

## **TRENDS IN PUBLIC EXPENDITURE MANAGEMENT BY STATE GOVERNMENTS IN INDIA**

Vetukuru Jayaprakash Naidu

Ph.D. Scholar, Department of Economics, S. V. University, Tirupati – 517502

### **ABSTRACT**

The World Bank incorporated public Expenditure Management (PEM) approach in the mid-1980s and this methodology has enhanced to an expansive degree up until now. Specifically, institutional and authoritative plans are of extraordinary significance. Particularly, it has been seen that use distributions, arrangements, budgetary administration and assessments, which shape the huge units of public expenditure the executives approach, have been trailed by the nations at an expanding proportion after the year 2001. The PEM is a fundamental method for government strategy dispersing and using sources gainfully, successfully and delicately. Nonetheless, the refinement between the soundness of PEM methods and forms and the objectives that they are intended to accomplish stays critical. In addition to other things, the systems, strategies, aptitudes, and information required for good PEM are not quite the same as those expected to define great arrangement. The fundamental standards of open use the board are achieving full-scale budgetary control, strategical needs and utilitarian application. Each of the three objectives are in extremely solid collaboration both hypothetically and essentially. The paper covers the structural changes in public expenditure and their impact on pace of economic development.

**Keywords:** Public Expenditure, Financial Management, Fiscal Discipline, Government Budget

### **INTRODUCTION**

The Public Expenditure Management (PEM) is keen on the way toward planning in light of the fact that procedural standards unequivocally affect consumption results. The PEM takes the position that these rules are not substantively neutral; they affect three important outcomes:

1. the total amount spent,
2. the composition of expenditure, and
3. the efficiency of government operations.

The PEM looks for methodology that expansion the likelihood of accomplishing favoured results. The key parts of planning influencing use results are institutional courses of action, the sorts of data accessible for settling on and authorizing consumption choices, the motivating forces gave spenders and controllers to carry on in manners that advance wanted results, the issuance and execution of substantive, ex bet spending principles, and ex post responsibility for spending results. Public expenditure the board is instrumental in nature. There is an essential refinement between the expenditure approach question of "what" is to be done, and the use the executive's question of "how" it is to be finished. The facts demonstrate that endeavours to define hard limits among strategy and usage in the long run lead to doubtful approaches, impromptu execution and, after some time, both awful arrangement and awful usage. As a focal instrument of strategy, it must seek after every one of the three mostly monetary approach objectives. Monetary security calls, in addition to other things, for financial order; monetary development and value are sought after incompletely through allotment of open cash to the different segments; and, most clearly, every one of the three objectives require proficient and successful utilization of assets by and by. Hence, the three goals of overall policy translate into three key objectives of good public expenditure management:

1. fiscal discipline (expenditure control);
2. allocation of resources consistent with policy priorities ("strategic" allocation); and
3. good operational management.

Financial order requires control at the total dimension; vital asset distribution requires great programming, which involves fitting bureau level and between pastoral courses of action; and operational administration is largely an intra-clerical issue. It ought to focused, in any case, that financial control and operational administration are manageable to "specialized" enhancement than is the vital designation of assets. As Petrei, 1998 puts it: "Asset circulation among projects is maybe the slightest specialized piece of the spending procedure. Except for speculation ventures, spending choices occasionally dependent on specialized standards or on nitty gritty work to decide the populace's inclination. The portion of assets results from a progression of powers that join at various purposes of the basic leadership process, with an authority who ruled by a blemished view of present and future political substances. Legislators who, hypothetically, have built up a specific instinct about what individuals need involve the services, the base camp of the vital organizations, and numerous other basic leadership positions. In any occasion, the exertion made at this phase of the spending procedure to gather and dissect data is not exactly at some other stage."

## **METHODOLOGY**

This study is an examination concerning the management of finances by State Governments in India, covering 26 States, fifteen noteworthy and 11 little states. The study turns the searchlight on falling apart budgetary position of the State Governments intensifying since the eighties, disentangles in detail, the period of economic reform 1990-91 to 2000-01, and looks at the convincing requirement for financial change and the measures started for monetary union. The study covers the basic changes in public expenditure and their effect on pace of economic improvement, tightening influences on plan expenditure and extension of non-plan expenditure, with aggressive populism and redirection of appropriations influencing the utility of public expenditure.

