

# Management Of Public Expenditure In The State Of Gujarat : An Analysis

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## ABSTRACT

Allocation of expenditure at the state government level assumes significance since the major expenditure responsibilities are entrusted to them. The State Governments of India have been taking stringent measures to control the mounting expenditure. However, nothing substantial has been achieved because a large part of the expenditure is of revenue nature, which is beyond its control. It is in this context that this paper attempts to analyze the expenditure pattern of Gujarat State Government and its major issues, both qualitatively and quantitatively, which is affecting the state's finances.

**Keywords:** State Budget, Expenditure, Buoyancy, Stability, State Government, Gujarat

**JEL Classification:** C290 , H720

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## INTRODUCTION

In the era of reforms, sound financial health as well as efficient management of state finances is of vital importance. The role of the state and its fiscal policy are becoming crucial and are receiving great attention because fiscal discipline at the state level is considered necessary to accelerate overall growth and development. Furthermore, an efficient management of state finance is of utmost importance for the states in India to play an effective role in areas of concurrent jurisdiction such as education, electricity, family planning, economic and social planning.

In India, one important issue at the state level or sub-national level is that of fiscal sustainability. The composition of receipts and expenditure of the government sector in India reveals that while the state governments collect about 11 percent of GDP as total government receipts, they incur more than 16 percent of GDP as total expenditure on social and economic services. Furthermore, as the state government's budgetary support from the central government is gradually reducing; their ability to undertake and perform developmental functions adequately and effectively has become contingent on their fiscal position.

Almost all the states in India witnessed a secular deterioration in their fiscal health since the mid eighties. Gujarat state, which is generally considered as a well managed state, is no exception to the deterioration in the fiscal situation of the country. The Gujarat state has consistently incurred a deficit in its budget during the period of the eighties, the nineties and during the years of the early two thousand. It has reached a stage where capital receipts are being utilized to cover the revenue deficit. This has further resulted into growing debt burden, thereby affecting the development expenditure. Although the state undertook various policy measures to strengthen its finances, mainly in late two thousand, given the size of the problem, the effectiveness of such policy measures, however, remain inadequate.

Since public expenditure is necessary for growth and structural reform processes, its structure has a significant implication on socio-economic status of state. Hence, it is, therefore, important to find out the peculiar characteristics of expenditure which affected the quality of fiscal behavior of a well-developed state like Gujarat. In view of this, the paper deals with major issues of revenue and capital expenditure, development and non-development expenditure, economic and social services, interest payment and servicing of debt, administrative services, pensions and subsidies. Theoretically, it is believed that public expenditure has recorded a continuous uptrend over a time in almost every country/state. Dalton (1954) rightly said: "just as taxation, other things being equal, should reduce production as little as possible, so public expenditure should increase it as much as possible" [Dalton, p.151].

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Government expenditure is among the most vital instruments to achieve the objectives of the state policy. It not only provides public goods to the society, but also protects them from internal and external damage, such as natural calamities, war, hunger, disease, etc. It is believed that public spending creates employment, which in turn creates a multiple effect on increase in output by increasing income and thereby, consumption. It has been argued that market mechanism by itself fails to bring automatic adjustment in a capitalist economy. It is, therefore, necessary for the government to intervene. The government expenditure influences the flow of total expenditure and the consequent generation of income flow in the economy. Further, the public expenditure can be appropriately devised to manipulate the aggregate expenditure at the optimum level. It can serve as an effective fiscal device to be used by the government to accomplish the desired social-economic goals (Report of the Planning Commission, 2002-07).

There are some well researched papers on fiscal policy pertaining to Gujarat Government expenditure. Dholakia (1998) examined the factors pertaining to future expenditure policy of Gujarat. She found that considerable changes had taken place during 1978-1997 in the level, growth and structure of various expenditure items.

Sharma (2000) examined the performance of Gujarat's revenue and expenditure systems for the period from 1980-97. The paper highlighted the major weaknesses of the existing revenue sources and suggested a broad direction of future reforms. The author suggested that the state should adopt a strategy for restructuring its expenditure, which defines a link between macro and micro objectives. This leads to prioritization as well as budget monitoring and control, and thus leads to expenditure efficiency.

The paper titled "*White Paper on Road Map for Fiscal Reforms in Gujarat*" (2000) discussed the fiscal health of Gujarat. As per the paper, the finances of Gujarat government were subjected to considerable stress and strain since 1985-86. Lack of revenue buoyancy and the unprecedented expenditure commitments on accounts of natural calamities and the fifth pay commission put severe pressure on the fiscal health of the state.

Rao et al.'s (2008) paper opined that in general, Gujarat's finances showed a marked improvement recently (both fiscal and revenue deficit declined during 2007-08 as compared to 2003 from 8.4% to 5.5% and 5.9% to 1.3%), but the situation in some of the states still remains grim. According to them, the improvement in deficit has been brought down by compressing developmental expenditure. Thus, fiscal adjustment has been adjusted at the cost of economic growth and macroeconomic stabilization.

In addition to it, fiscal liability has created a significant fiscal risk both at the centre and at the state, which include pay revision, increase in food subsidy in the wake of sharp increase in the prices of food grains, expenditure associated with electoral cycle and increase in capital inflows and its sterilization by the Reserve Bank of India.

It is evident from the studies cited above, that a comprehensive study on the management of public expenditure in one of the most developed states of India (Gujarat) was lacking. It is this gap that the present paper attempts to fill.

## SOURCES OF DATA AND METHODOLOGY

The study used the annual data obtained from various RBI bulletins on state finances and GOG, Gujarat State Domestic Product (various issues). The paper examines the trend, composition, buoyancy, stability and elasticity to know the extent and adequacy of various policies relating to Gujarat state expenditure. The time period considered for the study is 1980-2008. This is further divided into three sub-periods. Statistical techniques used in the analysis are:

- 1) To estimate the trend, the Growth Rate is estimated by a simple linear regression analysis.
- 2) The buoyancy of expenditure for the given time period is estimated by fitting regression equation of tax revenue on gross SDP by OLS method. The mathematical form of the regression used in the study is of double log linear i.e. :

$$\text{Log (Y)} = a + b \text{ log (X)} + e \quad \dots(1)$$

Where "b" is interpreted as buoyancy, and e is an error term.

