



Compositional changes of public expenditure in Andhra Pradesh

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Abstract: *The private market economy is unable to create the needed economic infrastructure and social overhead capital in developing countries like India. The creation of economic infrastructure such as electricity, irrigation, transportation and communication and social overhead capital such as education, medical and public health and social security measures has become the main responsibility of the governments. Physical quality of life and human well-being are pivotal on the enhanced availability of these social services. These services lead to overall increase in productivity. It is in this context public expenditure assumes an important role in the process of economic development both in the developed and developing countries of the world. Hence an attempt is made to examine the changes in developmental expenditure in the State of Andhra Pradesh. It is found that there is fall in the developmental expenditure which in turn effects the development of the state of Andhra Pradesh. The compositional changes are leading to fall in the provision of social and economic infrastructure. Hence it is suggested to mobilise resources for the development of infrastructure facilities by curtailing the unnecessary expenditure on unproductive activities.*

Key Words: *Development Expenditure, Economic Services, Social Services*

Introduction

The credit for the recognition of the role of public expenditure in the determination and distribution of national income goes to J.M. Keynes's General Theory, which provides a theoretical base for the recent developments in the public expenditure programmes. Amartya Sen, the 1998 Nobel Laureate, emphasises that economic growth and development at a faster rate is impossible in the absence of social capital. The basic condition for economic development is the creation of infrastructure facilities and social overhead capital, which requires huge investment. The private market economy is unable to create the needed economic

infrastructure and social overhead capital in developing countries like India. The creation of economic infrastructure such as electricity, irrigation, transportation and communication and social overhead capital such as education, medical and public health and social security measures has become the main responsibility of the governments.

Physical quality of life and human well-being are pivotal on the enhanced availability of these social services. These services lead to overall increase in productivity¹. It is in this context public

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http://www.tn.gov.in/dear/archives/year2003_04_05/Social_%20infra.pdf



expenditure assumes an important role in the process of economic development both in the developed and developing countries of the world. It is increasingly realised that the Human Development is a function of growth in Social Sector Expenditure. Development is practically impossible to achieve in a specified period of time without an adequate budgetary provision to various social sectors to provide the basic facilities, such as, education, health, roads and buildings, nutrition, rural infrastructure etc. It clearly speaks the importance of the development of Social Sectors in a country, state or region. Countries all over the world have increasingly recognised that social development is the right kind of investment. In this context it is not out of place to recall the opinion of Alfred Marshall who says that "the most valuable form of capital is that invested in human beings"². The credit for bringing special focus on human development can mainly be attributed to the noted economist Mahbub-UI-Haq. He opines that "people must be at the Centre of our development debate – What really counts is how they participate in economic growth and how they benefit from it"³.

The effectiveness and efficiency of government expenditure in the social sector varies between different geographical regions, and also depends

on the stage of development. Innovative institutional arrangements and alternative financing mechanisms are being explored in order to supplement public funds, and to improve the effectiveness of the public resources invested. For developing countries, the gains from education and its spill-over effects into other sectors will mean that the social return is likely to be more than to private return⁴.

Andhra Pradesh is one of the major states embarking upon planned economic development. Its development is still below its potential in spite of its endowment of natural resources⁵. The expenditure policies of the State have been influenced by the policies of the Central Government. The revenue and expenditure policy of the successive governments at the State was such that by 1980s there was surplus on the revenue account. For instance, there was Rs. 103 crores, Rs. 80 crores and Rs. 133 crores surplus on the revenue account of the State during 1980-81, 1981-82 and 1982-83 respectively. But the State experienced fiscal and revenue deficits during the later period. While the developmental expenditure increased due to the plan programs, the non-plan, non-development expenditure shot up by 1990s for a variety of reasons. The increased revenue component of the Plan programs, interest payments and debt repayment obligations, ever-increasing

² Alfred Marshall (1980), "*Principles of Economics*", Sixth Edition (1910), Mac Millan, London, p.564.