### **Trends in PEM**

By a long shot, the most vital commitment to monetary unevenness in the States has been on the expenditure side. This can be saw from the lofty increment in absolute expenditure of State Governments, in the course of the most recent quite a few years. The absolute use of ₹70993 crores on income account amid 1990-91 meets the whole income account consumption for three decades from the First Plan to the Fifth Plan periods. On the off chance that the increments in the complete expenditure of the States amid the most recent two decades are amazing, the adjustments in the creation of use are troubling. In Table-1, between 1970-71 and 1999-00, income use expanded, as extent of all out expenditure from 65.52 percent to 83.41percent, while capital use has forcefully descended from 34.48 percent to 16.59 percent. The development and example of State uses amid the three decades feature some real parts of state accounts, showing that there has been expanding rigidities in the example. A portion of these angles to which consideration has just drawn by the Reserve bank of India and different investigators of open back are –

- Increasing offer of revenue expenditure in absolute distributions, with suggestions for monetary development, by limiting the assets accessible for capital costs in significant framework areas like water system, streets and transport as likewise social administrations.
- The grouping of revenue expenditure, on non-plan things like authoritative administrations and meeting interest and obligation benefit commitments.
- Stagnation or drowsy development in State's economy, inferable from state's powerlessness to put sufficiently in financial foundation with an ensuing effect on the potential for development of express's own expense and non-charge incomes.

**Table 1: Expenditure Pattern**

Year	Total Expenditure Rupees in Crores	Revenue Expenditure		Capital Expenditure	
		Rupees in Crores	Percent*	Rupees in Crores	Percent*
1970-71	5174	3390	65.52	1784	34.48
1975-76	10281	6967	67.77	3314	32.23
1980-81	22664	14808	65.34	7856	34.66
1985-86	44868	32770	73.04	12097	26.96
1990-91	91242	71776	78.66	19466	21.34
1995-96	177583	145004	81.65	32579	18.35
1999-00	325633	271611	83.41	54022	16.39

Note: \*Percentages are share in total Expenditure

Source: RBI Bulletins (various issues), Reserve Bank of India, Mumbai.

### Development & Non-Development

Open use whether designs, non-plan, capital, or income can likewise arranged into formative and non-formative expenditure. The expenditure, which caused on exercises specifically identified with financial advancement, is called formative use. Henceforth, expenditure caused on instruction, human services, logical research; framework, etc. is formative use. Expenditure acquired on general fundamental administrations required for ordinary running of the legislature is named as non-formative use. In this manner, expenditure brought about on administrations identifying with general organization, police, barrier, legal executive and so forth is non-developmental expenditure.

**Table 2: States Aggregate Development, Non-Development and Other Expenditure**

Year	Development	Non Development	Others	Total	Percentage of GDP
1990-91	63370.00 (69.50)	22600.00 (24.80)	5272.00 (5.70)	91242.00	16.00
1991-92	74588.00 (68.70)	27143.00 (25.00)	6916.00 (6.30)	108647.00	16.60
1992-93	80566.90 (67.50)	3203.80 (25.00)	6664.00 (6.30)	119335.00	15.90
1993.94	89387.60 (66.40)	38019.60 (28.20)	7241.00 (5.40)	134648.00	15.70
1994-95	104347.80 (64.60)	49556.00 (30.70)	7650.00 (4.70)	161554.00	16.00
1995-96	114819.40	55379.90	7385.00	177584.00	14.90

	(64.70)	(31.20)	(4.10)		
1996-97	132007.70 (65.10)	62095.40 (30.60)	8664.00 (4.30)	202767.00	14.80
1997-98	145268.40 (63.70)	71766.90 (31.50)	11100.00 (4.80)	228135.00	15.00
1998-99	164503.50 (61.80)	86474.40 (32.50)	15383.00 (5.70)	266361.00	15.10
1999-00	198321.80 (60.90)	110137.10 (33.80)	17175.00 (5.30)	325634.00	16.60
2000-01	208332.40 (59.39)	125484.30 (35.77)	16950.00 (4.84)	350767.00	16.10

Note: Figures in the bracket are percentages to the total.

Source: RBI Bulletins (various issues), Reserve Bank of India, Mumbai.

