

PUBLIC EXPENDITURE MANGEMENT IN TAMILNADU – CHALLENGES AND STRATEGIES

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ABSTRACT

The State governments incur expenditure on social and community services and on economic services. Social services include education, public health, welfare schemes for the workers, relief and rehabilitation of displaced persons, and the like. These services confer a positive advantage on the community and the more developed these services are the happier and better would be the people. The States spend on economic services which include development projects connected with agriculture, veterinary services, irrigation, electricity, rural and community development, road construction, development of industries, and the like. The most important non-development expenditure is on civil administration. Other items of non-developmental expenditure are debt services and famine relief operations. A very high rate of company income tax reduces the amount of investment funds and thereby slows down the rate of capital formation. Similarly, increased government borrowings raise the interest rates, which, in turn, discourage loans for private investment. State governments in the modern era are actively participating in the allocation, distribution and stabilization processes of the economy. As a result of their active participation in the various economic activities, the government finances have begun to play a crucial role in the social and economic development of the State. An understanding of the State government's participation in the economic activities is possible by clearly analyzing the trends and patterns of the tax system, the public expenditure and the debt would help us in assessing the fiscal performance of the government that is being considered.

KEY WORDS: Fiscal Management, Economic Development, Tamilnadu Economy.

INTRODUCTION

A public expenditure assessment analyses the amount and fine of public spending over the years against coverage dreams and overall performance signs. They may also cover all government expenditure or cognizance on one or extra priority sectors, which include fitness, training or water and sanitation. PERs can be used to inform strategic planning and price range coaching and to perceive methods wherein to improve the performance and effectiveness of presidency resources. Improving public expenditure control has remained an critical goal of price range reforms around the world. In latest years, there has been tons emphasis on the role of institutional arrangements in influencing price range results. The outcome budgets of Central and State Governments in current years are aimed toward improving outcomes of public expenditure as towards in advance emphasis on inputs. The link between expenditure (enter) with consequences will be facilitated if there may be complete view of expenditure on programmes. Traditionally, the budgeting system in India is conventional enter based totally. There is segmentation of expenditure between Plan and Non-Plan. The tough budget constraint isn't applicable in several instances. At the identical time, administrative Ministries lack incentives to reallocate sources throughout programmes. A piece meal technique to sanctioning of funds and schemes is likewise no longer an unusual exercise leading to lack of considerable time and delays in the consciousness of objectives. Multi-year expenditure facts isn't always to be had making it difficult to link making plans and budgeting. There is not a whole lot information on costing of services and programmes at unique service levels and standards. There are several troubles in the modern finances and accounting category. The design and effectiveness of Financial Management Information System (FMIS) desires to be progressed. Complete fiscal and accounting information referring to numerous plan schemes being applied in the States/Union territories isn't always effortlessly available. Apart from the absence of particular and uniform budget strains for every programme/scheme which stands inside the way of producing scheme-sensible data, there are also different accounting and reporting troubles intimately connected with price range and secretarial group. Public investment is especially important inside the wash sector because of the high infrastructure fees, incidence of herbal monopolies and the benefits for public health and the environment. Where public funding is

inadequate, used poorly, or targeting higher-off agencies, public expenditure analysis gear can assist in identifying the underlying hassle and offer proof to advocate for reform. The complex organizational shape and various investment streams in the wash sector make it harder to understand the quantity of sources to be had, and how they may be allotted and used.

TABLE NO.1: DESCRIPTION OF VARIABLES

Variables used	Type of Government	Source
Capital Expenditure	Centre, State and General Government	Handbook of Statistics on Indian Economy 2013-14)
Current expenditure	Centre, State and General Government	RBI Handbook of Statistics on Indian Economy 2013-14) & CSO National Accounts statistics)
Public Debt	Centre, State and General Government	Handbook of Statistics on Indian Economy 2013-14)
GDP	Centre and General Government	RBI Handbook of Statistics on Indian Economy 2013-14)
NSDP	State Government	State Statistics 2013-14)
GDP Deflator	Centre, State and General Government	IMF Online Statistics on Indian Economy 2013-14

Source: Author’s elaboration on data sources mentioned in Table 1

Table No. 2

Karl Pearson’s correlation coefficient of Current and Capital expenditure with Public Debt

	General Government		Central Government		State Government	
	Current Exp & Debt	Capital Exp & Debt	Current Exp & Debt	Capital Exp & Debt	Current Exp & Debt	Capital Exp & Debt
Ratio /GDP	0.79	-0.63	0.75	-0.63	0.62	-0.08
Real Varibles	0.97	0.92	0.98	0.67	0.96	0.94

Note: A negative value of this coefficient indicates an inverse relationship and vice versa. Normally correlation coefficients of a value higher than 0.9 are considered spurious. All analysis has been carried out with log values. Hence variables analyzed are Log Debt/GDP), Log Capital exp/GDP), Log Current Expenditure/GDP), Log Real Debt), Log Real Capital Expenditure) and Log Real Current Expenditures).

