

CHAPTER - 1

RESEARCH METHODOLOGY

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1.1 INTRODUCTION:

Public finance is an important branch of economics. Public finance deals with the question how the Government raises its resources to meet its ever-rising expenditure. In other words, it deals with the financial operations (Finance) of the public authorities (Public) – central government, state government and local bodies. Hence, it is called public finance. As Dalton puts it, public finance is “concerned with the income and expenditure of public authorities and with the adjustment of one to the other.”¹ It means raising of revenue (income) and spending it on various services constitute public finance.

Public finance includes public revenue, public expenditure and public debt. Dr. Hugh Dalton, the ex-Chancellor of Exchequer of Great Britain, has developed “the Principle of Maximum Social Advantage” for taxation and expenditure policy of the government. According to Dalton, ‘the best system of public finance is that which secures the maximum social advantage from

the operation that it conducts.¹² According to his doctrine, 'the aggregate social benefit is maximized when public expenditure is distributed among the different heads of expenditure in such a way that the last unit spent in every direction gives equal benefit.' Public expenditure plays a very important role in economic development of the country.

India has a federal structure of governance with three levels- central government, state governments and local bodies. The central (Union) government has exclusive powers and responsibilities over subjects specified in the Union list such as defence, foreign affairs, currency which are of national importance. State governments' powers as specified in the State list relate to subjects such as police, agriculture and water supplies and public health which are of more local or regional nature. The Concurrent list relate to subjects such as education, labour and drug regulation where both have powers.

Modern states are welfare states and no more police states. From the end of the nineteenth century, the functions of the government are growing both intensively and extensively, and hence public expenditure is growing fast. Public expenditure is very important side of public finance. It refers to all types of expenditure incurred by the government.

Government expenditure in India is classified in different ways – economic classification, functional classification and plan and non-plan expenditure. In the economic classification, all expenditures are considered as capital expenditure which result in asset creation and the remaining as revenue expenditure. Functional classification includes expenditure on economic, social and general services. Plan expenditure is to finance central plans and central assistance for plans of the states and Union Territories. Non-plan expenditure is divided into revenue and capital expenditure. Revenue and capital expenditure incurred for providing economic and social services are

considered as developmental expenditure. The remaining expenditures are treated as non-developmental expenditures.

1.2 SELECTION OF THE RESEARCH TOPIC:

Public expenditure in India has certain notable trends. Government expenditure in India has been growing rapidly particularly during the plan period. Capital expenditure increased from Rs. 25612.16 crore in 1991-92 to Rs. 44838.28 crore in 2001-02 and Rs. 229128.00 crore in 2013-14 (BE). Total expenditure increased from Rs. 107902.96 crore in 1991-92 to Rs. 346613.04 crore in 2001-02 and Rs. 1665297.00 crore in 2013-14 (BE). The capital expenditure, which had recorded a robust growth in 2009-10 and 2010-11, is budgeted to decline marginally in 2011-12. Declining capital expenditure is a cause of concern. The share of capital expenditure in total expenditure is budgeted to be lower at 11.7 percent during 2012-13 compared to 12.4 percent during 2011-12.

Expenditure at the central level reveals that in 2011-12 revenue expenditure growth remained higher than the budgeted growth for the year. Revenue expenditure increased from Rs. 82290.80 crore in 1991-92 to Rs. 301774.76 crore in 2001-02 and Rs. 1436169.00 crore in 2013-14 (BE). Rapid increase in revenue expenditure has led to rise in revenue deficits. Revenue deficit increased from Rs. 269843.00 crore in 2010-11 to Rs. 391244.00 crore in 2012-13. In 2013-14 (BE), ratio of revenue deficit to gross fiscal deficit is expected to remain significantly higher, which is an important benchmark for assessment of the quality of fiscal consolidation. In 2012-13, revenue account expenditure constituted 88.3 percent of aggregate expenditure. High absorption of resources towards current expenditure in which interest payments, a major component, is leading to decline in investment expenditure.