³ Mahbub-UI-Haq (1992), "Human Development in a Changing world", Occasional Papers, Human Development Report office, New York, p.1.

⁴ Banerjee, A. and E. Duflo (2004), "Growth Theory through the Lens of Development Economics", *mimeo*, MIT.

⁵ J.V.M. Sharma (2003), "Fiscal Management: A Review", *Economic And Political Weekly*, March 22-29, p. 1158-1170.



government employment and establishment, large scale proliferation of populist schemes and public enterprises during the last four decades especially during 1980s have landed the State in huge fiscal and revenue deficits which reached to staggering levels by 1990s. It may be noted that the changes in the political parties in power during 1980s have influenced the expenditure policy of the State resulting in changes in the composition, pattern, direction and the growth of public expenditure. The revenue expenditure has increased phenomenally leading to substantial decline in the capital expenditure.

The fiscal reforms have taken a definite shape in the State since 1995-96, the expenditure policies of the government have been influenced by the economic reforms, especially the fiscal reforms, initiated by the Central government since mid-1991. In fact, Andhra Pradesh is one of the major states that responded positively to the economic reforms and has undertaken fiscal reforms. One of the main aims of the fiscal reforms is not only to compress the unabated growth of public expenditure but also to bring reprioritisation and a compositional shift in order to achieve higher economic growth by increasing the proportion of capital outlay and developmental expenditure in the total expenditure. But expenditure compression either by withdrawing or reducing developmental expenditure instead of non-developmental expenditure will adversely affect the growth prospects of the State. The State has initiated several measures in this direction since 1995-96. The state has experienced several shifts in its expenditure policies during the last two decades.

Objective of the Study: With the above backdrop an attempt is made in this paper to examine structure and composition of developmental expenditure in the State of Andhra Pradesh from 1985-86 to 2013-14 (united).

Data sources and methodology: The data used in this study is at current prices. Percentages are calculated to see the proportions of individual items in total developmental expenditure under different heads. In this study revenue and capital developmental expenditure is taken from the State Finances - A study of Budgets, published by Reserve Bank of India. Capital account of developmental expenditure includes expenditure on developmental purposes which are given under the head Loans and Advances by State Government.

Basis of classification: A more meaningful classification and presentation of government operations in terms of functions, programmes and activities has assumed great importance⁶. The State government budgets are organised along the lines of the comptroller and auditor generals' four digit accounting classification with disaggregating into the traditional revenue and capital account and with additional decomposition of expenditure in to plan and non-plan categories, the later since the advent of planning in 1951-52. In addition, the Reserve Bank of India has been classifying budget heads into functional categories such as developmental and non-developmental

⁶ Bureau of Economics and Statistics, Government of Andhra Pradesh.



categories of expenditure from the beginning of the early 1950s⁷.

All expenditure under revenue and capital account (consisting of capital outlay and loan and advances) are categorised into general services, social services and economic services. Expenditure on economic services (agriculture and rural development, industry, physical infrastructure, etc.) and social services (education, health, housing, labour welfare etc.) constitutes developmental expenditure, while those on general services comprising all services of an administrative nature including pensions as well as interest payments are covered under the category of non-developmental expenditure.

The items of expenditure which have an obvious growth implication and directly related to the elevation of economic development are considered developmental or productive, whereas those which have no obvious growth implications and are not linked directly to economic growth either in the form of physical and human capital are considered as non-developmental expenditure or unproductive expenditure. The expenditure on general services, which includes spending on administration, internal and external security, judiciary and interest payments are considered non-developmental, whereas, expenditure on social,

community and economic services are considered developmental⁸.

Structure of developmental expenditure: The State governments in India have been assigned the duty to perform developmental activities to develop the economy. It refers only to a broad functional classification adopted in the budget. They are included in both revenue and capital accounts of the budget.