Source: Author’s elaboration on RBI data as mentioned in Table 2

Table No. 3: Augmented Dickey-Fuller and Kwiatkowski, Phillips, Schmidt, and Shin Tests for Capital Public Expenditure and Public Debt (Real and Ratio to GDP Variables)

General Govt.	Log Levels				First Differences			
	ADF Const	ADF Trend	KPSS Const	KPSS Trend	ADF Const	ADF Trend	KPSS Const	KPSS Trend
Capital Expenditure/	-1.3459 (0.594)	-1.5997 (0.769)	0.7477	0.2264	-5.6242 (0.0001)	-5.5915 (0.0004)	0.4048**	0.0405***
Debt/GDP	-2.3514 (0.163)	-2.2158 (0.464)	0.8984	0.3200	-2.9760 (0.048)	-3.2926 (0.0862)	0.2235***	0.0695***
Real Capital Expenditure	0.5957 (0.987)	-1.1117 (0.910)	0.7699	0.2337	-6.3735 (0.0000)	-6.6434 (0.0000)	0.5000*	0.0473***

Real Debt	2.5948 (1.000)	-2.2367 (0.453)	0.6296*	0.1898*	-1.2157 (0.6543)	-4.1632 (0.0153)	0.4530*	0.0862***
Central Govt.	ADF Const	ADF Trend	KPSS Const	KPSS Trend	ADF Const	ADF Trend	KPSS Const	KPSS Trend
Capital Expenditure / GDP	-0.9210 (0.767)	-1.7090 (0.723)	0.6093	0.2288	-5.6942 (0.000)	-5.5831 (0.000)	0.1250***	0.1246**
Debt/GDP	-1.2759 (0.625)	-1.4565 (0.818)	0.7905	0.2288	-3.5140 (0.014)	-4.0817 (0.015)	0.2461***	0.0668***
Real Capital Expenditure	-2.2846 (0.182)	-3.3524 (0.075)	0.6353*	0.1140	-7.0161 (0.000)	-6.9485 (0.000)	0.1898***	0.1503**
Real Debt	0.6500 (0.988)	-1.7039 (0.725)	0.9085	0.2381	-1.1238 (0.693)	-4.1548 (0.015)	0.5494*	0.0772***
State Govt.	ADF Const	ADF Trend	KPSS Const	KPSS Trend	ADF Const	ADF Trend	KPSS Const	KPSS Trend
Debt/ GDP	-2.3442 (0.165)	-2.5591 (0.300)	0.449**	0.084***	-2.1863 (0.214)	-2.3386 (0.4023)	0.1724***	0.0926***
Capital Expenditure	-2.6580 (0.102)	-2.3268 (0.408)	0.2794	0.1606	-5.2316 (0.0002)	-5.2965 (0.0009)	0.2895***	0.2402
Real Debt	0.3693 (0.978)	-0.6904 (0.962)	0.8717	0.2265	-2.5133 (0.122)	-4.9493 (0.0030)	0.3028***	0.1045***
Real Capital Expenditure	0.7382 (0.992)	-1.3836 (0.846)	0.7785	0.2248	-5.1434 (0.0002)	-5.8645 (0.0002)	0.3960*	0.0618**
<p>Note: ADF= augmented Dickey-Fuller 1979); KPSS= Kwiatkowski, Phillips, Schmidt, and Shin 1992). The ADF tests are conducted by setting a lag length k) of 7 as explained in the test. The KPSS tests are reported on the automatic k) selection of 4 since the sample is small. The ADF tests, ADF Const denotes the only constant term in the estimating equation, whereas Trend denotes both the constant term and linear time trend. For ADF Trend log values of variables have been used. Same notations are used for constant and trend in the KPSS model. P- values are reported in brackets</p> <p>Critical Values: ADF Const ADF Trend KPSS Const KPSS Trend 1per cent -3.73 -4.33</p> <p> 0.739 0.216 5per cent -2.99 -3.58 0.463 0.146</p> <p>*** Significant at the 1per cent level ** Significant at the 5per cent level * Significant at the 10per cent level</p>								

