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Analysis of public income and expenditure by Indian government

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Abstract

Public Income and Expenditure plays a very significant role to achieve the major economic goals of growth, stability, equity and efficiency. The income of the government through all sources is public income and public expenditure refers to Government expenditure i.e. Government spending. Keynes in his macroeconomic theory advanced the role of public expenditure in the determination of level of income and its distribution is now well recognized. Keynesian macroeconomics provides a theoretical basis for recent developments in public expenditure programs in the developed countries. It is incurred by central, State and Local Governments of a country. as we know that public expenditure is used as a lever to raise aggregate demand and thereby to get the economy out of recession, it is also used to improve income distribution to direct the allocation of resources in the desired lines and to influence the composition of national product. In the developing countries also, the role of public expenditure is highly significant. On the contrary, Government needs to discharge a number of functions and meet its public expenditure. Since the functions of modern government have increased in scope and variety, therefore the Government has to tap all possible resources to increase public revenue. The importance of public revenue has greatly increased during recent times. This paper is an attempt to analyze the trend and pattern of public expenditure in India.

Keywords: Revenue receipt, capital receipt, Revenue expenditure, capital expenditure, planned expenditure and unplanned expenditure

1. Introduction

Public finance is a field of economics concerned with how a government raises money, how that money is spent and the effects of these activities on the economy and society. It studies how governments at all levels—national, state and local—provide the public with desired services and how they secure the financial resources to pay for these services. Public finance deals with the finances of public bodies—national, State or Local—for the performance of their functions. The performance of these functions leads to expenditure. The expenditure is incurred from funds raised through taxes, fees, sale of goods and services and loans. The different sources constitute the revenue of the public authorities. Public finance studies the manner in which revenue is raised; the expenditure is incurred upon different items etc. Thus, public finance deals with the income and expenditure of public authorities and principles, problems and policies relating to these matters. We can analyse some important definitions of public finance given by some leading authorities in public finance. Public expenditure is an important instrument of the fiscal system of a federal nation. The size and pattern of the public spending has great relevance in the growth process and in the reduction of economic disparities.

The study of public expenditure was neglected till 1920s because of the belief that all public expenditure was waste. Infact, this belief was strengthened by the writings of the classical economists and especially that of Adam Smith (1776) who advocated that the government should restrict its activities to “justice, police and arms” (Zahir, 1972) ^[10]. To J. B. Say, public spending was usually for useless gratification of the wasteful whims of rulers; also it usually interfered with the process of the private capital formation necessary to the development of trade and industry by draining of funds that otherwise might have been accumulated by thrifty savers (Newman, 1968, Chouhan & Verma, 2014a;b; Chouhan, 2013) ^[12, 6, 5, 7]. Ricardo, too, viewed public spending as wasteful because of its possible effects on private capital formation. On the question of government’s role, Malthus was also of the view that public expenditure could be excessive, leading to “injudicious taxation” or too large a national debt (Newman, 1968, Chouhan *et al.*, 2013) ^[12, 9].

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At a very broad summary level, the best way to look at the structure of government expenditure is to examine the division of total expenditure between revenue expenditure and capital expenditure. From the time the economic reforms began, there has been a tendency to suppress capital expenditures in the face of the inability to control revenue expenditure. This state of affairs could not but raise extreme concern about the future growth prospects of the economy.

While disapproving spiralling revenue expenditures and bemoaning the decline in capital expenditures, it is being assumed that all capital expenditure is developmental in nature (Khan, *et al.*, 2012, Chandra, *et al.*, 2012, Chouhan *et al.*, 2014) [2, 3, 8]. Even though this standpoint may be generally true, it is important to remember that there can be, and has been, wasteful capital expenditure. Grandiose projects to satisfy the whims and fancies of the satraps in charge of ministries can be equally debilitating to the finances of the government.

