

Growth and Performance of Public Expenditure in Karnataka- A Critical Analysis

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¹Received: 28 March 2024; Accepted: 15 May 2024; Published: 24 June 2024

Abstract

Economic growth and its distribution across different sections of society depend on the patterns of public expenditure in developing countries like India. The 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 the pre-reform period. The compound growth rate of public expenditure on revenue accounts was higher than 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 based on secondary data attempts to examine the trends and patterns of public expenditure during 1980-81 to 2021-22 in Karnataka.

Keywords: *Compound Annual Growth Rate; GSDP; Public Expenditure.*

1. Introduction

In the modern age, the Government plays a dominant role in the promotion of the economic activity of a country by supplying the basic infrastructures to the economy. For this purpose, the Government has to go for a huge amount of public expenditure. Reduction of economic inequality and acceleration of economic growth are two main objectives of Government expenditure. Progressive taxation and a higher level of Government expenditure are found to be the important instruments at the hand of the Government to attain the above objectives. The efficiency of the public expenditure is reflected in the economic growth. To make this economic growth an inclusive one, it needs a reduction of economic inequality. However, the efficiency of public expenditure depends on its growth and pattern of it and its responsiveness to economic growth. If a major part of public expenditure will be made in the current account, then it results in low economic growth and if a major part of it will be made in the capital account, it leads to higher economic growth. If a careful analysis is made of the Government expenditure in India, it would indicate that the current expenditure in the revenue account has grown at a higher rate than that of capital expenditure. It is resulting in growing fiscal deficit, debt un-sustainability, and low economic growth.

The New Economic Policy 1991 was adopted in India to accelerate the economic growth and development of the country. The public expenditure on basic and key socio-economic infrastructure is complementary to new economic policy while attaining the above objectives. Because domestic and foreign private investments are attracted according to the existing socio-economic infrastructure. Economic growth will automatically increase when the rate of investment grows.

The economic growth rate of Karnataka is low in comparison to other states. It indicates some faults in the composition of public expenditure in Karnataka. As a result after 20 years, Karnataka is deprived of getting benefits from globalization. Poverty, unemployment, starvation, and other socio-economic problems continue. The problem is not only the low economic growth but also the lack of inclusiveness in it.

¹ How to cite the article: Varsha N., Rangaswamy N.; Growth and Performance of Public Expenditure in Karnataka- A Critical Analysis; International Journal of Advancement of Social Science and Humanity; Jan-Jun 2024, Vol 17, 92-97

Therefore, the public expenditure's responsiveness to economic growth will be higher, if a major share of it is allocated for expenditure in the capital account, which is productive in nature. More than half of the Indian states are going for huge public expenditures where a major part is unproductive and in the current account. It needs to change the composition and growth of public expenditure in favour of basic key socioeconomic infrastructure like health, education, power, transport, etc. Keeping in view the above problems, a study of Karnataka has been selected for the purpose.

2. Review of Literature

Public expenditure as known to all has a significant impact on economic growth. But it depends on the growth and composition of it. Yet there are many controversial views concerning growth, pattern, and its impact on economic growth. After the 1930s, Keynesian views dominated the world economy and it was reflected in the economic policies of various Governments. Each country emphasized expansionary fiscal policy as a solution to various domestic socio-economic problems. Many researchers have contributed by studying the growth and composition of public expenditure along with its computation on economic growth.