- 3) Index of stability (z) is defined here as the inverse of the standard error of the natural log of expenditure R regressed on time (t) [William and Lamb, 1976].

$$Z = 1/ \text{Sin} R \quad \dots(2)$$

$$\text{sin } R = \frac{\sqrt{\varepsilon (\ln R - \ln R)^2}}{n - 2}$$

4) A growth path is defined by the least square regression of the natural log of expenditure over time :

$$\ln R = \ln a + gt \quad \dots(3)$$

A higher z index indicates greater yield stability. In the empirical results, the index ranges between 1 -10.

## ANALYSIS AND DISCUSSION

**a) Trend Of Public Expenditure In Gujarat :** The government expenditure in Gujarat increased due to greater involvement of the state in economic and social activities. It is one of the highly industrialized states in India. It occupies a prime position as the investment destination in the national scenario and is marching ahead rapidly in the process of globalization. Gujarat has been able to maintain rapid and sustained growth. However, the growth process is determined by the expenditure incurred to achieve plan targets. From the Table 1, it is evident that the total expenditure in Gujarat increased both in absolute and relative terms. The total expenditure in Gujarat in the year 1980 was ₹ 1442.22 Cr, which increased to ₹ 494550 Cr. in 2008 i.e. by 72.38 times. In case of All States, it was ₹ 22091Cr. in the year 1980 and this value increased to ₹ 2172094 Cr. in 2008 i.e. 98.36 times. Thus, increase in Gujarat's total expenditure was comparatively less than All States average.

<b>Table 1: Trends In Total Expenditure of Gujarat and All States (1980-2008)</b>							
<b>Gujarat</b>							
<b>Year</b>	<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2005</b>	<b>2008</b>
<b>TE (₹)</b>	1442.22	2625.26	5469.84	10810.58	27174.61	34256.77	49455.19
<b>RE/TE</b>	<b>62.62</b>	<b>75.13</b>	<b>74.62</b>	<b>81.08</b>	<b>81.10</b>	<b>24.46</b>	<b>63.44</b>
<b>DRE/TE</b>	45.63	56.25	52.65	56.73	58.31	10.9	21.57
<b>NDRE/TE</b>	16.59	18.38	21.62	23.90	22.61	8.75	14.94
<b>CE/TE</b>	<b>37.37</b>	<b>24.86</b>	<b>25.37</b>	<b>18.91</b>	<b>18.89</b>	<b>75.54</b>	<b>37.66</b>
<b>CDE/TE</b>	13.66	10.20	12.93	11.47	10.87	7.2	12.96
<b>CNDE/TE</b>	3.85	0.14	0.09	0.18	0.14	0.15	0.42
<b>Total DE/TE</b>	<b>59.30</b>	<b>66.45</b>	<b>65.58</b>	<b>68.21</b>	<b>69.18</b>	<b>20.72</b>	<b>50.34</b>
<b>Total ND/TE</b>	<b>20.45</b>	<b>18.53</b>	<b>21.72</b>	<b>24.16</b>	<b>22.76</b>	<b>11.00</b>	<b>26.33</b>
<b>Total PE/TE</b>	<b>36.11</b>	<b>26.93</b>	<b>32.33</b>	<b>22.91</b>	<b>23.04</b>	<b>8.61</b>	<b>17.07</b>
<b>Tot.NPE/TE</b>	<b>63.88</b>	<b>73.06</b>	<b>67.66</b>	<b>77.08</b>	<b>60.30</b>	<b>91.38</b>	<b>82.82</b>
<b>All States</b>							
<b>Year</b>	<b>1980</b>	<b>1985</b>	<b>1990</b>	<b>1995</b>	<b>2000</b>	<b>2005</b>	<b>2008</b>
<b>TE (₹ Cr.)</b>	22091	44866.6	91088.1	178583.7	347198.2	2144502	2172094
<b>RE/TE</b>	<b>67.03</b>	<b>73.03</b>	<b>78.79</b>	<b>81.19</b>	<b>83.96</b>	<b>20.42</b>	<b>31.83</b>
<b>DRE/TE</b>	47.59	51.43	53.63	49.99	48.53	11.24	18.54
<b>NDRE/TE</b>	18.50	20.70	24.30	30.34	34.00	8.71	12.36
<b>CE/TE</b>	<b>32.96</b>	<b>26.96</b>	<b>21.20</b>	<b>18.80</b>	<b>16.03</b>	<b>79.57</b>	<b>68.16</b>
<b>CDE/TE</b>	14.16	11.93	11.61	9.98	8.70	3.4	6.39
<b>CNDE/TE</b>	0.32	0.21	0.43	0.37	0.25	0.12	0.28
<b>Total DE/TE</b>	<b>61.75</b>	<b>63.36</b>	<b>63.47</b>	<b>59.97</b>	<b>57.24</b>	<b>14.73</b>	<b>25.64</b>
<b>Total ND/TE</b>	<b>18.82</b>	<b>20.92</b>	<b>24.59</b>	<b>30.72</b>	<b>34.26</b>	<b>8.84</b>	<b>12.68</b>
<b>Total PE/TE</b>	<b>32.47</b>	<b>31.22</b>	<b>30.11</b>	<b>27.28</b>	<b>22.64</b>	<b>6.74</b>	<b>14.27</b>
<b>Total NPE/TE</b>	<b>67.52</b>	<b>68.77</b>	<b>69.88</b>	<b>72.71</b>	<b>77.35</b>	<b>93.25</b>	<b>85.72</b>
Sources: Handbook of Statistics on State Government Finances, RBI, 2004, Various States Finance Reports of RBI							
TE-Total Expenditure, RE- Revenue Expenditure, CE- Capital Expenditure, DE- Development Expenditure, NDE- Non Development Expenditure, PE-Planned Expenditure, NPE- Non Planned Expenditure.							