It is against this background that the present study attempts to examine the growth and composition of revenue expenditure of the central government and review the steps taken for expenditure with a review of various policy measures in respect of revenue expenditure.

1.3 OBJECTIVES OF THE STUDY

The following are the main objectives of the study:

- a. To review theoretical literature on public expenditure.
- b. To study the trends in the revenue expenditure of Government of India.
- c. To study composition of revenue expenditure in India.
- d. To make policy suggestions and recommendations

1.4 HYPOTHESIS OF THE STUDY

In total expenditure of central government the share of revenue expenditure is higher and it is increasing continuously.

1.5 RESEARCH METHODOLOGY

The present study is a library dissertation based mainly on published official secondary data and theoretical literature. Necessary secondary data is collected from the following sources:

1. Budget Documents, published by the Ministry of Finance, Government of India, New Delhi.
2. Reserve Bank of India Bulletins – Issues particularly related to budgets of Government of India
3. ‘Reports of the Currency and Finance’ published by Reserve Bank of India.
4. Annual Economic Survey, presented by the Finance Minister, at the time of budget speech.
5. Indian Public Finance Statistics- presented by the Ministry of Finance, Government of India, New Delhi.

6. Handbook of Statistics on the Indian Economy, Reserve Bank of India (various issues).

Secondary data collected from above sources tabulated and interpreted with the help of statistical techniques like percentage, simple growth rate, compound annual growth rate (CAGR), arithmetic mean, standard deviation, coefficient of variation, growth in folds etc. For this, the use of computer software package such as Excel is made.

1.6 SCOPE OF THE STUDY:

The present study attempts to study the revenue expenditure pattern of Government of India. The period covered is from 1991-2011. With the inception of the New Economic Policy (1991), central government has initiated fiscal reforms aimed at fiscal consolidation. This is the reason for the choice of the period of study. Nevertheless the recent data for 2011-12, 2012-13, and 2013-14 (Budget Estimates), wherever available is also used.

1.7 CHAPTER SCHEME:

The chapter scheme of the study is as under –

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	1.2 Selection of the research topic
	1.3 Objectives of the study
	1.4 Hypothesis of the study
	1.5 Research methodology
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	1.7 Chapter scheme of the study
Chapter – 2	Theoretical introduction to public expenditure
	2.1 Introduction
	2.2 Meaning of public expenditure
	2.3 Public expenditure and private expenditure
	2.4 Classification of public expenditure

- 2.5 Effects of public expenditure
 - 2.6 Theories of public expenditure
 - 2.7 Significance of public expenditure
 - 2.8 Fiscal Responsibility and Budget Management
- Chapter – 3 Review of literature
- 3.1 Books
 - 3.2 Articles in journals / periodicals and books
 - 3.3 Articles in leading newspapers
 - 3.4 Working papers / Discussion papers / Study reports
 - 3.5 A broad conclusion and indications for further research
- Chapter – 4 Trends in revenue expenditure of government of India
- 4.1 Introduction
 - 4.2 Composition of total expenditure of India
 - 4.3 Expenditure as per cent of GDP
 - 4.4 Budgetary operations on revenue account
 - 4.5 Growth of revenue expenditure of India
- Chapter – 5 Trends in composition of revenue expenditure of government of India
- 5.1 Composition of revenue expenditure of central government
 - 5.2 Functional classification of developmental expenditure
 - 5.3 Major heads of developmental expenditure (revenue) on social services
 - 5.4 Major heads of developmental expenditure (revenue) on economic services

	5.5 Major heads of non-developmental expenditure (revenue) of India
Chapter – 6	Findings, conclusions and policy suggestions
	6.1 Findings
	6.2 Conclusions
	6.3 Policy suggestions

References:

1. Dalton Hugh (1954): 'Principles of Public Finance', Routledge & Kegan Paul Ltd, London, E. C. 4, p. 1.
2. Ibid, p. 7.