A lot of literature is found in different studies to analyze the impact of public expenditure on economic growth (e.g. Kavita Rao et al 2001¹, Raghuram and Venkataraman Krishnan 2002², Ramesh Chandra 2004³, Bose et al. 2007⁴, Ranjan and Sharma 2008⁵, Muhammad Azeem Qureshi, 2009⁶, Srinivasan 2013⁷, Vijay L.N. et al 2013⁸, Gangal and Gupta 2013⁹, Ritwik Sasmal and Joydeb Sasmal 2016¹⁰, argue that increase in total government expenditure contributes positively to economic growth. Further, some studies such as Abdullah 2000¹¹, Al-Yousif 2000¹², Agenor and Niananis 2006¹³, Narvaez 2006¹⁴, and Cooray 2009¹⁵ found that an increase in expenditure on socio-economic and physical infrastructures also contributes positively to economic growth. Some studies found a long-run relationship between public sector expenditure and national income in India, with the connection running firmly from the earlier to the latter. Such as Sakthivel and Inder 2007¹⁶, Sayantan Ghosh Dastidar and Monojit Chatterji 2009¹⁷, and Jeevan Khundrakpam 2003¹⁸. Some studies attempt to examine the effect of globalization on economic growth and human capital expenditure. Alivelu and Narasimha Rao 2004¹⁹, Pranab Das and Saibal Kar 2011²⁰, Pranab Das and Saibal Kar 2011²¹, Pradhan and Bagchi 2012²². Some state-wide studies evaluate the growth and performance of public expenditure such as Mishra 2006²³, Chattopadhyay 2007²⁴, Mohanty 2011²⁵, Shivaranjani 2010²⁶, Hussain 2014²⁷.

The above-reviewed studies indicate the importance and role of public expenditure in accelerating economic growth. Most of the studies reviewed above discuss the trends and process of public expenditure at the national and state level in India and these studies analyzed all the years together. From the above context, the present study examines the growth and performance of public expenditure in Karnataka state.

3. Objectives

The present study examines the growth and performance of public expenditure in Karnataka state with the following objectives:

1. To examine the growth pattern of expenditure of the Karnataka state.
2. To examine the growth rate of the Revenue and Capital Expenditure
3. To analyse the different heads of Expenditure of the Karnataka

4. Database and Methodology

The public expenditure divisions that are considered for the study comprise Revenue and Capital, plan and non-plan, development, and non-development expenditure. The study is based on secondary data and is collected from various sources such as the Directorate of Economics and Statistics, Bangalore; Finance Department (GoK); Economic Survey (GoK) and CSO (Central Statistical Organisation). The present study attempts to examine the growth and performance of public expenditure in Karnataka state from 1980-81 to 2020-21 for three decades in Karnataka.

5. Growth of Public Expenditure in Karnataka

The public expenditure in the State of Karnataka has been skyrocketing on various grounds including- an increase in administrative expenses and electoral expenses, growth of subsidies, expansion of urban areas and towns, and many more. The growth of total public expenditure in real terms was 3.97 percent per annum from 1980-81 to 1989-90 which increased drastically to 6.14 percent during 2001-02 to 2011-12. Similarly, the GSDP at constant prices also increased from 5.01 percent during 1980-81 to 1989-90 and further increased at a faster rate of about 6.70 percent. The Gross State Domestic Product (GSDP) of Karnataka for 2021-22 (at current prices) is projected to be Rs 17,02,227 crore. This is an annual increase of 0.1% over the actual GSDP of 2019-20, and 5.6% lower than the revised estimate of GSDP for 2020-21 (Rs 18,03,609 crore). In the 2020-21 comparison, the nominal GDP of India is estimated to contract by 13% in 2020-21 and grow by 14.4% in 2021-22.

Table No: 1 Per Capita Public Expenditure in Karnataka

Financial Year	Per Capita Public Expenditure	Decade-wise increase (in %)
1981	514	-
1991	1389	10
2001	4290	11.9
2011	13957	12.52
2021	18967	16.78

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

The above table indicates that there has been an increase in per capita availability of public expenditure at constant prices over some time in Karnataka. Whereas, at the 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. In the first decade, the per capita expenditure registered a growth rate of 11.9 percent, with an increase from Rs 1389 in 1991 to Rs.4290 in 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. Further, it increased to Rs 18967 in 2021 by 16.78 percent. It shows a significant improvement in the decade-wise increase in the percentage per capita in 2021.

