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An Analysis of Trends in Developmental and Non-Developmental Expenditure in Karnataka

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Abstract
Public expenditure is a critical driver of economic sustainability, encompassing essential services, employment creation, and safeguarding citizens' rights. In India's mixed economy, the challenge lies in meeting substantial expenditure needs, given a low tax-to-GDP ratio. Key expenditure components, including defense and subsidies, pose fiscal challenges. Initiatives to optimize spending efficiency, encourage private sector involvement, and adhere to the FRBM Act exemplify India's comprehensive approach to balancing economic growth with fiscal responsibility. Hence, the present study makes an attempt to study the trends in developmental and non-developmental expenditure in Karnataka. The shows that Karnataka's financial trends reflect positive fiscal health, with sustained growth in total expenditure. The state's commitment to development and welfare is evident, and careful consideration of expenditure composition will be essential for ensuring continued economic prosperity and effective utilization of resources.

Keywords: *Trends, Development, Non-development, Expenditure,*

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I. INTRODUCTION

Public expenditure, referring to the government's financial outlay on various activities and social services, plays a vital role in sustaining the economy and supporting economic activities. Its significance extends beyond the provision of essential goods and services, encompassing the creation of employment opportunities and the preservation of liberal rights for the population.

Governments across different economic systems, be it socialist, capitalist, or mixed, actively participate in economic activities both directly and indirectly. Additionally, governments bear the responsibility of establishing a welfare state, leading to substantial expenditures or investments. Developing countries, characterized by lower socio-economic indicators, widespread poverty, and inequality, necessitate a heightened level of public expenditure to drive economic growth and address social indicators.

India, embodying a mixed economy with the active involvement of both public and private sectors, grapples with a substantial need for public expenditure, especially in the social and infrastructure sectors. The country's low tax-to-GDP ratio poses a challenge, limiting the government's ability to allocate sufficient funds for various public initiatives. Notably, major components of public expenditure in India, including interest payments, defense, pensions, salaries, and subsidies, collectively account for more than 60 percent of the total public expenditure.

The growing demand for public expenditure, coupled with insufficient funds, underscores the imperative for optimizing expenditure utilization and efficiently managing the fiscal deficit. The government has undertaken several initiatives to address these challenges, including efforts to enhance the efficiency and utilization of defense expenditure. Moreover, there is a push to encourage private sector participation in the defense sector and promote self-reliance.

In the pursuit of effective fiscal deficit management, the government implemented the Fiscal Responsibility and Budgetary Management (FRBM) Act of 2003. This legislation aims to maintain the fiscal deficit at 3 percent, reflecting the government's commitment to overall fiscal discipline. The comprehensive approach to public expenditure in India underscores the intricate balance required to meet the diverse needs of a developing economy while ensuring responsible fiscal management.

Classification of Public Expenditure

Article 112 of the Indian Constitution mandates the government to prepare a budget document, presenting estimates of both past and prospective expenditures to Parliament for approval. The document classifies various types of expenditures into distinct categories, providing transparency and accountability. The key classifications of public expenditure in India are:

1. Development and Non-Development Expenditure:

- Development Expenditure: Comprises productive investments by the government aimed at fostering social welfare, economic growth, and development. It includes spending on economic and social services that contribute to both immediate and future benefits.
- Non-Development Expenditure: Involves consumption expenditures that provide immediate societal benefits but do not contribute significantly to further economic growth or development. Examples include subsidies, defense expenditures, salaries, and pensions.

2. Plan and Non-Plan Expenditure:

- Plan Expenditure: Encompasses all expenditures aligned with central planning objectives, focusing on the creation of products and assets that contribute to developmental goals.
- Non-Plan Expenditure: Encompasses expenditures related to completed or past schemes and includes interest payments on borrowings. It often involves non-asset-building and consumption expenditures.