Though the total expenditure increased from 1980 to 2008 both in Gujarat and All States, however, a change is noticeable in the relative importance of revenue and capital expenditure. For instance, in total expenditure, the average share of revenue was 70 percent and capital was 30 percent during the period from 1980-2000. From 2002 onwards, the relative importance of revenue expenditure declined to about 25 percent, while the share of capital expenditure increased to 75 percent. This increase in capital expenditure was not because of capital outlay (it was 6.7 % of total expenditure), but was due to an increase in another factor known as Suspense and Miscellaneous component (higher contribution of cash balance investment account). A similar trend was noticed with respect to the share of development and non-development expenditure. The development expenditure as percentage of total expenditure was around 60 percent (1980-2000), but it declined to 50 percent in 2008. At the same time, the proportion of non-development expenditure increased from 20 percent in 1980 to 26 percent in 2008. Thus, the fall in the share of revenue expenditure is a good sign, however, if there is also a decline in capital and development expenditure, it is a cause for concern and calls for corrective measures. A distinctive feature of budget in India is that the revenue and capital account are divided into planned and non-planned expenditure. Planned expenditure reflects new projects undertaken in a new five year plan and thus represents investment and is mainly concerned with development. The non-plan expenditure generally constitutes the debt-servicing payment, subsidies and grants. In case of Gujarat, the share of planned expenditure in total expenditure had been continuously declining from 1980 -2008. It was 36.11 percent in 1980, but declined to 22.91 percent (1995), and was 8.61 percent in 2005. It rose marginally to 17.07 percent in 2008. While the non-planned expenditure rose from 63.88 percent in 1980 to 91.38 in 2005, it was 82.82 percent in 2008. A similar trend is observed in case of All States, where the share of non-planned expenditure was more as compared to the planned expenditure during the entire period from 1980 to 2008. In terms of revenue expenditure components, there was a wide variation in

<b>Table 2(i): Profile of Total Expenditure (1980-2008)</b>				
<b>Gujarat</b>	<b>SDP</b>	<b>Per Capita Exp</b>	<b>Elasticity</b>	<b>Stability</b>
RE	14	2427	2.80	7.4
CE	4	823	2.49	5.41
TE	19	3250	2.64	8.39
<b>All States</b>				
RE	11	1948	2.68	7.3
CE	3	630	2.45	5.08
TE	15	2579	2.56	11.68
Sources: Handbook of Statistics on State Government Finances, RBI, 2004, Various State Finance Reports of RBI				

<b>Table 2(ii): Trends In Growth Rate and Buoyancy of Expenditures</b>						
	<b>Growth Rate</b>			<b>Buoyancy</b>		
<b>Year</b>	<b>RE</b>	<b>CE</b>	<b>TE</b>	<b>RE</b>	<b>CE</b>	<b>TE</b>
<b>Gujarat</b>						
1980-1990	16.44	10.94	14.49	1.23	0.69	1.04
1991-2000	18.55	14.94	17.60	1.03	0.83	1.01
2001-2008	7.36	32.42	19.26	0.57	3.41	0.58
1980-2008	14.60	18.51	14.11	0.99	1.34	0.96
<b>All States</b>						
1980-90	17.11	10.74	15.27	2.9	1.75	2.54
1991-2000	15.09	11.52	14.37	1.12	0.88	1.17
2001-2008	11.49	32.64	14.23	0.89	3.41	0.89
1980-2008	14.78	17.27	14.65	1.42	2.24	1.41
Sources: Handbook of Statistics on State Government Finances, RBI, 2004, Various State Finance Reports of RBI						

the share of development and non-development expenditure (37-60%), discharge of interest payment (2-3%), repayment of loans and advances (17-37%) and other miscellaneous expenditure (1-2 %) during the period from 1980-2008. Similarly, Capital expenditure which comprises of total capital outlay (30 - 50%), discharge of interest debt (2-4 %), repayment of loans (15-20 %), loans and advances from the centre (25-30 %), contingency fund, and remittances also witnessed the same trend in the period from 1980-2008.

As regards to the growth rate, share in GDP, buoyancy, and stability index, the following observations were made from the Table 2 (i) and Table 2 (ii).

**(i)** It seems that the total expenditure of Gujarat at 19 percent in proportion to gross GDP was higher than the All States average of 15 percent. This means Gujarat was spending more as compared to All States average.

**(ii)** In the total expenditure, the share of revenue expenditure (14%) was more as compared to the capital expenditure (4%) as a proportion to GDP. The same trend was observed with respect to All States.

**(iii)** In terms of per capita revenue and capital expenditure, the same trend was observed. However, both revenue and capital per capita expenditure of Gujarat was higher as compared to the per capita capital expenditure of All States during the period from 1980-2008.

**(iv)** In terms of elasticity with respect to GDP, the elasticity of revenue expenditure was marginally high as compared to capital expenditure. In case of Gujarat, total expenditure elasticity value was around 2.6 percent.

**(v)** The stability index indicates that revenue and capital were least stable with 7 and 5 stability value during the period from 1980-2008.

**(vi)** Similarly, it is evident from the Table 2(ii) that there was not much variation in the growth rate trend in case of Gujarat as well as All States during the period from 1980-2008. However, the growth rate of Gujarat at 14.11 was lower than the value for All States at 14.65.

**(vii)** In the eighties and the nineties, the growth rate of revenue expenditure was more as compared to capital expenditure, while in the years of two thousand, the growth rate of capital expenditure was more as compared to revenue expenditure in case of both Gujarat and All States.