6. Revenue and Capital Expenditure

Revenue expenditure is incurred for the purpose other than the creation of assets and it is like the consumption expenditure of the government. Whereas capital expenditure is important for financing loans received by the government from the center 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: 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 2010-11	5.43	8.89	6.14	7.19	3.80	6.69
2011-12 to 2020-21	7.56	9.78	8.76	8.59	4.43	7.89
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)

Table 2 presents that the total revenue expenditure has grown at a 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 from 2001-02 to 2011-12 with about 8.89 percent per annum as compared to revenue expenditure of 5.43 percent in

the reform period as compared to the post-reform period. Further capital expenditure increased to 9.78 percent and 7.56 percent in revenue expenditure between 2011 -12 and 2020-21.

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

7. 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 (Gayathri, 1988:158). Whereas the non-development expenditure includes on collection of taxes and duties, administrative services, interest payments and debt servicing, pension, and miscellaneous general expenditures. Table 3 depicts the development and non-development expenditure in Karnataka during the 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 2010-11	6.95	4.69	6.23	7.81	4.3	5.94
2011-12 to 2020-21	8.67	5.45	7.45	8.68	6.56	7.23
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 at about 6.55 percent as compared to 6.51 percent of development expenditure during 1990-91 to 2011-12. The growth of non-development expenditure was highest at 7.48 percent. Whereas, the development expenditure was less during the first decade of 1990-91 to 2000-01. The development expenditure during the current decade stood highest at 6.95 percent as compared to that of non-development expenditure of about 4.69 percent from 2001-02 to 2011-12. Further, the development expenditure increased to 8.67 percent, and 5.45 percent in non-development expenditure from 2011-12 to 2020-21. The non-development expenditure reduced in recent decades due to the reduction of interest payments on public debt.

8. Plan and Non-Plan Expenditure

The expenditure under various heads of the budget on schemes listed as part of a particular plan is termed a planning scheme. The planning schemes may either be initiated during a particular plan or may be the spillover of previous plans. However, the proposal to increase non-plan expenditure is to propose to finance government expenditure.

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
2011-12 to 2020-21	12.45	6.89	8.12
Over All	7.40	4.46	5.36

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

Table 4 highlights that the total plan expenditure stood highest at about 7.40 percent whereas, non-plan expenditure stood comparatively less at 4.46 percent from 1980-81 to 2011-12. Similarly, the non-plan expenditure reduced at a faster rate during recent periods 2001-02 to 2011-12 about 4.24 percent per annum as against 9.95 percent in plan expenditure. Correspondingly, the plan expenditure increased to 12.45 percent and non-plan expenditure increased to

6.89 percent from 2011-12 to 2020-21 due to austerity measures adopted by the Government of Karnataka such as restrictions on fresh recruitment, vehicle purchases, foreign tours, and training, holding government functions in star hotels and still a large amount of expenditure is locked up under committed expenditure like salaries, pensions, interest, subsidies, and administrative expenditures. The plan and non-plan expenditures were very low during the pre-reform of 1980-81 but gradually increased during the post-reform period of 1990-91.

9. Conclusion:

The important findings of the study are summarised as the study found that there is positive and significant growth of public expenditure and GSDP in constant prices. The continuous increase in per-capita public expenditure in Karnataka was much faster after the reform period. The total public expenditure as a percentage of GSDP was found to be decreased in the post-reform period as compared to the pre-reform period. The expenditure on the current (Revenue) account was marked highest as against capital expenditure during the reference period. The growth of non-plan expenditure stood higher than the development expenditure in Karnataka. Further, it has been found that the growth of plan expenditure was much higher than that of non-plan expenditure in Karnataka.

10. Suggestions:

It suggests that there is a need to 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. Similarly, there has to be an increase in capital expenditure in Karnataka. In addition, there has to be a state increase in the plan expenditure rather than non-plan expenditure in Karnataka.

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