Examined as far as advancement and non-improvement classifications it is found in Table-2 that while absolute expenditure went up from ₹5174 crores in 1970-71 to ₹91242 in 1990-91 and further to ₹325633 crores in 1999-00, improvement use went up from ₹2428 crores in 1970-71 to ₹63370 crores in 1990-91 and ₹198332 crores in 1999-00. Its offer in all out expenditure went up from 46.93 percent in 1970-71 to 69.5 percent in 1991 before boiling down to 60.90 percent in 1999-00. The offer of non-advancement expenditure expanded from 24.8 percent in 1990-91 to 33.80 percent in 1999-00. As the RBI Study of State Finances (1999-00) watched, "Inability to contain use has been acknowledged as a noteworthy explanation behind the monetary misfortunes of the State Governments. While the improvement expenditure in outright terms has been higher than the non-advancement part, the last has been rising quicker all through the eighties and the nineties. In the eighties non-improvement expenditure ascended at a normal rate of 18.7 percent as contrasted and 14.9 percent for advancement use, while in the nineties the development was much quicker at 19.1 percent with an attending decrease in development in formative use at 13.7 percent.

In such manner, that the measure of mostly advancement use of the States has dependably been higher than that of the Center and that the distinction has extended essentially in the 1990's. The EPW Research Foundations' Review of State Finances sees that, "in 1990-91 state advancement use surpassed that of the middle by under 10 percent however by 2000-01 it had surpassed by around 55 percent. Furthermore, in absolute government expenditure on social administrations the offer of the state governments currently comprises more than 86 percent while focal use represents under 14 percent.

### **Expenditure in Major Heads**

Taking a closer perspective of the use in Major Heads of use arranged formative and non-formative, in the proximate period from 1990-91 to 1999-2000. One notification that the all-out formative use of the considerable number of States expanded in outright terms from ₹63370 crore in 1990-91 to ₹198322 crore in 1999-00 yet as a level of GDP it descended from 11.1 percent to 10.1 percent in the pertinent period. This fall is normal to both direct formative expenditure covering social and financial administrations, as likewise to credits and advances by State Government in the different parts. Between 1990-91 and 1999-2000, coordinate formative expenditure expanded from ₹57815 crores to ₹186492 crores, even while falling, as a level of GDP from 10.2 percent to 9.5 percent. Of this, the use on social administrations, which was declining somewhat in the mid-nineties grabbed in the later long periods of the nineties, whereas use on monetary administrations kept on declining as an extent of GDP.

Loans and advances, given by the State Governments in the regions of lodging, collaboration, edit farming, soil and water protection, town and little industry shrouded in this classification. While the formative advances to these parts set apart by ostensible increments from year to year, the advances to the power ventures demonstrated a noteworthy increment from ₹3585 crores in 1990-91 to ₹5951 crores in 1999-00. With direct improvement expenditure in water system part expanding from ₹7113 crores to ₹19871 crores and that in vitality expanding from ₹1994 crores to ₹6914 crores amid a similar period, it gives the idea that infrastructural use was on the expansion. Alternate regions of critical increment in formative use from 1990-91 to 1999-00 were water supply and sanitation from ₹1993 crores to ₹7782 crores urban advancement from ₹664 crore to ₹4033 crores and welfare of planned standing from ₹1909 crores to ₹6900 crores. Comparative increment likewise been seen in horticultural and country advancement, which represented more than 35 percent of the use on monetary administrations.

**Table 3: Revenue Expenditure of the States**

	<b>1989-90</b>	<b>1664-95</b>	<b>1999-2000</b>
Total Revenue Expenditure	60217	128440	271611
Development Expenditure	40781	78638	159201
Social Services	24017	44902	101834
Education etc	13571	24977	58146
Medical and Public Health	3964	7429	15096
Economic Services	16764	33736	57367
Agriculture etc	4819	9065	17273
Rural Development	2827	6779	12387
Irrigation etc	3394	6444	9805

---

Energy	1093	2989	5628
Transport etc	1922	3957	5789

*Source: Handbook of Statistics on Indian Economy (various issues), Reserve Bank of India, Mumbai.*

An astounding part of the State expenditure programs is that the arrangements for and the use on science innovation and condition ended up being low. The revenue expenditure on this was an exposed ₹26 crores in 1989-90 and, in spite of all the accentuation on modernizing society and government, the use had quite recently expanded to ₹131 crores in 1999-00. Conversely, the use on help because of normal disaster has indicated considerable increment from ₹564 crores in 1989-90 to ₹2503 crores in 1999-00. As ought not out of the ordinary, a noteworthy offer of the expenditure on social administrations were represented by training, sports, and culture, and therapeutic and general wellbeing in the social administration segment, and the agribusiness, rustic advancement and water system and surge control and the vitality in the monetary administrations class as appeared Table-3.