3. Capital and Revenue Expenditure:

- Capital Expenditure: Involves non-recurring expenditures directed towards building fixed assets. This type of expenditure aims to enhance economic and social activities, improving overall productivity. Examples include loans to states, foreign governments, and public enterprises for project financing and capital defense expenditures.
- Revenue Expenditure: Represents recurring expenditures incurred annually for current consumption, including salaries, pensions, and subsidies.

It's worth noting that, based on the recommendations of the Sukhomoy Chakravarti Committee in 1987-88, the terms "development and non-development expenditure" were replaced by "plan and non-plan expenditure." Additionally, in September 2011, a committee headed by Dr. C. Rangarajan proposed redefining "plan and non-plan expenditure" as "capital and revenue expenditure." These classifications provide a structured framework for fiscal management and aid in understanding the allocation of resources for various government activities in India.

Public expenditure theories provide insights into the growth of public spending in both developed and developing economies. Wagner's positive theory of public expenditure (1890) posits that the law of increasing state activity is driven by the industrialization process, leading to higher per capita income and output. Consequently, the public sector expands, becoming a larger proportion of the total economic activity. Peacock-Wiseman's hypothesis (1967) challenges the notion of a smooth and continuous increase in public expenditure. Instead, it suggests that such spending rises significantly during large-scale social disturbances or crises. The growth of public expenditure is attributed to three key concepts: i) The displacement effect involves a shift from the older level of expenditure and taxation to a new and higher level. ii) The inspection effect results from revenue inadequacy compared to the required public expenditure. iii) The concentration effect highlights the apparent tendency for central government economic activity to outpace that of state and local level governments. Keynes (1936) contributed the perspective that, during a recession, the causality runs from public expenditure to economic growth. Fiscal expenditure, according to Keynes, serves as a stimulus for growth with stability. These theories collectively explain the dynamics and drivers of public expenditure growth in various economic contexts. Shankaranand and Birada's (2015) study observed a positive and significant correlation between the growth of public expenditure and the Gross State Domestic Product (GSDP) in constant prices. This indicates a necessity to augment the proportion of public expenditure about GSDP in Karnataka. The development policies of the government are intricately linked to the overall expenditure trends within the state.

OBJECTIVES AND METHODOLOGY

The present study makes an attempt to study the trends in developmental and non-developmental expenditure in Karnataka. The study is based on secondary data collected from various sources including reports from Budget Documents, Finance Department, Govt. of Karnataka, Economic Surveys, Planning Department, Govt. of Karnataka. The data spans from the fiscal year 2010-11 to 2021-22. The CAGR and CV were calculated to show the trends and variability in expenditure in Karnataka.

II. ANALYSIS AND DISCUSSION

In a general perspective trend in development and non-development expenditure are based on common patterns observed in government budgets and economic policies. They are as follows

Development Expenditure:

- Increased Emphasis on Infrastructure: Governments often allocate a significant portion of development expenditure to infrastructure projects such as roads, bridges, and public transportation.
- Investment in Education and Healthcare: Development spending is frequently directed towards improving education and healthcare facilities, aiming to enhance human capital and overall societal well-being.
- Social Welfare Programs: Governments may allocate funds for social welfare programs aimed at poverty alleviation, providing financial assistance, and improving the quality of life for marginalized communities.
- Technology and Innovation: Development expenditure is increasingly directed towards fostering technological advancements and innovation to drive economic growth and competitiveness.

Non-Development Expenditure:

- Operational and Administrative Costs: A substantial portion of non-development expenditure often goes towards covering the operational and administrative costs of running government offices and services.
- Salaries and Pensions: Non-development spending includes the disbursement of salaries, pensions, and other personnel-related costs for government employees.
- Interest Payments: Governments allocate funds to service debt, covering interest payments on loans and other financial obligations.
- Subsidies: Non-development expenditure includes subsidies provided to various sectors, such as agriculture, energy, and essential commodities, to support specific groups or industries.
- Defense Expenditure: Expenditure on defense and national security is typically classified as non-development spending.