Developmental expenditure includes items of expenditure such as education, medical care, public health, family welfare, labour employment, agricultural and animal husbandry, cooperation, rural and community development, irrigation, transport and communication, forests and other miscellaneous services. Expenditure incurred on these items both on revenue and capital accounts is grouped under developmental expenditure.

The items covered under developmental expenditure mainly consist of social and economic services. The items covered under social services of revenue account are as follows: i) Education, sports, arts and culture, ii) Medical, public health and family welfare iii) Water supply and sanitation, iv) Housing, v) Urban development, vi) Welfare of scheduled castes, scheduled tribes and other backward classes, vii) Labour and labour welfare, viii) Social security and welfare ix) Nutrition, x) Relief on account of natural calamities xi) Others - which includes expenditure on information and

⁷ K.S.Krishnaswamy, (1953), "Finances of Part A & Part B States", Reserve Bank of India Bulletin, May.

⁸ M.Jamal Khan (1993), "Patterns of Public Expenditure and Financing in India", Pragati Publications, Delhi, p.19.



publicity, secretariat - social services, other social services, etc.

Items covered under expenditure on economic services are as follows 1) Agriculture and Allied Activities - which includes i) Crop husbandry ii) Soil and water conservation iii) Animal husbandry iv) Dairy development v) Fisheries vi) Forestry and wild life vii) Plantation viii) Food storage and warehousing ix) Agricultural research and education x) Agricultural financial institutions xi) Co-operation and xii) Other agricultural programmes 2) Rural development 3) Special area programme 4) Irrigation and flood control 5) Energy - which includes power 6) Industry and minerals i) Village and small industries ii) Industries. 7) Transport and communications - which includes i) Roads and bridges ii) Others - include expenditure on port and light houses, civil aviation, road transport, inland water transport etc. 8) Science, technology and environment 9) General economic services - which includes i) Secretariat - economic services ii) Tourism iii) Civil supplies iv) Others - include expenditure on foreign trade and export promotion census, surveys and statistics other general economic services.

Loans and advances by state government under capital account include developmental purposes and non-developmental purposes. Developmental purposes includes social services such as housing, government servants housing and others and economic services such as co-operation, crop husbandry, soil and water conservation, power projects, village and small industries, other industries, minerals and others. Loans and advances by State government

indicate the schemes for which the loans are made. The institutions, organisations etc. to whom the loans are given will appear under detailed heads as - Municipalities, Panchayat Raj institutions, public sector and other undertakings, cultivators, port trusts and other parties. Loans to scholars under national loans scholarship schemes and educational loans for engineering studies are loans for education, sports, arts and culture, loans for medical and public health, loans for water supply and sanitation, loans for housing, loans for information and publicity etc.⁹

Composition of developmental expenditure: Important items of developmental expenditure of Andhra Pradesh in select years during 1985-86 to 2013-14 are presented in Table 1. It may be seen from the Table that the total developmental expenditure including the loans and advances by State government for various developmental purposes has increased from Rs. 2,523 crores in 1985-86 to Rs. 91468 crores in 2013-14. Developmental expenditure other than the loans and advances given by the State government has been increased from Rs. 2,131 crores in 1985-86 to Rs. 88,229 crores in 2013-14. The proportion of expenditure on Social Services in developmental expenditure is less than 50 per cent until 1990-91 reached to 52.00 per cent in 2013-14. The proportion of expenditure on Economic Services is marginally higher than 50 per cent in 1980's and reduced to the 47.48 per cent in 2013-14.

Among the social services expenditures education, sports, arts and culture,

⁹ Ibid, p. 205.



medical and public health and family welfare, welfare of scheduled caste, scheduled tribes and other backward classes and social security and welfare are the major components in all the select years. It may be noticed that expenditure on education, sports, arts and culture are shown under single head. Within this category of expenditure there are sub-categories, such as general education, technical education, sports and youth services and arts and culture.

