATTERN OF THE STATE GOVERNMENT WITH SPECIAL REFERENCE TO KARNATAKA"

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ABSTRACT

Until the 19th century, public expenditure was not very important, as the doctrine of *laissez faire* policy was in vogue and under the concept of sound finance, balanced budget; its minimum size was considered to be ideal. Adam Smith, the father of economics, recognized only a limited scope of government expenditure such as a) to protect society from violence and invasion b) to protect every member of society from the injustice c) to create and maintain certain works of public importance. Adam Smith and his followers believed that money left in private hands could bring better returns.

KEYWORDS :Expenditure Pattern , protect society , organizations.

INTRODUCTION

It was only in 20th century that J.M. Keynes pointed out the importance of public expenditure in determining the level of income and distribution in the economy. In the 20th century, under the slogan of welfare state, the functions of the government have expanded. Consequently, there is both intensive and extensive increase in public expenditure across the world.

In the present century the major fiscal issues before a number of countries are:

1. How to raise more revenue, both from tax and non-tax sources without compromising equity and efficiency?
2. How to finance ever increasing public expenditure?
3. How to priorities expenditure in the context of limited resources on one hand growing aspirations of people on the other?



Need For the Study

Public expenditure is basically the spending of the government of a country, its various ministries, departments and organizations on numerous heads such as defence, internal law and order, human resource development, infrastructure development, regional development, etc. Public expenditure is now expected to have a considerable impact on the level of economic activity.

In modern era, the need for public expenditure is felt as under:

1. For the provision of collective wants in order to optimize societal consumption in a rational way.
2. To-maximize-social and economic welfare
3. To act as a counter cyclical tool.

India is having a federal setup. It has three layers of governments, that is,

union, state and local governments. The constitutional provisions are such that they have to generate their own resources and discharge their respective responsibilities. However, the union government takes maximum responsibilities in both generating the resources and discharging constitutional obligations.

Karnataka is seventh largest state in the country and it made notable progress in all sectors during the course of the 11th Plan. As far as overall growth is concerned, the increase in State Income has been satisfactory in spite of the global slowdown in recent years. The increase in State Gross Domestic Product was 7.2% during the 11th Plan. Despite the pressures of adverse national and global macroeconomic conditions, Karnataka has consistently performed well on various fronts. Its economic performance has been led by a strong dominance of the service sector which is likely to grow by 8.9% in 2012-13. Karnataka's economy is likely to grow at 5.9% in 2012-13 (GSDP at constant prices 2004-05) which is slightly less than the all-India average. The decline can be largely attributed to the State's economy being more open to external trade as compared to the National economy. The increasing significance of public expenditure in economic development and the identification of the determinants of public expenditure have become the subject of recent interest among economists. So the present study aims to analyse the trend of public expenditure at the state level. This work will be done with reference to public expenditure of Karnataka state government. It aims to study the pattern of public expenditure on social sectors with special reference to health and education in Karnataka for the last ten years (2004-05 to 2013-14).

The following table helps us to know the increase in public expenditure in Karnataka State.

Table-1 Total Public Expenditure in Karnataka State :

Year	Public expenditure (in Rs.Cr)
2004-2005	30217
2005-2006	34163
2006-2007	42333
2007-2008	46781
2008-2009	52260
2009-2010	60656
2010-2011	69127

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

The above table shows that, during the year 2004-2005 the total expenditure was Rs.30217 Cr and there was a continuous increase in expenditure. In the year 2010-2011 it was Rs.69127 Cr. From 2004-2010 we notice that, nearly two-time increase in public expenditure. The net increase was Rs.38910 Cr.

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.

Studies highlighting pattern of public expenditure on social sector in Karnataka are far and few. In this context, the present research work will be unique and add to the existing body of knowledge. It will also help us to understand the trends in changing Public Expenditure on social sector in Karnataka.

STATEMENT OF THE PROBLEM

Across the globe, public expenditure is increasing rapidly. There is both intensive and extensive increase in the public expenditure. Governments across the world have realized that both the qualitative and quantitative increase in public expenditure has beneficial impact on the economy. It adds to infrastructure and human resource development notwithstanding its highly acclaimed anti-cyclical role. Every layer of government, in a federal setup, has its own public expenditure policies and programmes. It is in this context that present study is entitled as "A Study of Expenditure Pattern of the State Government with Special Reference to Karnataka" (2002-2012)

OBJECTIVES OF THE STUDY

The major objectives of the present study are fallows~.