**(viii)** With respect to buoyancy, the revenue expenditure was more buoyant to income with its buoyancy value 1.23 and 1.03 in the eighties and the nineties respectively. While in the years of two thousand, the capital expenditure was more buoyant with 3.41 buoyancy level as compared to the revenue expenditure. A similar trend is observed with respect to All States.

From the above explanation, it can be inferred that in terms of growth rate, stability and buoyancy, revenue expenditure is higher than capital expenditure, but from 2001 onwards, i.e. from the year 2003, capital expenditure increased suddenly in total proportion to total expenditure. The increase in capital expenditure in the years of two thousand was due to repayment of loans to the centre and the fall in revenue expenditure. The decline in revenue expenditure can be attributed to the implementation of the Fiscal Responsibility Legislation Bill (FRLB) by Gujarat State in order to reduce its debt position with the centre. However, in 2008, the revenue expenditure again increased to 63 percent and the capital expenditure was around 37 percent. Thus, the fall in revenue expenditure has just been a piecemeal strategy of the government.

**b) Trends In Development and Non -Development Expenditure :** Total expenditure is divided into development and non- development expenditure on the revenue and capital account. Gujarat has always given a greater priority to development efforts against the non- development efforts. If we look at decade-wise figures, we notice a change in relative importance of development and the non-development expenditure. The share of non- development expenditure suddenly increased in the years of two thousand as compared to the eighties and the nineties because of the increase in debt liabilities of Gujarat state. In order to avail the facilities of debt swap scheme and debt write off, the government had to clear 25 percent of its liabilities with the centre by repaying loans and advances. The profile of the total expenditure on development and non-development account is shown in the Table 3 (i) and Table 3 (ii) and Table 4 (i) and Table 4 (ii) for the period from 1980-2008 for Gujarat and All States.



<b>Table 3(i): Profile of Development Expenditure (1980-2008)</b>				
<b>Gujarat</b>	<b>SDP</b>	<b>Per Capita Exp.</b>	<b>Elasticity</b>	<b>Stability</b>
Revenue expenditure	9.8	1561	3.09	8.04
Capital expenditure	2.2	406	2.22	7.46
Total expenditure	12	1967	2.65	6.58
<b>All States</b>				
Revenue expenditure	7.3	1146	2.53	8.00
Capital expenditure	1.6	282	2.24	7.69
Total expenditure	8	1427	2.38	12.01
Sources: Handbook of Statistics on State Government Finances, RBI, 2004, Various State Finance Reports of RBI				

<b>Table 3(ii): Trends In Growth Rate and Buoyancy of Development Expenditure</b>						
	<b>Growth Rate</b>			<b>Buoyancy</b>		
<b>Year</b>	<b>RE</b>	<b>CE</b>	<b>TE</b>	<b>RE</b>	<b>CE</b>	<b>TE</b>
<b>Gujarat</b>						
1980-1990	16.17	15.6	15.71	1.19	0.75	1.09
1991-2000	18.99	17.6	18.36	0.99	1.09	0.98
2001-2008	5.17	17.2	6.59	0.46	1.72	0.67
1980-2008	14.03	16.8	14.05	0.92	0.98	0.93
<b>All States</b>						
1980-1990	16.65	11.4	15.57	2.81	1.95	2.71
1991-2000	13.23	13.7	13.16	0.99	0.95	1.00
2001-2008	11.72	21.6	13.59	0.99	1.72	1.17
1980-2008	14.02	15.1	14.15	1.29	1.41	1.35
Sources: Handbook of Statistics on State Government Finances, RBI, 2004, Various State Finance Reports of RBI						

❖ **Development Expenditure:** Development expenditure directly affects the economic growth of the state. It includes two broad heads - Economic services and Social services. The development of any state depends on the expenditure on these services. The following observations can be made from the Table 3(i) and Table 3 (ii).

(i) During the period from 1980-2008, the total development expenditure as a proportion to SDP was more on the revenue account as compared to capital account. However, the total development expenditure was 4 percent more in case of Gujarat as compared to All States.

(ii) In terms of per capita development expenditure, the revenue expenditure was three times more than that of the capital expenditure. With respect to All States, per capita total expenditure of Gujarat at ₹1967 was greater than the All States per capita total expenditure.

(iii) With respect to elasticity, there was not much difference in Gujarat and All States figure. But the elasticity of development expenditure on revenue account was more as compared to the elasticity of capital account. Similarly, the revenue account evinced a greater stability index as compared to the capital account.

(iv) During the period from 1980-2008, the Growth rate of development expenditure was less in case of Gujarat at 14 percent as compared to All States at 14.15 percent.

(v) If we look at decade wise figures, it can be observed that Gujarat recorded a higher growth in expenditure in the nineties i.e. 18.36 percent. In the years of two thousand, there was a drastic fall in its growth rate to 6.59 percent. This fall in development expenditure was due to fall in revenue expenditure.

(vi) Finally, we observe that the buoyancy of development expenditure on capital account was more as compared to revenue account in both the cases of Gujarat and All States.

Table 4(i): Profile of Non-Development Expenditure (1980-2008)				
Gujarat	SDP	Per Capita Exp	Elasticity	Stability
Revenue expenditure	4	₹ 857	2.24	6.32
Capital expenditure	0.01	₹ 9	39.59	9.9
Total expenditure	4	₹ 865	20.9	7.62
<b>All States</b>				
Revenue expenditure	4	₹ 765	2.98	6.45
Capital expenditure	0.06	₹11	2.55	6.53
Total expenditure	4	₹ 777	2.76	7.74
Sources: Handbook of Statistics on State Government Finances, RBI, 2004, Various State Finance Reports of RBI				