Again each category of expenditure consists of sub-categories such as - general education includes elementary education, secondary education, university and higher education, adult education, language development and expenditure on general items. Similarly expenditure items covered under technical education are expenditure on direction and administration, assistance to universities for technical education, assistance to non-government technical colleges and institutes, expenditure on polytechnics, scholarships etc. The expenditure items covered under sports and youth services are direction and administration, physical education, youth welfare programme for students, sports and games etc. Expenditure items covered under art and culture are direction and administration, fine arts and education, promotion of art and culture, archaeology, archives, public libraries museums etc. It may be seen in the Table that the expenditure on Education, Sports, Arts and Culture is Rs.539 crores in 1985-86, which has increased to Rs.18,707 crores in 2013-14.

Expenditure on medical and public health constitutes expenditure on urban health services, allopathic, other systems of medicine, expenditure on rural health

services, medical education, expenditure on public health etc. Expenditure on family welfare covers expenditure on direction and administration, rural family welfare service, maternity and child health and compensation etc.

The expenditure on medical and public health and family welfare amounted to Rs. 189 crores in 1985-86 and increased to Rs. 5,939 crores in 2013-14. The expenditure on welfare of scheduled castes, scheduled tribes and other backward classes, which includes in the budget, as a separate head from 1985-86 is another major component of social services has increased from Rs.235 crores in 1985-86 to Rs.7,733 crores in 2013-14. Another major component of expenditure on social services is expenditure on social security and welfare which includes welfare of handicapped, child welfare, women's welfare, welfare of aged and destitute, correctional services etc. have increased from Rs. 52 crores in 1985-86 to Rs.4,426 crores in 2013-14. Though there is an increase in the proportion of expenditure on social services during the study period, from the figure 1 and 2 remarkable change in the composition of expenditure on social services may be observed. Under social sector expenditure Educational expenditure declined from 45.03 per cent in 1985-86 to 40.37 per cent in 2013-14. Similarly Medical, Public Health and Family Welfare also shows declining share in expenditure on Social Services. Expenditure on Social Security and welfare and Nutrition shows an increasing trend. For instance, expenditure on social security and welfare increased from 4.34 per cent in 1985-86 to 9.55 per cent in 2013-14. The same may be seen in Figure 1 and 2.



Table – 1: composition of developmental expenditure in Andhra Pradesh
(Rs. in Crores)

Item	1985-86	1990-91	1995-96	2000-01	2005-06	2009-10	2013-14
Total Expenditure	3413	6580	14300	28119	51426	95688	136425
Total Developmental Expenditure (I + II)	2523 (73.92)	4784 (72.71)	10163 (71.07)	18381 (65.37)	29553 (57.47)	65912 (68.88)	91468 (67.05)
I Direct Developmental Expenditure (Rev. + Cap)	2131	4397	9356	17044	28834	62675	88229
A) Social Services	1197 (49.24)	2158 (49.08)	4717 (50.42)	8317.3 (48.80)	12313.42 (42.71)	32923.62 (52.53)	46334.02 (52.52)
1) Education, Sports, Arts & Culture	539 (45.03)	1015 (47.03)	1724 (36.55)	3740.3 (44.97)	5370.49 (43.61)	12584.69 (38.22)	18706.89 (40.37)
2) Medical, Public Health & Family Welfare	189 (15.78)	330 (15.29)	606 (12.85)	1334.03 (16.04)	1622.19 (13.17)	4151.7 (12.61)	5938.75 (12.82)
3) Water Supply & Sanitation	83 (6.93)	104 (4.82)	249 (5.28)	409.42 (4.92)	911.07 (7.40)	693.93 (2.11)	871.72 (1.88)
4) Housing	6 (0.50)	13 (0.60)	15 (0.32)	49.82 (0.60)	292.81 (2.38)	766.09 (2.33)	648.5 (1.40)
5) Urban Development	35 (2.92)	62 (2.87)	53 (1.12)	113.77 (1.37)	755.67 (6.14)	2394.84 (7.27)	1432.69 (3.09)
6) Welfare of SCs, STs & OBCs	235 (19.63)	372 (1.30)	565 (11.98)	1005.19 (12.09)	1434.22 (11.65)	4986.09 (15.14)	7733.08 (16.69)
7) Labour & Labour Welfare	14 (1.17)	285 (1.30)	49 (1.04)	68.64 (0.83)	81.83 (0.66)	189.68 (0.58)	210.35 (0.45)
8) Social Security & Welfare	52 (4.34)	73 (3.38)	112 (2.37)	305.1 (3.67)	594.19 (4.83)	3336.18 (10.13)	4426.4 (9.55)
9) Nutrition	8 (0.67)	10 (2.17)	1158 (24.55)	903.29 (10.86)	622.26 (5.05)	2630 (7.99)	4076.75 (8.80)
10) Relief on Account of Natural Calamities	26 (2.17)	136 (6.30)	154 (3.27)	315.18 (3.79)	553.19 (4.49)	1017.67 (3.09)	1768.68 (3.82)
11) Others	10 (0.84)	15 (0.70)	32 (0.68)	72.56 (0.87)	75.51 (0.61)	172.79 (0.52)	519.93 (1.12)