- a. To study welfare role of government.
- b. To identify and study recent developments in the area of public expenditure.
- c. To study the major areas of expenditure in federal system of India.
- d. To study the volume, growth and pattern of public expenditure in Karnataka state.
- e. To study the expenditure pattern with special emphasis on social sector.

HYPOTHESES

For the purpose of present research work the following hypothesis are developed:

H.1. Increase in public expenditure is a reflection of social aspirations.

H.2. Revenue expenditure is increasing faster than capital expenditure.

Data Base

The present study is based on the secondary data. And the data will be collected from budgetary documents, government reports, departmental reports, RBI publications; Planning Commission publications Directorate of Economics and Statistics, Bangalore; Finance Department (GoK); Economic Survey (GoK) and CSO (Central Statistical Organisation).

Limitations

The present study is limited to only public expenditure and identifies Karnataka state for the

reason that it is one of the highly progressive states in India.

The present study envisages following limitations, which are enumerated as follows:

1. It covers only one branch of public finance that is public expenditure.
2. It covers only one state, i.e., Karnataka state.
3. It covers a period of ten years only.
4. It is mainly based on secondary sources

RESULTS AND DISCUSSION

Table-2 Trends in Total Government Expenditures (Consolidated Fund)and SDP at Current and Constant Prices.

Year	At current prices		At constant prices	
	Expenditure	SDP	Expenditure	SDP
2004-05	35709.18	166747	35709.18	166747
2005-06	34973.29 (-2.06)	195904 (17.5)	32899.36 (-7.87)	184277 (10.5)
2006-07	44347.59 (26.80)	227237 (16.0)	39549.18 (20.21)	202660 (10.0)
2007-08	48109.22 (8.48)	270627 (19.1)	40565.69 (3.18)	228202 (12.6)
2008-09	54038.81 (12.32)	310312 (14.7)	42560.97 (4.91)	244421 (7.1)
2009-10	62963.51 (16.51)	337559 (8.8)	46177.43 (8.49)	247590 (1.3)
2010-11	71934.07 (14.24)	410703 (21.7)	47764.21 (3.44)	272721 (10.2)
2011-12	85756.15 (19.21)	455212 (10.8)	52645.70 (10.21)	282784 (3.7)
2012-13	96601.16 (12.64)	522673 (14.8)	54637.61 (3.78)	299990 (6.1)
2013-14	110648.70 (14.54)	614607 (17.6)	58068.43 (6.28)	321455 (7.2)
Increase over The initial year	3.1	3.56	1.6	1.9
Annual compound rate of growth	13.63	15.22	5.84	7.63