Table 4(ii): Trends In Growth Rate and Buoyancy of Non-Development Expenditure						
	Growth Rate			Buoyancy		
Year	RE	CE	TE	RE	CE	TE
<b>Gujarat</b>						
1980-90	17.49	513.4	17.91	1.34	-1.32	1.25
1991-2000	18.13	26.1	18.16	1.11	0.87	1.10
2001-2008	12.42	30.4	12.50	0.76	1.55	0.79
1980-2008	16.27	201.4	16.45	1.16	0.75	1.13
<b>All States</b>						
1980-90	18.44	19.3	18.38	3.14	2.48	3.15
1991-2000	18.36	15.9	18.31	1.32	1.23	1.35
2001-2008	10.90	28.7	11.11	0.72	1.55	0.78
1980-2008	16.26	20.7	16.28	1.61	1.65	1.61
Source: Handbook of Statistics on State Government Finances, RBI, 2004, Various State Finance Report of RBI						

In terms of sensitivity of development expenditure with respect to total expenditure, the value indicates that revenue development expenditure is more responsive to increase in total expenditure than capital development expenditure during the period from 1980 to 2008. The equation holds:-

$$TE = 0.202 + 1.029 RDE \quad R^2 = 0.990 \text{ significant at 1 \% level}$$

(52.721)

$$TE = 2.619 + 0.934 CDE \quad R^2 = 0.945 \text{ significant at 1 \% level}$$

(21.609)

Thus, we conclude that there has been a fall in the development expenditure, more particularly in revenue expenditure. The decline in revenue expenditure was due to fiscal adjustment based predominantly on expenditure reduction. However, such fiscal adjustment could have adverse implications on the growth process of the state.

❖ **Non-Development Expenditure:** Theoretically, there is no distinction between development and non - development expenditure. Nevertheless, the expenditure which does not promote economic growth and development of a state directly is treated as non -development expenditure. On the revenue account, it includes expenditure on organ of the state, fiscal services, interest payment and debt servicing, administrative services, pension and miscellaneous services. The profile of non-development expenditure is depicted in the Table 4 (i) and Table 4 (ii).

(i) The non- development expenditure was at 4 percent of SDP with respect to Gujarat as well as for All States for the entire period under consideration. The share of revenue expenditure was more as compared to the capital expenditure. Further, in case of Gujarat, non-development expenditure on revenue accounts was 4 percent, while capital account held 0.01 percent. In terms of per-capita expenditure, the revenue expenditure was ₹ 857, while capital expenditure was only ₹ 9.

(ii) In terms of elasticity of non - development expenditure, it was more on capital account as compared to revenue account. This means increase in income led to an increase in the non- development capital expenditure as well.

(iii) In terms of growth rate during the period from 1980-2008, the growth of total expenditure of Gujarat at 16.45 percent was higher than the All States at 16.28 percent. Decade wise, for Gujarat, the growth rate in the nineties was more as compared to the eighties and the years of two thousand.

(iv) It can be evinced that the non-development capital expenditure growth rate was much greater than revenue expenditure. The highest growth rate was recorded in the decade of the eighties.

(v) The stability index shows that non - development expenditure on both accounts is least stable with a value of 6.32 and 9.9 for Gujarat.

In terms of sensitivity, the equation holds that the non- development revenue expenditure (0.82) is more sensitive than the non- development capital expenditure (0.56) with respect to total expenditure as per the following equations :

$$TE = 2.807 + 0.829 RNDE \quad R^2 = 0.994 \text{ significant at 1 \% level}$$

(68.204)

$$TE = 7.495 + 0.563 CNDE \quad R^2 = 0.424 \text{ significant at 1 \% level}$$

(4.461)

From the above, it may be concluded that though the development expenditure was more than the non-development expenditure on both accounts, the rate of growth of non-development expenditure was higher as compared to the development expenditure during the period from 1980-2008. Similarly, the share of expenditure with respect to

Table 5(i): Profile of Expenditure On Economic Services (1980-2008)				
Gujarat	SDP	Per Capita Exp.	Elasticity	Stability
Revenue expenditure	4.6	₹ 718	3.51	8.17
Capital expenditure	1.8	₹ 303	2.16	8.25
Total expenditure	6.0	₹ 1021		
<b>All States</b>				
Revenue expenditure	3.0	₹ 454	2.69	8.35
Capital expenditure	1.3	₹ 228	2.09	7.9
Total expenditure	4.0	₹ 682		
Sources: Handbook of Statistics on State Government Finances, RBI, 2004, Various State Finance Reports of RBI				

Table 5(ii): Trends In Growth Rate and Buoyancy of Expenditure On Economic Services						
	Growth Rate			Buoyancy		
Year	RE	CE	TE	RE	CE	TE
<b>Gujarat</b>						
1980-1990	16.38	22.5	16.69	1.22	0.73	1.12
1991-2000	21.41	15.0	18.64	0.95	0.98	0.97
2001-2008	1.91	22.9	5.14	0.17	2.13	0.66
1980-2008	14.04	20.0	14.08	0.9	0.89	0.91
<b>All States</b>						
1980-90	16.63	11.1	14.71	2.79	1.89	2.55
1991-2000	12.16	13.2	12.09	0.78	0.91	0.80
2001-2008	11.54	21.1	14.67	0.95	2.13	1.27
1980-2008	13.58	14.7	13.76	1.23	1.37	1.28
Sources: Handbook of Statistics on State Government Finances, RBI, 2004, Various State Finance Reports of RBI						



revenue account was more than on capital account. This means that the Government was spending more on general administration, police services, interest payment and subsidy, than on expenditure on economic and social services. In fact, in the eighties and the nineties, Gujarat experienced the highest growth in interest payment (7% - 22%). This was because the state was experiencing a high revenue deficit on its fiscal account, and the state had to borrow to finance its current expenditure. Similarly, the subsidy outflow had also increased from 1.9 percent in 1980 to 4.85 percent in the 1990s, mainly on account of the populist schemes of the state.

**c) Economic and Social Services :** The development expenditure is divided into expenditure on economic and social services on both the revenue and capital account. The share of economic services expenditure ranged between 55 to 60 percent, while the share of social services ranged between 40 to 55 percent in the total development expenditure. However, the growth rate of economic services was more as compared to social services during the period from 1980 to 2008.