### **Non-Development Expenditure**

A striking highlight of the expenditure example of the States amid the nineties is the sharp increment seen in the non-formative use gave to organs of States, financial administrations, intrigue installment and obligation overhauling, as will be seen from Table-4. The figures represent themselves in clarifying the idea of increment and significant supporters of non-formative use. What ought to involve concern is that sharp increment have happened in regard of managerial administrations, while, all the accentuation in financial approach change has been on scaling back government and lessening non-advancement expenditure. The expansion in regulatory administrations use has ascribed to the proposal of the Fifth Pay Commission in regard of Central Government representatives and their impact on State Government workers. There is some level of truth in this analysis however it has contended by Dr. Rakesh Mohan that the expenditure on Government workers has developed at a lower rate when contrasted with their GDP development rate and one result of this general analysis ought not to be missed. A great part of the discussion on scaling back of government and privatization of administrations has brought about demotivating government workers and decreasing their dimension of responsibility to open administrations, without fundamentally changing their size in work of the general population division as could seen from the accompanying information winnowed from the Economic Surveys of Government of India.

**Table 4: Non-Development Expenditure – Revenue Account**

Non- development Expenditure	22600.37	54197	107309	123533
Organs and States	685	1792	3709	2976
Fiscal Services	1616	3182	7724	8179
Interest payment and debt servicing	9226	22998	46702	55745
Administrative Services	8655	13391	24424	29219
Pension	3593	12834	24750	27415

Source: Compiled by Researcher.

**Table 5: Employment in Public Sector**

(In Lakhs)

<b>Employer</b>	<b>1976</b>	<b>1980</b>	<b>1986</b>	<b>1990</b>	<b>1996</b>
Central Government	30.47	37.78	33.46	33.97	33.66
State Governments	48.97	54.78	64.73	69.79	74.14
Quasi Governments	33.92	43.43	56.74	61.73	64.58
Local Bodies	19.85	20.80	21.90	22.23	21.92
Total	133.72	150.78	176.83	187.72	194.29

Source: Compiled by Researcher.

### **Plan and Non-Plan Expenditure**

Dissected regarding plan and non-plan classes of use, it is seen from table-6 that while plan expenditure of the States expanded in supreme terms from ₹27433 crores in 1990-91 to ₹78156 crores in 1999-00, their offer has a level of complete use descended from 30.10 percent to 24 percent amid a similar period. This pattern was regular to both the States and Centers. As a level of complete use of the States, the offer of non-plan use expanded from 69.9 percent in 1990-91 to 76 percent in 1999-00.



**Table 6: States Aggregate Expenditure**

Year	Plan	Non-Plan	Total	Percentage of GDP			% of Total Expenditure	
				Total	Plan	Non-Plan	Plan	Non-Plan
1990-91	27432.90	63809.10	91242.00	16.00	4.80	11.20	30.10	69.90
1991-92	31084.50	77561.00	108645.50	16.60	4.80	11.80	28.60	71.40
1992-93	33391.50	85943.10	119334.60	15.90	4.50	11.40	28.00	72.00
1993-94	36730.00	97918.50	134648.50	15.70	4.30	11.40	27.30	72.70
1994-95	44513.70	114892.50	159406.20	15.70	4.40	11.30	27.60	72.70
1995-96	48450.00	129133.80	177583.80	14.90	4.10	10.80	27.30	72.40
1996-97	53045.60	149723.10	202768.70	14.80	3.90	10.90	26.20	73.80
1997-98	59260.00	168874.80	228134.80	15.10	3.90	11.20	26.00	74.00
1998-99	64870.60	201490.20	266360.80	15.10	3.70	11.40	24.40	75.60
1999-00	78156.10	247477.80	325633.90	16.60	4.00	12.60	24.00	76.00
2000-01	89073.50	261693.30	350766.80	16.10	4.10	12.00	25.40	74.60

Source: Compiled by Researcher.