Source: Author's elaboration on RBI data as mentioned in Table 3.
 Table No. 4.:VAR Lag Order Selection Criteria (Ratio/GDP and Real variables)

Government	Variables	Optimal Lag Length	Log L	LR	FPE	AIC	SC	HQ
General Government	Public debt/GDP and Capital expenditure/ GDP	6	-56.6	8.935	2.417*	6.361*	7.619	6.72*

	Real Public Debt and Capital Expenditure	6	-109	11.93*	137.961*	10.405	11.663	10.7*
Central Government	Public debt/GDP and Capital expenditure/GDP	5	-48.9	5.717	0.7264*	5.255*	6.3116	5.56*
	Real Public Debt and Capital Expenditure	3	-112	8.300	42.232*	9.394	10.06*	9.59*
State Government	Public debt/GDP and Capital expenditure/GDP	7	-9.88	8.827	0.1018*	3.067*	4.5194	3.48*
	Real Public Debt and Capital Expenditure	7	-56.2	23.35*	3.6114*	6.636*	8.087*	7.05*
<p>Note: * indicates the criterion according to which the stated lag length is optimal. Optimal lag length column indicates lag order selected by the criterion LR: Sequential modified LR test statistic each test at 5per cent level)FPE: Final Prediction error AIC: Akaike information criterion SC: Schwarz information criterion HQ: Hannan-Quinn information criterion</p>								

Source: Author’s elaboration on RBI data as mentioned in Table 4.

Table No. 5: Engle Granger Test for Co integration (Selected Variables)

Central government-Real Variables					
OLS Regression (debt as dependant variable)		ADF (Stationary Residuals)	Test of	Coefficient (Constant Term)	Coefficient (Independent Variable)
C	-2.1953 (0.0355)	-4.0745 (0.0167)		-98.802	30.1074
Capital expenditure	5.2275 (0.0000)				
General Government-Real Variables					
OLS Regression (debt as dependant variable)		ADF (Stationary Residuals)	Test of	Coefficient (Constant Term)	Coefficient (Independent Variable)
C	-3.8663 (0.0005)	-3.6273 (0.0109)		-86.654	17.274
Capital expenditure	13.0913 (0.0000)				
State Government-Real Variables					
OLS Regression (debt as dependant variable)		ADF (Stationary Residuals)	Test of	Coefficient (Constant Term)	Coefficient (Independent Variable)
C	-0.0649 (0.9486)	-2.5917 (0.0113)		-0.4532	7.4034

Capital expenditure	13.369 (0.0000)		
Note: P-values are reported in the brackets for this test.			

Source: Author’s Elaboration on RBI data as mentioned in Table 5.

Table No. 6: Error Correction Model

Central Government	Durban-Watson	Co integration Coefficient	Error Correction Coefficient	Adjusting variable
D Real Capital expenditure)	1.51	-0.2894**	-0.0131**	Capital Expenditure
General Government	Durban-Watson	Co integration Coefficient	Error Correction Coefficient	Adjusting variable
D Real Capital expenditure)	1.27	-0.2802**	-0.0353**	Capital expenditure
State Government	Durban-Watson	Co integration Coefficient	Error Correction Coefficient	Adjusting variable
D Real Capital Expenditure)	1.44	-0.1602	-0.0720	Capital expenditure
Table 4.*** Significant at the 1per cent level ** Significant at the 5per cent level * Significant at the 10percent level				

Source: Author’s elaboration on RBI data as mentioned in Table 6.

ROLE OF STATE GOVERNMENTS

The fundamental duties of the State Governments in the system of the FYP can also remain as follows: Assist Planning Commission in preparing basic FYP and plans for diverse Sectors and Services in accordance with priorities accredited by using Planning Commission. Project aid availability and necessities for respective State Plan. Prepare respective State Plan in accordance with national and State priorities keeping in view availability of total budgetary sources of the State and in all likelihood critical transfers (with out the sooner difference of Plan and Non-Plan), assets and outlays of PSEs, local bodies, SPVs and PPPs. The State Governments can also hold to have following obligations within the implementation of the plan: Prepare annual budgets (now synonymous with annual budgetary issue of the plan) regular with priorities of the State Plan in the overall availability of resources which include central transfers indicated by using Planning Commission Central Ministries. Prepare estimates of IEERs as well as investments of SPSEs and nearby bodies. Provide records on budgetary aspect and IEERs to Planning Commission. Also, proportion best practices. Share links with CPSMS to offer expenditure records on Central releases. • Respond to evaluations strategy meetings of Planning Commission and Central Ministries.