Trends and Challenges:

- Balancing Development and Non-Development: Governments strive to strike a balance between development and non-development spending to ensure sustainable economic growth while meeting essential administrative and financial obligations.
- Efficiency and Fiscal Responsibility: Increasingly, there is a focus on efficient utilization of funds and fiscal responsibility to maximize the impact of public spending.
- Adaptation to Economic Conditions: Economic conditions, such as recessions or periods of growth, can influence the allocation of funds between development and non-development categories.
- Public-Private Partnerships: Some regions explore innovative financing models, including public-private partnerships, to fund development projects without significantly increasing the non-development burden on the budget.
- Impact of Global Events: Global events, such as economic downturns or health crises, can impact government spending priorities and necessitate adjustments in development and non-development budgets.

In this background, the following table and graph depict the Trends in Development and Non-Development Expenditure in Karnataka from 2010-11 to 2021-22.

Table – 1: Trends in Development and Non-Development Expenditure in Karnataka

(Rs. in Crores)

Year	Developmental Expenditure	Developmental Expenditure as % of Total Expenditure	Non- Developmental Expenditure	Non- Developmental Expenditure as % of Total Expenditure	Total Expenditure
2010-11	51626.38	72.74	19344.94	27.26	70971.32
2011-12	60929.69	72.14	23533.97	27.86	84463.66
2012-13	68067.53	71.66	26922.26	28.34	94989.79
2013-14	76328.45	69.99	32729.25	30.01	109057.70
2014-15	88904.73	70.44	37312.82	29.56	126217.55
2015-16	100440.69	71.12	40794.06	28.88	141234.75
2016-17	123989.38	74.94	41455.39	25.06	165444.77
2017-18	136285.13	73.09	50177.82	26.91	186462.95
2018-19	154527.55	74.61	52584.47	25.39	207112.02

2019-20	157822.41	72.49	59903.41	27.51	217725.82
2020-21	162219.00	71.13	65825.87	28.87	228044.87
2021-22	163825.43	67.51	78839.40	32.49	242664.83
CAGR	**12.00**		**12.46**		**12.15**
CV	**38.02**		**40.79**		**38.37**