❖ **Expenditure On Economic Services:** The development expenditure on economic services includes expenditure on agriculture and allied activities, which is dominated by crop husbandry services, soil and water conservation, cooperation and wildlife, agricultural research and education expenditure. These expenditures accounted for around 40 to 60 percent of the expenditure on economic services. The most important expenditure was the watershed development programme, which was launched with an objective to increase productivity of the degraded land through raising the soil and moisture conservation. The profile of expenditure on economic services is depicted in the Table 5(i) and Table 5(ii). From these tables, the following can be inferred:

(i) The Gujarat state expenditure on economic services was comparatively more than the All States average. In

<b>Table 6(i): Profile of Expenditure On Social Services (1980-2008)</b>				
<b>Gujarat</b>	<b>SDP</b>	<b>Per Capita Exp.</b>	<b>Elasticity</b>	<b>Stability</b>
Revenue expenditure	5.2	₹ 843	2.73	7.95
Capital expenditure	0.5	₹ 105	4.29	6.1
Total expenditure	5.6	₹ 947	3.51	7.48
<b>All States</b>				
Revenue expenditure	4.3	₹ 691	2.43	7.77
Capital expenditure	0.3	₹ 53	6.79	6.59
Total expenditure	4.5	₹ 745	4.61	10.57
Sources: Handbook of Statistics on State Government Finances, RBI, 2004, Various State Finance Reports of RBI				

<b>Table 6(ii): Trends in Growth Rate and Buoyancy of Expenditure on Social Services</b>						
	<b>Growth Rate</b>			<b>Buoyancy</b>		
<b>Year</b>	<b>RE</b>	<b>CE</b>	<b>TE</b>	<b>RE</b>	<b>CE</b>	<b>TE</b>
<b>Gujarat</b>						
1980-1990	16.46	10.7	16.05	1.16	0.59	1.10
1991-2000	17.18	38.6	18.25	1.05	1.56	1.08
2001-2008	8.16	11.1	8.25	0.69	0.98	0.73
1980-2008	14.35	20.8	14.61	0.93	1.19	0.95
<b>All States</b>						
1980-1990	16.75	16.8	16.62	2.82	0.93	2.86
1991-2000	14.15	16.9	14.25	1.14	1.14	1.12
2001-2008	11.91	24.3	12.82	1.01	0.98	1.11
1980-2008	14.44	37.3	14.69	1.34	1.64	1.36
Sources: Handbook of Statistics on State Government Finances, RBI, 2004, Various State Finance Reports of RBI						

proportion to GDP, its account was 6 percent as compared to 4 percent in case of All States average during the period from 1980 to 2008.

(ii) Similarly, the per capita economic service expenditure of Gujarat of ₹1021 was comparatively more than the All States average of ₹ 682. However, the per capita expenditure on economic services accounts more on revenue account at ₹ 718 as compared to capital account at ₹ 303.

(iii) With respect to elasticity, the economic services expenditure was more elastic on revenue account with 3.51 elasticity value as compared to capital account with 2.16 elasticity value. However, in both the accounts, the elasticity value of economic services was quite high.

(iv) The stability index indicated that economic service expenditure was moderately stable with its stability value of 8.17 on revenue account and 8.25 on capital account.

(v) The rate of growth of expenditure on economic services was witnessed more on capital account than on revenue account. In revenue account, the growth rate was around 14.04 percent while in capital account, it was 20 percent for the period from 1980-2008. It meant that the Gujarat government was spending more on asset building than on real expenditure on economic services.

(vi) Similarly, the growth rate in economic services was the highest in the nineties as compared to the eighties and the years of two thousand. In the years of two thousand, the state witnessed a very low growth rate of 5.14 percent. However, during the period from 1980-2008, its growth rate of 14.08 percent was higher than the All States growth of 13.76 percent.

(vii) In terms of buoyancy, the state witnessed a high value in capital account than in revenue account.

(viii) In terms of sensitivity to total development expenditure, the equation holds that economic services are more sensitive to capital account than they are to revenue account.

$$\text{TDE} = 1.073 + 0.987 \text{ REE} \\ (34.194)$$

$$R^2 = 0.997 \text{ significant at 1 \% level}$$

$$\text{TE} = 2.286 + 0.947 \text{ CEE} \\ (14.764)$$

$$R^2 = 0.889 \text{ significant at 1 \% level}$$

Thus, Gujarat's expenditure on economic services was more on revenue account than on capital account. It means that large fiscal resources were spent on current expenditure like flood control, irrigation, etc., due to which other core sectors of Gujarat like energy and transport did not get sufficient share of resources. This might create a bottleneck in the development of Gujarat's economy in the years to come.

❖ **Expenditure On Social Services:** It includes expenditure on education, medical and public health, family welfare, water supply and sanitation, housing, urban development, welfare of schedule castes, scheduled tribes and other backward classes, labour welfare, social security and relief against natural calamities. Thus, social services consist of a number of items and each of these items increased without doubt in the period from 1980 to 2008. The total expenditure on social services accounted to 25 to 35 percent. This was less as compared to the amount spent on economic services. However, the expenditure on social services on capital accounts was less than 10 percent of the total expenditure in the eighties and the nineties. However, in the years of two thousand, it increased from 17 to 22 percent. The revenue account assumed 50 to 60 percent expenditure. The profile of expenditure on social services is depicted in the Table 6(i) and Table 6 (ii).

(i) The expenditure on social services in proportion to GDP amounted to 5.6 percent for Gujarat, which is more as compared to All States average of 4.5 percent.

(ii) The Table 6(i) evinces that the expenditure on social services was more on revenue account than on capital account in both the cases of Gujarat and All States.

(iii) Gujarat per capita social expenditure was ₹ 947, which was more as compared to All States social expenditure of ₹ 745 during the period from 1980-2008.

(iv) The elasticity of social expenditure with respect to income evinced that it is highly elastic, with 2.73 value on revenue account and 4.29 value on capital account.