TABLE - (Continued....)

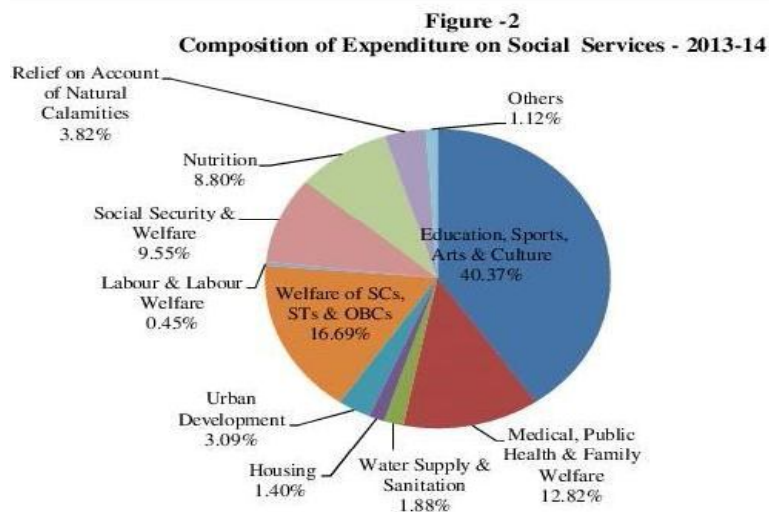
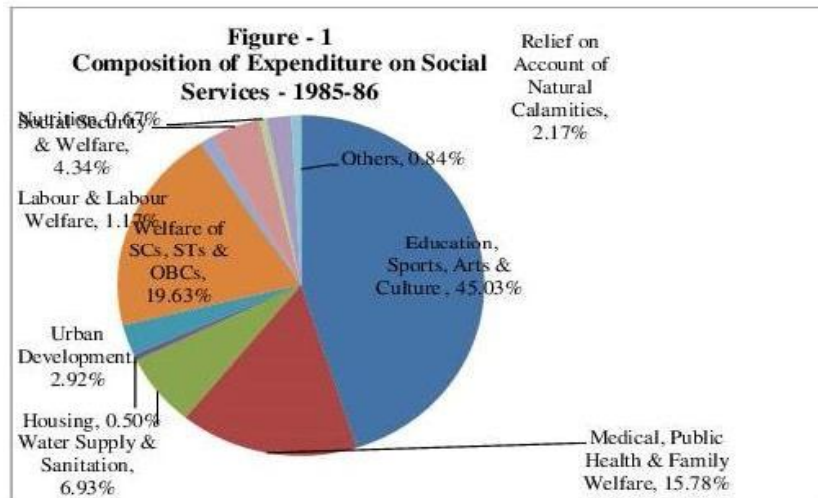
Item	1985-86	1990-91	1995-96	2000-01	2005-06	2009-10	2013-14
B) Economic Services	1234 (50.76)	2239 (50.92)	4639 (49.58)	8726.8 (51.20)	16520.24 (57.29)	29751.5 (47.47)	41895.07 (47.48)
1) Agriculture & Allied Activities	184 (14.91)	281 (12.55)	475 (10.24)	860.95 (9.87)	1207.04 (7.31)	3014.67 (10.13)	3963.13 (9.46)
2) Rural Development	237 (19.21)	474 (21.17)	582 (12.55)	1303.25 (14.93)	2011.79 (12.18)	3639.34 (12.23)	4677.3 (11.16)
3) Irrigation & Flood Control	440 (35.66)	725 (32.38)	1475 (31.80)	2589.81 (29.68)	8778.16 (53.14)	15603.78 (52.45)	18622.06 (44.45)
Energy	39 (3.16)	68 (3.04)	1435 (30.93)	2345.18 (26.87)	1801.4 (10.90)	3777.89 (12.70)	7459.59 (17.81)
5) Industries & Minerals	87 (7.05)	133 (5.94)	252 (5.43)	174.92 (2.00)	299.03 (1.81)	518.94 (1.74)	866.04 (2.07)
6) Transport & Communication	99 (7.94)	152 (6.74)	364 (7.84)	1230.65 (14.10)	1879.92 (11.38)	2084.43 (7.01)	4631.01 (11.05)
7) Science, Technology & Environment	1 (0.08)	2 (0.09)	5 (0.11)	3.45 (0.04)	2.79 (0.02)	15.93 (0.05)	17.09 (0.04)