In this association it is important to clear one confusion that all non-plan use are in essence terrible it has been illuminated by a note in the expenditure spending plan of Government of India that "non-plan use is a conventional term which is utilized to cover all use of government excluded in the yearly arrangement programs. It must noticed this could cover both formative and non-improvement use has additionally capital and income use. It must be perceived that non-plan use class covers exchanges on the revenue and capital accounts, and a few things of non-plan use are formative in character. A point-by-point examination of the records of Central Government Departments as likewise the States will demonstrate that a portion of the immediate improvement expenditure in economic and social services reserved under non-plan. For example investigation of the 1998-99 accounts demonstrate that of the complete formative expenditure of ₹164503 crores, plan use represents ₹63326 crores and non-plan use record of ₹101178 crores. This non-plan expenditure further partitioned into direct improvement use of ₹98949 crores and backhanded use of advances and advances for formative purposes ₹10388 crores.

The Reserve Bank of India Study of State Finances 2000-01 has brake down the obligation elements of States from a large scale monetary viewpoint and calls attention to this is firmly connected to financial records of the inside by virtue of their reliance on Federal financial flows and loan fee and the interests in the economy, and the seizure of accessible assets for premium installment and obligation overhauling diminishing the asset streams to social and monetary parts. World Bank and Multinational Financial Institutions, for example, International Monetary Fund specifically express that open sources ought to be gone through as per financial order, strategical needs and specialized efficiency through their different investigations and assents

toward individuals. While prevailing in this, institutional game plans, responsibility and straightforwardness have showed up as the most critical qualities for nations to accomplish.

## **CONCLUSION**

The comprehension of open administration and open monetary administration in its parallel has modified. Open resources have picked up a substantially more profitable appearance than the formal ones and the need for effectiveness in using open sources has turned out to be critical. Progress nations perceive the significance of adequately overseeing government use and are embraced numerous essential changes around there. By and by, they are yet loaded, to a degree that differs from nation to nation, by their legacy from the past routines. Taking everything into account, an imperative measurement to the exchange on manageability of State funds has included by the Reserve Bank in pointing out, that "the developing pattern in certifications at the State level has been seen in the ongoing past by virtue of interest for expanding ensures for setting up fundamental infrastructure". While bringing up that the State Government ensures remarkable toward the finish of the monetary year has expanded from ₹40,159 crores in 1992 to ₹ 83,075 crores in 1999, the RBI call attention to that the extraordinary State Government ensures in regard of 17 noteworthy States as a proportion to GDP descended from 6.5 percent in 1992 to 4.7 percent in year 1999.

## **REFERENCES**

- Bagchi, A. and Sen, T.K. (1992): "Budgetary Trends and Plan Financing in the States", in A. Bagchi, J.L. Bajaj and W.A. Byrd (ed.) State Finances in India, Vikas Publications, New Delhi.
- Economic Survey (various issues), Ministry of Finance, Government of India, New Delhi.
- Handbook of Statistics on Indian Economy 2001, Reserve Bank of India, Mumbai.
- Premchand, A. (1993): Public Expenditure Management. International Monetary Fund, Washington, D.C.
- Patel I.G. (1998): "Economic Reform and Global Change", Macmillan India Ltd, New Delhi.
- Planning Commission (2001): "Approach paper to the Tenth Five Year Plan", Planning Commission, Government of India, New Delhi.

- Planning Commission, Five Year Plan Documents, First Five Year Plan to Ninth Five Year Plan (various years), Planning Commission, Government of India, New Delhi.
- Rangarajan, L.N. (1987): “Kautilya: The Arthashastra”, Penguin Books, New Delhi.
- Rao, M.G. and Rajagopalan, D. (1990): Public Expenditure Control in India, National Institute of Public Finance and Policy, New Delhi.
- Ravi Kathpalia (1994): “International Conference on Financial Management and Accountability in the Public Sector: Strategies for Managing Change”, Oxford Publication, New Delhi.
- Ruddar Dutt and K.P.M. Sundharam (2000): “Indian Economy”, S. Chand & Company, New Delhi.
- RBI – Bulletins, various monthly issues, Reserve Bank of India, Mumbai.
- Sen, T.K. (1993): Government Expenditure in India: Level, Growth and Composition, National Institute of Public Finance and Policy, New Delhi.
- Sudarsanan, C.N. (201): “Government Budgeting: Principles and Practices”, Sree Sudarsan Publication, Chennai.