

## **Trend of Development and Non-development Expenditures in the Pre-reform and Reform Periods**

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In India, the Public expenditure has been assigned a key role in the economic development and growth process. As an instrument of Fiscal Policy, Government expenditures can have greater influence on the economic growth depending on how it is utilised and managed by the Government. The Keynesian view defends this by stressing on Government expenditure as a tool for achieving long run growth rate.<sup>1</sup> In developing countries like India, the size and pattern of the Public spending has great relevance in the growth process and in the reduction of economic disparities. The development of the economy depends upon the nature of expenditures and its social impact. The best way to look at the structure of Government expenditure is to examine the distribution of development and non-development expenditures.<sup>2</sup> The role of development expenditures is much commendable due to its direct impact on the growth of the economy. But after the inception of the New Economic Policy in India, the priorities given to various categories of expenditures including the development expenditure have undergone a structural change and thereby on the economic development of the nation. This study analyses the role and distribution of development and non-development expenditures for the last forty five years inclusive of Pre-reform and Reform periods. Development expenditures are broadly defined to include all items of expenditure that are designed directly to impact economic development and social welfare. It mainly includes spending on economic services (agriculture, industry, energy, communication, transport, science and technology and environment), social services (education, health, employment, nutrition, housing and others) and grants to states. On the other hand, Non-development expenditures include expenditures pertaining to the general services rendered by the Government such as interest payments, defence services, provision of subsidies, etc...

### **Objectives of the Study**

This study intends to analyse the following two objectives:

1. To study the growth rates of development and non-development expenditures over previous year in the Pre-reform and Reform periods, and
2. To compare the percentage share of development and non-development expenditures in the Pre-reform and Reform periods.

In order to examine these objectives, this study has taken into account secondary data sourced from Indian Public Finance Statistics (IPFS), Ministry

of Finance, Government of India and the respective Annual Budget Statements. Simple percentage and growth rate have been computed to highlight the trend.

**Share and Growth Rate of Development and Non-development Expenditures of the Central Government of India (Rs. in crores)**

Year	Development			Non-Development			Total Amount
	Amount	GR	%	Amount	GR	%	
<b>Pre-Reform Period</b>							
1970-71	4716	-	57.46	3491	-	42.54	8207
1975-76	11574	21.75	61.13	7359	19.02	38.87	18933
1980-81	24426	20.34	66.29	12419	14.71	33.71	36845
1985-86	53397	11.05	63.60	30564	23.54	36.40	83961
1990-91	34565	-64.91	41.37	48979	-17.83	58.63	83544
<b>Reform Period</b>							
1991-92	36049	4.29	38.86	56707	15.78	61.14	92756
1992-93	39172	8.66	36.03	69545	22.64	63.97	108717
1993-94	41316	5.47	33.48	82076	18.02	66.52	123392
1994-95	77786	88.27	49.02	80883	-1.45	50.98	158669
1995-96	47761	-38.60	31.60	103362	27.79	68.40	151123
1996-97	52925	10.81	31.57	114743	11.01	68.43	167668
1997-98	62410	17.92	32.10	132015	15.05	67.90	194425
1998-99	72682	16.46	30.49	165687	25.51	69.51	238369
1999-00	84542	16.32	31.22	186261	12.42	68.78	270803
2000-01	91885	8.69	31.49	199886	7.32	68.51	291771
2001-02	101531	10.50	31.82	217524	8.82	68.18	319055
2002-03	117972	16.19	32.82	241488	11.02	67.18	359460
2003-04	134483	14.00	34.72	252849	4.70	65.28	387332
2004-05	143010	6.34	33.73	280934	11.11	66.27	423944
2005-06	174952	22.34	37.16	295823	5.30	62.84	470775
2006-07	219086	25.23	40.19	326066	10.22	59.81	545152
2007-08	304293	38.89	45.13	369942	13.46	54.87	674235
2008-09	383107	25.90	45.56	457717	23.73	54.44	840824
2009-10	413852	8.03	42.38	562609	22.92	57.62	976461
2010-11	525019	26.86	45.84	620199	10.24	54.16	1145218
2011-12	580896	10.64	46.79	660551	6.51	53.21	1241447
2012-13	619280	6.61	45.71	735643	11.37	54.29	1354923
2013-14	758799	22.53	49.74	766643	4.21	50.26	1525442
2014-15	700043	-7.74	45.44	840449	9.63	54.56	1540492
2015-16 (B.E)	756852	8.12	44.89	929008	10.54	55.11	1685860

Source: 1. Indian Public Finance Statistics (IPFS) 2013-14.  
2. Annual Budget Statements.