(v) The stability index predicts that expenditure on social services is moderately stable with 7.48 value.

(vi) From the Table 6(ii), it seems that the expenditure on social services maintained the growth rate of 14 percent both with respect to Gujarat and All States during the period from 1980 to 2008. In the eighties and the nineties, Gujarat maintained a growth rate of 16 and 17 percent, while in the years of two thousand, the growth rate fell to 8.16 percent. The decline in expenditure on social services was a cause of worry because most of this expenditure represented expenditure on the development of human resources.

It also evinced from the Table 6(ii) that expenditure on social services is more buoyant on revenue account with its buoyancy value of 1.16 and less buoyant on (0.59) capital account with respect to income. However, the buoyancy level of All States is high as compared to Gujarat. In terms of sensitivity, the equation holds that social services are more sensitive to expenditure on revenue account than on capital account.

$$\text{TDE} = 0.849 + 0.998 \text{ RSE}$$

(77.253)

$$R^2 = 0.995 \text{ significant at 1 \% level}$$

$$\text{TE} = 4.879 + 0.711 \text{ CSE}$$

(15.968)

$$R^2 = 0.904 \text{ significant at 1 \% level}$$

Thus, we conclude that social service expenditure is more on revenue account than on capital account, which means

Table 7: Profile of Interest Payment and Servicing of Debt (1980-2008)				
Gujarat			All States	
Year	Growth Rate	Per Capita Debt Servicing	Growth Rate	Per Capita Debt Servicing
1980-1990	22.77	62	21.07	53
1991-2000	19.71	363	19.21	296
2001-2008	13.94	1226	10.34	828
1980-2008	19.15	487	17.34	351
Sources: Handbook of Statistics on State Government Finances, RBI, 2004, Various State Finance Reports of RBI				

Table 8: Profile of Expenditure On Administrative Services (1980-2008)				
Gujarat			All States	
Year	Growth Rate	Per capita administrative charge	Growth Rate	Per Capita Administrative Charge
1980-90	14.66	53	16.24	48
1991-2000	11.58	153	13.79	163
2001-2008	5.97	246	12.39	336
1980-2008	11.08	141	14.26	167
Sources: Handbook of Statistics on State Government Finances, RBI, 2004, Various State Finance Reports of RBI				

Table 9: Profile of Expenditure On Pensions Services (1980-2008)				
Gujarat			All States	
Year	Growth Rate	SDP	Growth Rate	SDP
1980-1990	26.12	0.5	25.44	0.3
1991-2000	22.65	0.9	22.11	1.0
2001-2008	9.93	1.0	12.00	1.3
1980-2008	20.25	0.8	20.41	0.8
Sources: Handbook of Statistics on State Government Finances, RBI, 2004, Various State Finance Reports of RBI				

that the government was spending more on current schemes than on building the infrastructure facilities like educational institutes, hospitals, spending on social welfare, etc. The most important component of social service is the expenditure on education, which absorbed one-fifth of the total current expenditure. This was accounted mainly by the Sarva Shiksha Abhiyan (SSA) or Universal Elementary Education (UEE) at the national level. The fund of this scheme was availed by the centre and the state in the ratio of 75:25 during the 10th plan period. Gujarat Government also launched a National Programme of Education at Elementary Level (NPEGEL) and Kasturba Gandhi Balika Vidhayaya (KGBV) for attaining universal elementary education. The total number of primary education centres increased by 12 percent from 1980 to 2008.

The second important component of social expenditure was the expenditure on water supply and sanitation. Gujarat Vision Report- 2020 targets to achieve water supply programme fully to each region in Gujarat. The government of Gujarat has also successfully covered 70 percent of the area in Gujarat that now has access to safe drinking water. A plan to purify water through the Sardar Sarovar Canal has been approved, which covers areas of Kutch, Saurashtra and Panchmahal.

The third important component of social expenditure is the expenditure on health and medical facilities. On the recommendation of the Eleventh Finance Commission, the government of Gujarat has set up six regional diagnosis centres and launched the Rogi Kalyan Samiti Yojana to take care of the need of supplying medicines. It had been observed that during the period from 1980-2008, the social service expenditure on water supply and sanitation had increased (two third of the total expenditure on social services), while the expenditure on education had declined. In education, a major role is played by the private sector in the provision of secondary education and the autonomous nature of the universities. Besides, development and non-development expenditure on economic and social services, interest payment, pensions, and administrative services constitute the major portion of total expenditure. So, it is imperative to analyze these expenditures as they are a part of the revenue expenditure.

**d) Interest Payment and Servicing of Debt :** The major constituents of non-development expenditure on revenue account of Gujarat state is interest payment and servicing of debt. From the Table 7, it is clear that the highest growth was evinced during the period from 1980-2000 because the state was experiencing a revenue deficit continuously in the eighties and the nineties. This led the state to borrow either from the centre or from the market to finance its expenditure. As a proportion to gross SDP, it increased from 7 percent in 1980 to 22 percent in 2008. As a proportion to non-development expenditure, it accounted for 28 percent in the eighties, about 55 percent in the nineties and 65 percent in the years of two thousand. During 1980 to 2008, it increased at an average growth rate of 19.15 percent, which is more as compared to the All States growth rate of 17.34 percent. Similarly, the per capita debt servicing charge also increased from ₹ 62 to ₹ 1226. The increase in debt servicing means an obligation on the central government, indicating a resource flow from the state to the centre. It also means that most of the current expenditure was utilized for non-plan purposes. As the appropriation for reduction or avoidance of debt was negligible, the Gujarat government had to pay high interest on its debt. In fact, the interest payment was highest on internal debt followed by small savings, provident fund and market borrowings.