PUBLIC EXPENDITURE AND ECONOMIC DEVELOPMENT IN INDIA

In India, the involvement of the State and the proportion of presidency expenditure have additionally elevated because Independence. In fact, several elements determine the levels of public expenditure, social capital and human capital formation. Further, social capital is classed into forms, particularly, social funding and social intake. Social investment is an combination of governmental expenditure on civilian studies and improvement, motorway production, transportation and communications and civilian capital construction. Expenditures at the above sectors increase profitability by way of shifting fundamental constant capital charges of production from the personal area to the State. On the opposite hand, social intake operates the human capital improvement on schooling, health and migration.

The one of a kind types of composition of Government costs are determining elements inside the financial improvement of a rustic like India. Revenue expenditure is one of the elements influencing the GSDP increase of essential states. This expenditure has undoubtedly substantial relationship with GSDP increase charge of three categories states like low, middle and excessive profits States. The consequences of constant-outcomes model display that the center and coffee earnings States have responded greater definitely than excessive earnings States.

Government spending on capital side is likewise one of the factors influencing increase of a financial system. Capital expenditure affects the boom price of middle and coffee profits organization of States however the co-efficients are relatively lesser than that of the revenue expenditure. It is also obvious from the fixed-effects version that the coefficient values of center and coffee earnings States are better than that of predominant States of India. It is also to be referred to that the center and low earnings States had been spending greater than high earnings group of States to attain quicker monetary increase.

Thus the result as a whole suggests that the scale of sales expenditure coefficients is better than the capital expenditure of 3 earnings businesses of states. The panel regression outcomes display that the revenue expenditure has better stage of high quality impact on boom of GSDP than capital expenditure of all of the states. The sector-clever expenditure evaluation led to exciting findings. Public expenditure on training is an essential factor in Indian economic improvement. The estimated values display that revenue expenditure on instructional offerings in the low and excessive profits States are positively associated with the growth of GSDP. On the contrary, the capital expenditure on education within the low and excessive income States is negatively associated with GSDP rate. Health expenditure additionally performs a vast position inside the economic boom of fundamental States of India. The outcomes show that there may be fine dating between sales expenditure on fitness sector and the boom rate of GSDP in the low profits States.

Industrial sector is another determining aspect of the progress of the state economy. The fixed-outcomes estimation suggests that sales expenditure on business services within the high profits States is definitely related with boom fee of GSDP. This indicates high and center earnings States consisting of Gujarat, Maharashtra, Punjab, Tamil Nadu, Karnataka and West Bengal have higher performances in business development and that they have also extensively improved at some point of the monetary policy reforms duration. The industrial region has been given high priority as unique monetary zones, alternate centres and industrial units have been created for the improvement of the arena. On the opposite, the capital allocation to commercial region is negatively associated with GSDP boom of the excessive earnings States.

Infrastructure, in particular transport region, is but another key determinant of economic increase. The purposeful relationship among capital expenditure on shipping quarter is definitely related to GSDP of growth price of high and center earnings States. The higher high-quality co-efficient for high and center earnings organization of States also suggests that those states are already spending greater to meet the expanding infrastructure necessities due to their higher FDI and private investment drift throughout the submit-liberalization era.

The coefficients of revenue expenditure on non-improvement activities within the low and center profits States are definitely substantial with GSDP increase. This indicates that the quantity of revenue earners, size, the income bundle, economic services, public administrative services and pension services have multiplied due to the implementation of Fifth and Sixth Pay Commissions' suggestions. This could have generated a better demand inside the financial system which in term would have motivated the increase definitely. Further, a developing financial system could also require the support of a developing and green administration.

CONCLUSION

This essay traced the primary tendencies in India's fiscal policy from the early degrees of planned improvement within the 1950s, via the country's stability of payments crisis of 1991, the subsequent economic liberalization and rapid boom segment, the reaction to the global financial crisis of 2008 and the current submit-crisis moves to return to a route of fiscal consolidation. India's financial coverage inside the segment of planned development taking off from the 1950s to economic liberalization in 1991 changed into largely characterized via a method of the use of the tax system to switch private assets to the massive investments inside the public region industries and additionally achieve extra earnings equality. The result become high maximum marginal profits tax costs and the consequent tendency of tax evasion. The public area investments and social expenditures had been also now not green. Given these obvious inadequacies, there were constrained tries to reform the machine in the 1980s. Their spending duties include most of the socio-economic topics like health, education, agriculture, rural development, social welfare, law and order and justice. Given such fundamental spending duties of the states on the diverse essential socio- economic

sectors as well as large share of public spending by means of the Union and Local Governments, the look at examines the position of public expenditure within the improvement of the states.

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