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

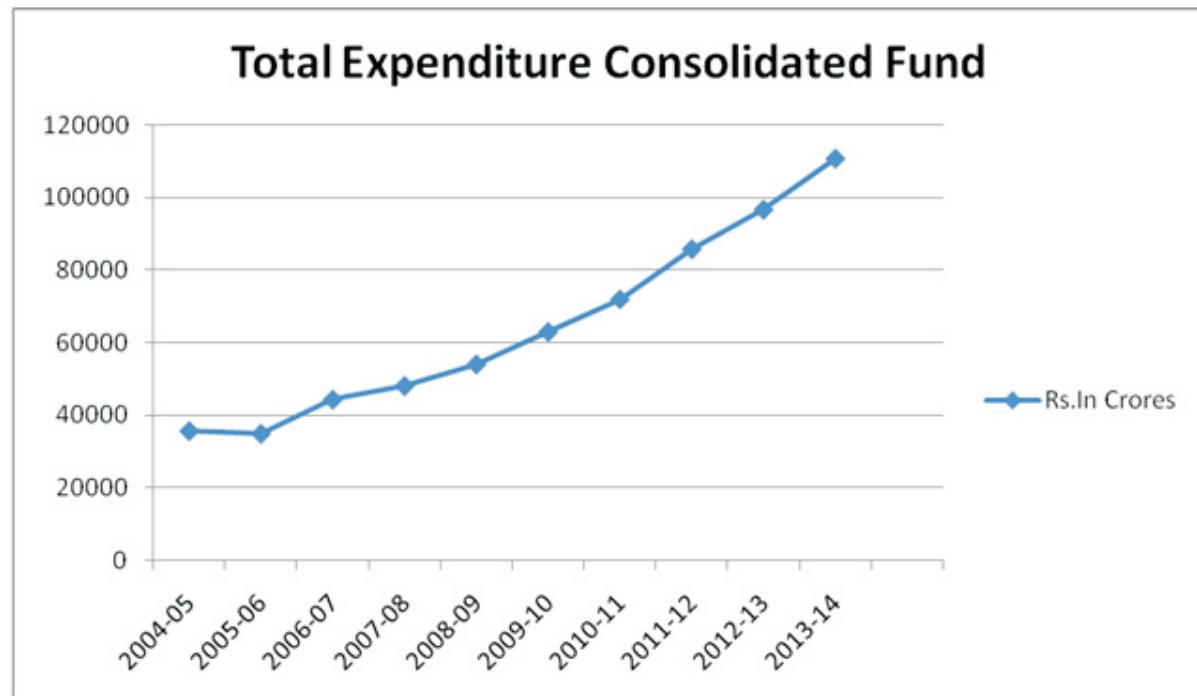


Table -3 Education Expenditure Trends in Karnataka

Year	Education Expenditure		Per Capita Education Expenditure	
	At Current Price	At Constant Price	At Current Price	At Constant Price
2004-05	4362.83	4362.83	789	789
2005-06	4890.70 (12.10)	4600.68 (5.45)	873	822
2006-07	5758.21 (17.73)	5135.74 (11.63)	1017	907
2007-08	6931.98 (20.38)	5845.05 (13.81)	1210	1020
2008-09	8691.70 (25.38)	6846.45 (17.13)	1500	1182
2009-10	8792.17 (1.15)	6449.06 (-5.80)	1502	1101
2010-11	11212.63 (27.53)	7445.18 (15.44)	1895	1258
2011-12	12564.52 (12.06)	7713.36 (3.60)	2102	1290
2012-13	14985.77 (19.27)	8475.95 (9.87)	2482	1404
2013-14	16553.67 (10.46)	8687.36 (2.50)	2715	1325
Increase over Initial year	3.8	2.0	3.4	1.7

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

Table-4 Health Expenditure Trends in Karnataka

Year	Health Expenditure		Per Capita Health Expenditure	
	At Current Price	At Constant Price	At Current Price	At Constant Price
2004-05	1043.90	1043.90	188.68	188.68
2005-06	1146.19 (9.80)	1078.22 (3.29)	204.70	192.57
2006-07	1349.61 (17.75)	1203.72 (11.64)	238.25	212.50
2007-08	1832.18 (35.76)	1544.89 (28.34)	319.80	269.65
2008-09	2140.10 (16.80)	1685.76 (9.12)	369.45	291.01
2009-10	2248.14 (5.05)	1649.01 (-2.18)	383.96	281.63
2010-11	2796.52 (24.39)	1856.89 (12.60)	506.42	313.82
2011-12	3317.93 (18.64)	2036.88 (9.69)	555.02	340.73
2012-13	3929.10 (18.42)	2222.23 (9.10)	650.70	368.03
2013-14	4533.72 (15.39)	2379.30 (7.10)	743.54	390.21
Increase over Initial year	4.34	2.28	3.94	2.0
	18.00	9.86		

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

FINDINGS

1. The total consolidated fund expenditure increased from Rs 35709.18 crores during 2004-05 to Rs.1,10,648.7 corores during 2013-14 at current prices. This amounts to 3.1 time s increase over the initial year.
2. SDP has increased from Rs 166747 crore to Rs 593811 crores at current prices. This amounts to 3.5 times over the initial year
3. The annual compound growth rates (ACGR) The total public expenditure has growth of 13.63% per annum and the growth of SDP was 15.22% per annum at current prices. There is smooth increase in both total expenditure and SDP
4. Total Public Expenditure at contant prices it increases Rs 35709.18 crores to Rs 58068.43 crores. This amounts to 1.6 Times increase over the initial year at constant prices.
5. SDP has increased from Rs 166747 crores to Rs 321445 crores this amounts to 1.9 times increase over the initial year at constant prices. The ACGR for total public expenditure at constant price 5.84 and SDP is 7.63
6. The per capita public expenditure increased from Rs 6454 during 2004-05 to Rs 18147 during 2013-

14 this amounts 2.8 times increase over the initial year at the constant prices. The per capita SDP increased from Rs 30,138 to Rs 1,00,797 this amounts to 3.34 times increase over the initial year at constant prices.