2. Objective

1. To analyze the growth in the receipt of government from 2007-08 to 2014-15

2. To analyze the growth in the Expenditure of government from 2007-08 to 2014-15
3. To compare the growth in the revenue and capital receipt of government from 2007-08 to 2014-15
4. To compare the growth in the revenue and capital expenditure of government from 2007-08 to 2014-15
5. To compare the growth in the planned and unplanned expenditure of government from 2007-08 to 2014-15

3. Public Revenue & Public Finance

Public Revenue includes the income of the states is referred to as Public Revenue. In this branch, we study the various ways of raising revenue by the public bodies. We also study the principles and effects of taxation and how the burden of taxation is shared among the various classes of society etc. while Public Expenditure: It deals with the principles and problems relating to the allocation of public spending. We study the fundamental principles governing the flow of public funds in to different channels, classification and justification of public expenditure; expenditure policies of governments and the measures adopted for welfare state etc. India's Total receipt of the government is being shown in table-1 as under:

Table 1: Total Receipt of Government

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Tax revenue (net of States' share)	439547	443319	456536	569869	629765	740256	816046	977258
Non-tax revenue	102317	96940	116275	218602	121672	137357	199233	212505
Total Revenue receipts	541864	540259	572811	788471	751437	877613	1015279	1189763

Source: Economic survey 2014-15.

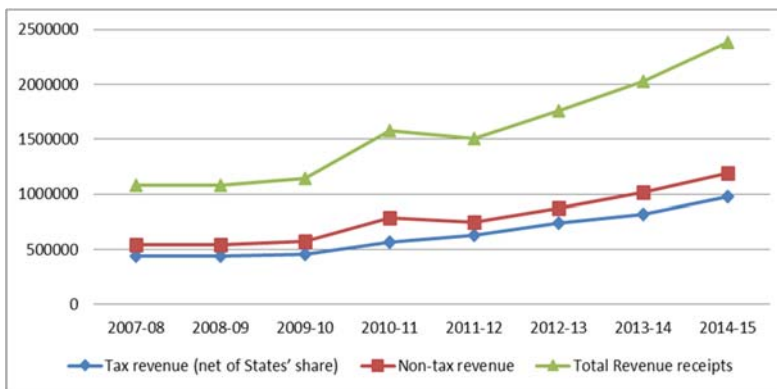
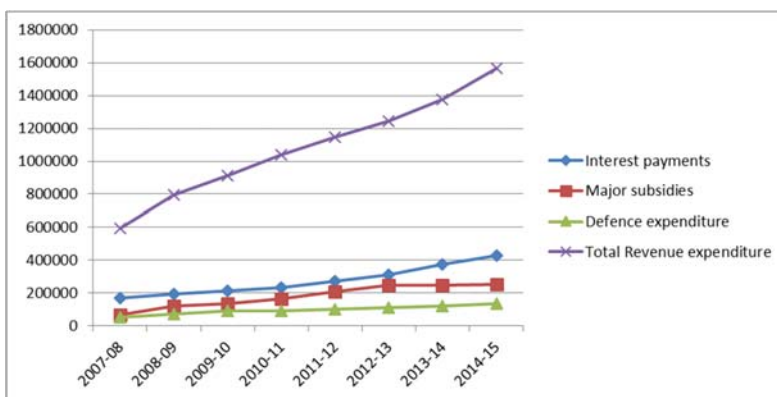


Table 2: Total Expenditure of government

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Interest payments	171030	192204	213093	234022	273150	313169	377502	427011
Major subsidies	66638	123206	134658	164516	211319	247493	247596	251397
Defence expenditure	54219	73305	90669	92061	103011	111277	123449	134412

Source: Economic survey 2014-15.



Through public expenditure, the government influences directly or indirectly production, consumption and distribution of the nation. It thus helps towards the economic and social development of the society. “It can be used for stabilization, business cycle inversion, and growth purposes. It gives rise to positive externalities to economy and society, the more so through its capital component” (Piana, 2001) ^[1]. It is worth noting here that public expenditure has played significant role in developed as well as underdeveloped countries. “In the developed economies, the role of public

expenditure consists in preventing cyclical fluctuations, counteracting a secular tendency towards stagnation and improving income distribution. Public expenditure can also be used as a lever to raise the level of income and employment. However, public expenditure has played threefold role in an underdeveloped economy in: (a) promoting economic development; (b) redistribution of income; and (c) balanced regional development” (Zahir, 1972) ^[10]. Public expenditure is also playing an important role in the development of Indian economy

Table 3: Revenue deficit

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Revenue deficit	52569	253539	338998	252252	394349	365896	360311	378349

Source: Economic survey 2014-15.

Table 4: Total capital receipt

Capital receipts	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Recovery of loans	5100	6139	8613	12420	18850	16268	12502	10527
Other receipt (mainly PSU Disinvestment)	38795	566	24581	22846	18088	25890	27555	63425
Borrowings and other liabilities	126912	336992	418482	373591	515990	490596	508149	531177
Total Capital receipt	170807	343697	451676	408857	552928	532754	548206	605129

Source: Economic survey 2014-15.