8) General Economic Services	147 (11.91)	404 (18.04)	51 (1.10)	218.58 (2.50)	540.11 (3.27)	1096.53 (3.69)	1658.86 (3.96)
II) Loans & Advances by State Government to Developmental Purposes	92	387	807	1336.49	719.55	3236.66	3238.52
A) Social Services	35	108	208	383.84	575.21	2569.44	2714.9
1) Housing	8	24	30	283.59	443.25	911.49	1479.39
2) Government Servants (Housing)	9	19	97	99.21	22.65	24.11	29.75
3) Others	24	71	141	67.04	84.31	163385	0
B) Economic Services	56	279	600	952.65	144.34	667.21	523.62
Co-operation	5	26	16	14.47	1.03	12.25	0.3
Crop Husbandry	4	25	3	3.09	0	0	0
Soil Water Conservation	1	3	-	0	0	0	0
Food Storage and Ware Housing	-	-	-	1.12	0	0	0
Projects	21	203	564	837.83	39.56	494.2	202.7
Village and Small Industries	1	1	-	0.88	0	4.42	17.56
Other Industries and Minerals	5	5	-	0	0	32.11	0
Others	19	16	17	95.26	93.05	124.22	303.05

Source: State Finances – A Study of Budgets, Published by Reserve bank of India Various Issues.

Note: Figures in () brackets are proportion of Total Expenditure.

Figures in [] brackets are proportion of Developmental Expenditure.

Figure in () brackets are proportions of Social and Economic Services.