**e) Administrative Services :** The administrative services, which comprises of wages and salaries, is an important item of expenditure claiming more than one-tenth of the state's total expenditure. It was further expected to increase in the

<b>Table 10: Share of Subsidies In Economic and Social Services Expenditure in Gujarat</b>		
<b>Year</b>	<b>Social Services</b>	<b>Economic Services</b>
1980	50.20	49.18
1990	59.81	39.15
1995	55.54	44.23
2000	50.91	49.02
2005	70.53	29.41
2008	60.42	39.66
Sources: Handbook of Statistics on State Government Finances, RBI, 2004, Various State Finance Reports of RBI		

wake of the implementation of the sixth pay commission. It represented 38 percent of non-development expenditure on revenue account in 1980. It is evinced from the Table 8 that the growth rate of administrative expenditure declined from 14.66 percent in the eighties to 11.58 percent in the nineties. It was 5.97 percent in the years of two thousand. While in the case of All States, the growth rate remained between 12-13 percent. The decline in growth of expenditure on administrative services was due to various government measures taken by the Government of Gujarat. For instance, it implemented a strategy to reduce the number of government employees by hiving off organizations and activities which were no longer relevant to the basic objective of the government or had become totally redundant in the present environment. The government of Gujarat had set up a surplus staff cell out of the surplus employees of state-owned enterprises under the public restructuring program. The per-capita expenditure of Gujarat at ₹ 141 was less than the per-capita expenditure of All States at ₹ 167 during the period from 1980-2008.

**f) Pensions :** Pensions were the fastest growing non-development expenditure in the state of Gujarat in the earlier decades (Table 9). The major reason for increase in pension in the late nineties and the early years of two thousand was due to rise in the pension as recommended by the fifth pay commission and the addition of liability on account of pension payable to retired employees of aided institutions and local bodies to the government pension bill. In recent years, under the new Pensions Bill, the government stopped giving pension schemes to new recruited employees; as a result, there has been a drastic fall in its growth rate to 9.93 percent in the years of two thousand. However, as a proportion of GDP, it increased from 0.5 percent in 1980-90 to 1 percent in 2001-08.

**g) Subsidies :** Subsidies are provided by the government implicitly as well as explicitly. Conventionally, the goods and services provided by the government are known as pure public goods, which are divided as merit goods and non-merit goods. The subsidies are provided under two heads on revenue account, i.e subsidies on social services and subsidies on economic services.

**(i)** Out of the total subsidies, the share of social subsidies was almost 51 percent in 1980, which increased to 55 percent in 1995 and then to 60 percent in 2008. The share of economic subsidies had declined from 50 percent in 1980 to 49 percent in 1995 and then to 39 percent in 2008 (Table 10).

**(ii)** In the total subsidies given to the social sector, education represents 28 percent, followed by water supply and sanitation -17 percent, medical and public health -12 percent and 'others' - 8 percent. Similarly, the total subsidies provided to economic services includes : 17 percent on agriculture and allied services, 16 percent on irrigation, 3 percent on power and energy, 3 percent on industry and minerals and 2 percent of transport and communication.

**(iii)** The per capita subsidies were the highest in Gujarat as compared to All States. In Gujarat, it was ₹1402 per annum in the nineties, and it increased to ₹ 2267 per annum in the years of two thousand, while with respect to All States, it was ₹ 870 in the nineties and it increased to ₹ 1900 in the years of two thousand. This implies that Gujarat is a state with the highest positive tax burden (on-non liquor commodities) as well as the highest negative tax burden (Dholkia, 2000).

**(iv)** The major reason for growing expenditure on subsidies was the poor recovery rate of almost all major social and economic services. The study taken by NIPFP in 1997 concluded that the recovery rate in Gujarat was not only low at 5 percent in 1980-81, but it fell to 2.13 percent in 1990-91. In the years of two thousand, the same trend of un-recovered cost of subsidies was evinced - 2 percent in case of social services and 5 percent in case of economic services - without taking into account any long rate of return or long term capital cost of investment.

**(v)** The education sector which accounted for nearly one third of the subsidies during the period from 1980-2000 was a prime cause of distortion in the policy of subsidization. However, from 2001 onwards, there was a drastic fall in education subsidies because of inclusion of private institution and autonomous universities in Gujarat. But still, the government was unable to control the subsidies in the primary healthcare sector, particularly in the urban areas.

In order to deal with subsidies, the government had introduced a management accounting system to ensure that a full cost recovery was made for all its services from those who could afford to pay. Under this system, the Government wants to ensure that proper costing is done to indicate the real cost of providing a service, particularly when this is distributed under different heads. Secondly, it has made subsidy direct with targeted beneficiaries who are selected on the basis of specified and justified criteria.



## CONCLUSION

(i) The total fiscal expenditure of the state had been continuously growing over the period from 1980 - 2008 with growth rate of 14.11 percent.

(ii) The proportion of revenue expenditure was more as compared to the capital expenditure during the eighties and the nineties. The decline in revenue expenditure from 2003 to 2005 was due to fall in revenue development expenditure. However, it was observed that the growth rate of development expenditure decelerated while it accelerated for non-development expenditure during the period from 1980-2008.

(iii) The capital outlay of Gujarat evinced a declining trend in terms of total expenditure in the years of two thousand as compared to the eighties and the nineties.

(iv) The expenditure on economic service (6% of gross SDP) was more as compared to social services (5.6 % of gross SDP) in total expenditure.

(v) The growth rate of interest payment had considerably increased to 23 percent of SDP in the nineties, now evinced a declining trend because of the Debt Consolidation and Relief Facility (DCRF) along with declining interest rates.

(vi) The expenditure on Pension as percentage of gross SDP had also declined. As similar trend was also observed with subsidy payment.

(vii) Increase in non-development revenue expenditure had been a major factor behind the increase in total expenditure, which in turn was mainly responsible for the persistence of revenue deficit on fiscal account in the eighties and the nineties.

The fall in development expenditure of Gujarat could have an adverse implication in the growth process of the state. This is accentuated by the fact that the share of expenditure on revenue account was more than the capital account, which means that the government was spending more on general administration rather than on economic and social services.

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