7. At constant prices ACGR Of public expenditure is 13.63 and SDP is 15.22 at constant prices per capita expenditure increased Rs 6,454 to Rs 9,523 .this is 1.5 times increased over the initial year.

8. Per capita SDP at constant prices increased Rs 30,138 to Rs 52,719this is 1.7 times increased over the initial year.

9. Total Expenditure in relation to SDP in 2004-05 it was 21.4 % and in 2013-14 it was 18% average of all years is 18.75%.

10. In government sector employment share has reduced from 56.9% during 2004-05 to 44.4% during 2013-14.In private sector Employment share has increased from 43.1% during 2004-05 to 55.6% during 2013-14

11. Revenue expenditure has increased from Rs 24,931.85 Crores to Rs 89,189.57crores This amount 3.57 times increase over the periods

12. Capital expenditure has increased from Rs 4673.68 crores to Rs 16946.86 crores during the periods it has increased 3.62 times increase over the initial years

13. Social service sector expenditure increase from Rs 6621.55 crores to Rs 35674.57 crores during the years this is 5.39 times increase over the periods.

14. SSE Total Expenditure = 28.12% to 32.24%
 GSDP = 4.89% to 5.8%
 Per capita = 1468.48 to 5850.68

3.98 times

14. Expenditure on Education: During 2004-05 Rs 4362.83 crores During 2013-14 Rs 16553.67 crores As per Total social sector expenditure 53.15% decreased to 46.4% of TSSE.(3.8 times).

15. Health Expenditure has increased from Rs 1043.9 crores to Rs 4533.72 crores i.e 12.72% to 12.71% during 2004-05 to 2013-14.

16. Water supply Sanitation Expenditure has increased from Rs 1269.26 to Rs 3857.74 i.e 15.46% to 10.81% during 2004-05 to 2013 14

17. Education Expenditure as a percentage of total public expenditure has increased from 12.2% to 14.96% as % to SDP 2.62 % to 2.69% during 2004-05 to 2013-14

18. Plan Education Expenditure : In 2004-05 it was 918.69 crores and In 2013-14 it was 4961.91 crores As percentage to total education expenditure increases 21.06% to 29.97%

19. Non Plan education Expenditure : In 2004-05 it was 3444.14 Crores increased to Rs 11591.91 in 2013-14 at the rate of 3.36 times.

20. Health Expenditure : In 2004-05 Rs 1043 crores, In 2013-14 it increased to Rs 4533.72crore at the rate of 4.34 times. Per capita health expenditure increase Rs 188.68 too Rs 743.54 and it increased at the rate of 3.94 times. As percentage to total social expenditure increases 12.72% to 12.71% As percentage to total public expenditure increases 2.925 to 4.1%. as percentage of total GSDP 0.63 to 0.74.

21. Non-plan Health expenditure: In 2004-05 Rs 704.01 crores increased to Rs 2274.62 crores. In 2013-14 . Non plan health expenditure as percentage total health expenditure is reduced from 67.44% to 50.17%.

SUGGESTIONS

- 1) According to United Nations Development Program (UNDP) recommendation the ratio of public expenditure to state income to be 25% but the Karnataka state expenditure ratio on an average during study period is 18.75% it has to be increased.
- 2) The social allocation ratio refers to percentage share of social service expenditure to total public expenditure to be 40% . The Karnataka govt social allocation ratio has increased from 28.12% during 2004-05 to 35.6% during 2013-14 , but still it has to increase.
- 3) The social priority ratio refers to percentage of social service expenditure devoted to human priority concerns that include , areas like elementary education, water and sanitation , public health and maternal and child health to be 50%. The Karnataka govt social priority ratio is on an average during study period is 34.5%. It needs to be increased.
- 4) The human expenditure ratio refers to percentage of state income earmarked to human priority concerned which is product of above three ratio to state income to be 5%. The Karnataka govt has 2.2%. It needs to be increased.
- 5) The capital expenditure on education and health needs to be increased to lead the state towards prosperity.

CONCLUSION

The study conclude that there is a significant growth of public expenditure and GSDP in current and constant prices. Public expenditure on social sector has also increased 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. The capital expenditure on education and health needs to be increased to lead the state towards prosperity.

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