Table 5: Total capital Expenditure

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
5 Capital expenditure	118238	90158	112678	156604	158579	166858	187895	226780

Source: Economic survey 2014-15.

The classification of expenditure into Plan and Non Plan, although not rooted in the Constitution, has evolved with planning process. Over a period of time, several issues have cropped up from the distinction between plan and non-plan, making it dysfunctional and an obstacle in outcome-based budgeting. Therefore, this distinction should go for both Union and State Budgets. On removal of Plan/Non-Plan distinction in the Budget, there should be a fundamental shift in the approach of public expenditure management- from a segmented view of Plan and Non-Plan to holistic view of expenditure; from a one year horizon to a multi-year horizon;

and from input based budgeting to the budgeting linked to outputs and outcomes. This shift to holistic view of expenditure would require interalia changes in organizational structure, mandates and processes. Outcomes and outputs of programmes depend on total expenditure, Plan and Non-Plan put together and not merely on plan expenditure which constitutes about 30% of the total expenditure only. There is a recent emphasis on linking budgets to outputs and outcomes to improve efficiency and effectiveness of public expenditure. This makes a strong case for adopting a total expenditure approach

Table 6: Planned and unplanned expenditure

	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14	2014-15
Plan expenditure	205082	275235	303391	379029	412375	413625	453085	575000
Non-plan expenditure	507589	608721	721096	818298	891990	996742	1110400	1219892

Source: Economic survey 2014-15.

4. Data Analysis

To analyze the increase in the public expenditure non-parametric test independent sample Kruskal Wallis test were applied since the sample were drawn from the same distribution. The following hypotheses were made:

H_{1(a)}: The distribution of Revenue receipt has shown significant increase during the period of 2007-08 to 2014-15

H_{1(b)}: The distribution of capital receipt has shown significant increase during the period of 2007-08 to 2014-15.

H_{1(c)}: The distribution of Revenue expenditure has shown significant increase during the period of 2007-08 to 2014-15

H_{1(b)}: The distribution of capital expenditure has shown significant increase during the period of 2007-08 to 2014-15

H_{1(b)}: The distribution of planned expenditure has shown significant increase during the period of 2007-08 to 2014-15

H_{1(b)}: The distribution of unplanned expenditure has shown significant increase during the period of 2007-08 to 2014-15

The hypotheses were tested and the results have been shown in Table-7 as under:

Table 7: Hypothesis Test Summary

	Null Hypothesis	Test	Sig.	Decision
1	The distribution of RR is the same across categories of year	Independent- Samples Kruskal - Wallis Test	.429	Retain the null hypothesis
2	The distribution of CR is the same across categories of year	Independent- Samples Kruskal - Wallis Test	.429	Retain the null hypothesis

3	The distribution of RE is the same across categories of year	Independent- Samples Kruskal - Wallis Test	.429	Retain the null hypothesis
4	The distribution of CE is the same across categories of year	Independent- Samples Kruskal - Wallis Test	.429	Retain the null hypothesis
5	The distribution of PE is the same across categories of year	Independent- Samples Kruskal - Wallis Test	.429	Retain the null hypothesis
6	The distribution of UPE is the same across categories of year	Independent- Samples Kruskal - Wallis Test	.429	Retain the null hypothesis

Asymptotic significances are displayed. The significance level is .05.

Table-7 revealed that the difference in incase of all the six hypothesis for the amount Revenue receipt, capital receipt, Revenue expenditure, capital expenditure, planned expenditure and unplanned expenditure were not significant as $p=0.429>0.05$ respectively in all the cases. This revealed that null hypothesis were selected and the differences in the categories were only due to change of period only.

5. Conclusion

Public Expenditure is used as a lever to raise aggregate demand and thereby to get the economy out of recession; it is also used to improve income distribution to direct the allocation of resources in the desired lines and to influence the composition of national product. In the developing countries also, the role of public expenditure is highly significant. On the contrary, Government needs to discharge a number of functions and meet its public expenditure. Since the functions of modern government have increased in scope and variety, therefore the Government has to tap all possible resources to increase public revenue. The importance of public revenue has greatly increased during recent times. This paper revealed that the Revenue receipt, capital receipt, Revenue expenditure, capital expenditure, planned expenditure and unplanned expenditure has shown significant increase during the period of 2007-08 to 2014-15.

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