The above table depicts the percentage share of development and non-development expenditures of the Central Government of India from 1970-71 to 2015-16. The Pre-reform period from 1970-71 to 1990-91 has been taken in order to capture the trend of these expenditures in comparison with the Reform period and hence they have been taken at an interval of five years.

### **Pre-reform Period**

It could be observed from the table that the share of development expenditures has been high when compared to non-development expenditures. This trend is conforming to the theoretical base of higher share of development expenditures as it directly relates to the growth of the economy. The percentage share of development expenditure was around 60 per cent throughout the Pre-reform period and the growth rates also signify a healthy trend.

During the Pre-reform era, the main focus of the Government was infra-structural improvement and therefore the expenditures on developmental activities like rural electrification, irrigation, flood control and rural upliftment were higher.<sup>3</sup>

During 1984-85, the higher share of development expenditures was due to the increased expenditure on social services such as anti-poverty programmes, crop insurance schemes and various other social security measures.

In the late eighties, the share of non-development expenditures started increasing owing to higher percentage of external debts and large portion of borrowed funds being loaned to weaker sections of the society at subsidized rates. This increasing trend of non-development expenditures necessitated the introduction of reforms on the fiscal front.

### **Reform Period**

Since 1991, the Central government carried out number of fiscal sector reforms. With the introduction of these reforms, the structure of development and non-development expenditures underwent a drastic transition. The overall impact of these reforms on expenditure policy had been quite encouraging over the early 1990s. However, the rising share of expenditure in late 1990s and early 2000s without commensurate increase on the revenue share reduced the overall quality of the Government finances. Given the serious concern expressed on the fiscal position of the country, the Government passed the Fiscal Responsibility and Budget Management (FRBM) Act in 2003. However, the Government continuously failed to achieve the targets of the FRBM Act.<sup>4</sup> In the Reform period, the development expenditures started declining and hovered between 30 and 40 percents. It could be observed that the trend had just reversed from the Pre-reform period. This trend of decreasing share of development expenditures is not preferable as it would have an impact on the development of the economy. Though the actual amount of development expenditure had risen over a period of time, its proportion towards total expenditures had been declining.

The percentage of development expenditure was higher than non-development expenditure from the year 1970-71 to 1989-90 in the total. In 1970-71, the percentage of development expenditure was 57.46 and it went up to 63.6 per cent in 1985-86. But in the Reform period, a reverse trend has taken place regarding the percentage share of development expenditure over the non-development expenditure. From 1991-92 onwards, the share of non-development expenditure has been much higher when compared with development expenditure.

In 1991-92 the percentage share of development expenditure was 38.86 per cent which declined to 31.22 per cent in 1999-2000. From 2006-07 to 2014-15 the percentage share of development expenditure has been ranging from 40.19 to 45.44 per cent.

Thus, it could be observed from the table that the proportion of non-development expenditure has been higher than the development expenditure in the Reform period. It increased from 61.14 per cent in 1991-92 to 69.51 per cent 1998-99. Upto 2005-06, the percentage share of non-development expenditure hovered around 60 per cent. In 2014-15, the share of non-development expenditure was 54.56 per cent.

Thus, it could be inferred that during eighties the percentage share of development expenditure have been more than non-development expenditure because of the development programmes launched by the Government and increased expenditures on social services. Then in 90s, non-development expenditures percentage share was more than the development expenditure and have continued to increase till 2003-04.

With the implementation of FRBM Act in 2004, the share of non-development expenditures started declining and the percentage share of development expenditure started improving, thus putting the economy on the path of recovery. From a look at the trends in expenditure at the central level, it could be concluded that the total expenditure has been rapidly growing and it increased throughout the study period.

The main reason behind this increase in the total expenditure is the continuous increase in the share of non-development expenditure which created serious fiscal imbalance in the economy. As a result of reform measures, non-development expenditure has grown at a lower rate in the Reform period than the Pre-reform period.

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