Among the expenditure on Economic Services - agriculture and allied activities, rural development, irrigation and flood control, energy, transport and communication are the major components. The expenditure on agriculture and allied activities amounted to Rs.184 crores in 1985-86, which has increased to Rs.3,963 crores in 2013-14. The expenditure on rural development has been segregated only

from agriculture and allied activities in 1985-86 and shown separately. The expenditure in rural development has increased from Rs.237 crores in 1985-86 to Rs.4,677 crores in 2013-14. The expenditure on irrigation and flood control has increased from Rs.440 crores to Rs.18,622 crores during the same period. The expenditure on energy has increased from Rs.39 crores in 1985-86 to Rs. 7,460 crores in 2013-14. The

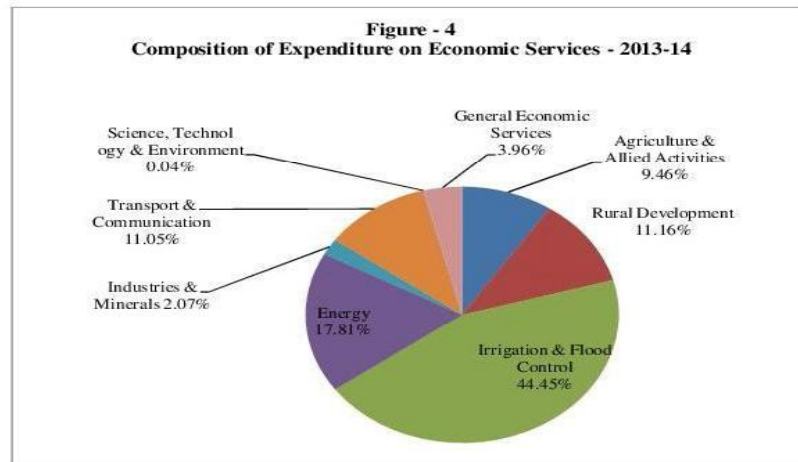
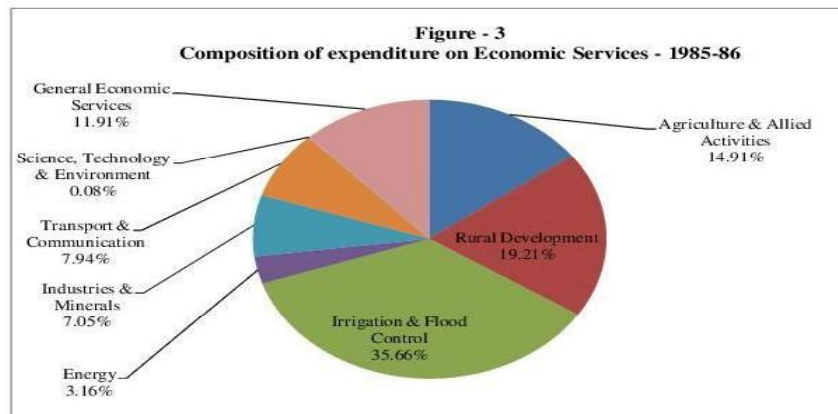


expenditure on transport and communication has increased from Rs.99 crores in 1985-86 to Rs.4,631 crores in 2013-14.

It may be observed from the Table that the share of expenditure on Economic Services declined during the study period from 50.76 per cent in 1985-86 to 47.48 per cent in 2013-14. It is clear from the

Table that the share of expenditure on agriculture and allied activities, rural development, industries & minerals, science, technology and environment declined during the study period. Similarly, the share of expenditure on Irrigation & flood control, energy, transport and communication increased remarkably

during the study period. The same are shown in Figure – 3 and 4.



Conclusion

The proportion of developmental expenditure in total expenditure is

declining during the study period. Hence the State of Andhra Pradesh needs to concentrate on improvement of mobilisation of resources for



developmental purposes. It may be observed from the composition of developmental expenditure that social services show increasing trend and economic services show decreasing trend during the select years of the study. It is also noticed that among sub sectors of social services like education, medical and public health, family welfare expenditure are declining. Those expenditure items are having significant influence on human development. Hence the State should be cautious to reduce unnecessary expenditure instead of curtailing the expenditures on human priority areas. Similarly among economic services agriculture and allied activities, rural development, industries & minerals, science, technology and environment declined during the study period. These are the expenditure items which develop economic infrastructure and play important role in the faster development of the State.