Source: Economic Survey 2021-22, Planning Department, GoK

Graph – 1: Trends in Development and Non-Development Expenditure in Karnataka

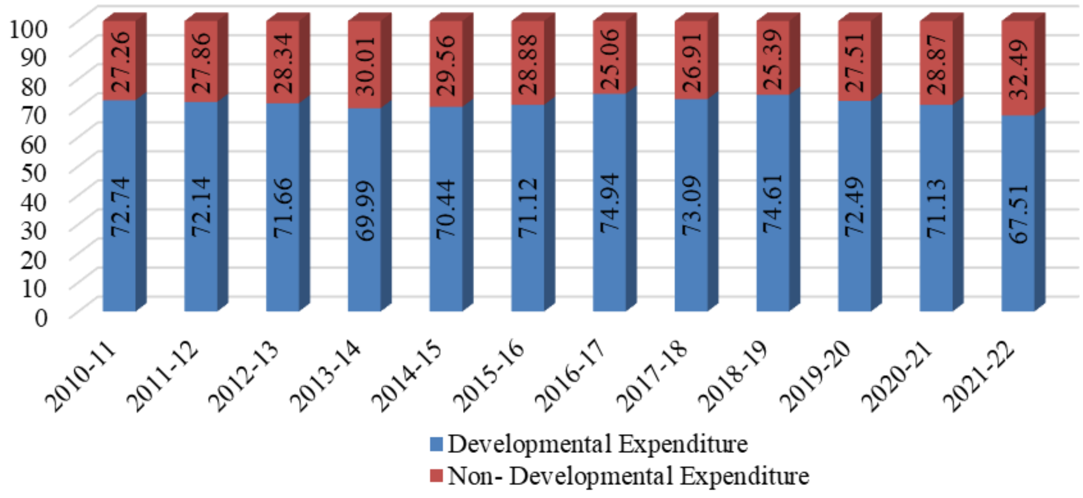

Table 1 and graph 1 show the trends in Development and Non-Development Expenditure in Karnataka from 2010-11 to 2021-22. Over the period from 2010-11 to 2021-22, Karnataka has witnessed significant trends in both Developmental Expenditure and Non-Developmental Expenditure. The developmental expenditure in Karnataka has displayed consistent growth, rising from Rs. 51,626.38 crores in 2010-11 to Rs. 163,825.43 crores in 2021-22. This positive trajectory is indicative of the state's commitment to economic development and public welfare. The Compound Annual Growth Rate (CAGR) of 12% underscores the sustained effort in advancing developmental projects. However, it's notable that the percentage of developmental expenditure relative to total expenditure has seen a decline from 72.74% in 2010-11 to 67.51% in 2021-22. Non-development expenditure has seen a substantial increase from Rs. 19,344.94 crores in 2010-11 to Rs. 78,839.40 crores in 2021-22. The CAGR of 12.46% reflects the significant growth in non-development spending, comparable to developmental expenditure. The proportion of non-developmental expenditure relative to total expenditure has shown an increasing trend, reaching 32.49% in 2021-22. The shift in the composition of expenditure, with a decreasing percentage of developmental expenditure, suggests a need for a balanced approach to budgetary allocations. While the state has been successful in fostering economic development, attention to administrative costs, salaries, and pensions has become increasingly pivotal. The CAGR values for both developmental and non-developmental expenditures indicate consistent and substantial growth over the analyzed period. The Coefficient of Variation (CV) values, reflecting the variability in expenditures, is within a moderate range, signifying a degree of stability in financial planning.

Over the analyzed period from 2010-11 to 2021-22, Karnataka's total expenditure has exhibited a notable upward trajectory, reflecting the state's evolving financial landscape. Starting at Rs. 70,971.32 crores in 2010-11, the total expenditure surged consistently, reaching Rs. 2,42,664.83 crores in 2021-22. The Compound Annual Growth Rate (CAGR) of 12.15% underscores the robust and sustained growth in overall spending, indicative of the state's commitment to economic development, social welfare, and administrative efficiency. The Coefficient of Variation (CV) at 38.37% suggests a moderate level of variability in total expenditure over the years, indicating a degree of stability in Karnataka's financial planning. The state's budgetary allocations have been characterized by prudent financial management, allowing for controlled variations in expenditure.

A detailed analysis of the components contributing to total expenditure, including developmental and non-developmental expenditures, reveals a strategic approach in addressing diverse economic and social priorities. While developmental expenditures have been consistently increasing, the declining percentage of developmental expenditure relative to total expenditure in recent years warrants attention. This highlights the need for policymakers to adopt a balanced fiscal strategy, ensuring that both developmental and non-developmental priorities are adequately addressed.

III. SUMMARY AND CONCLUSION

The study shows that Karnataka has showcased commendable trends in both Developmental and Non-Developmental Expenditure. The developmental expenditure has consistently grown, indicating the state's commitment to economic development, reaching Rs. 163,825.43 crores in 2021-22 with a notable CAGR of 12%. However, the declining proportion relative to total expenditure, down to 67.51% in 2021-22, suggests a need for balance. Non-development expenditure significantly increased to Rs. 78,839.40 crores, with a comparable CAGR of 12.46%. The shift in expenditure composition emphasizes the necessity for a more balanced fiscal approach. Karnataka's total expenditure, reflecting stability with a 38.37% CV, underscores prudent financial management, crucial for sustained growth. Karnataka's financial trends reflect positive fiscal health, with sustained growth in total expenditure. The state's commitment to development and welfare is evident, and careful consideration of expenditure composition will be essential for ensuring continued economic prosperity and effective utilization of resources. Policymakers should focus on enhancing efficiency measures, aligning expenditures with long-term sustainability goals, and maintaining a balanced fiscal approach for the well-being of the state.

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