

CHAPTER—VI

**FINDINGS, CONCLUDING OBSERVATIONS AND
POLICY RECOMMENDATIONS**

6.1 FINDINGS AND CONCLUDING OBSERVATIONS

As discussed in the beginning of the present study, the study has proceeded with two methods of analysis – descriptive and quantitative analysis. The study is based on analysis of secondary data for period of 1985-86 to 2005-06 as the study period taken into consideration.

The chapters on survey of theoretical discussions and survey of literature (**Chapters-I and II**) provide a base for the study of role of public expenditure in economic development that have been accepted as positive theories of economic growth such as Adam Smith's Wealth of Nations, Samuelson's Pure Theory of Public Expenditures Mill's Principles of Political Economy, Keynes's Government Theory of Employment Interest and Money, Pigou's Study of Public Finance, Dalton's Principles of Public Finance, Lewis's Principles of Economic Planning / Theory of Economic Growth, Ricardo David's Principles of Political Economy, Wagner's Theory of Public Expenditure and Economic Development, Schumpeter's Theory of Development, Peacock and Wiseman's Growth of Public Expenditure in the United Kingdom, Taylor's Economics of Public Finance, Hicks's Development from Below/Development Finance-Planning and Control, Lewis's Economics of Control, Gupta's Government Budgeting, Row's Economic Functional Classification of State Government Expenditure in India.

The survey of the possible theoretical explanations of public expenditure and economic development discussed in context to the present Chapter-I and II, have widely covered developed and developing countries. It was found that these studies have different, opinions in regard to the practicability and desirability of achieving economic growth with the help of the increasing public expenditure. Thus, public expenditure has grown, abnormally, in India and abroad; its study, unfortunately, has not received much attention and suffered from

an alarming neglect. The survey of the possible theoretical explanations of public expenditure in India shows that there has been a general tendency among the economists to think and write only on the problems of All-India scaling and ignore the importance of the study of regional development. It is true that Macro studies (All-India) are essential but it is more true to study the economic changes of the country on micro level so as to remove the problem of regional disparities from the economy.

Therefore, due to these shortcomings, it was felt necessary to undertake the present study in order to examine role of public expenditure and economic development of Gujarat State, India.

Further, growth and patterns of public expenditure of Gujarat State have been Surveyed (**Chapter- III**) for the study years of 1985-86 to 2005-06 in the context of their analysis , attempted in this chapter, it may be concluded that the growth and pattern of public expenditure including, budgetary position , development expenditure on Revenue and capital accounts of Gujarat are of substantial nature and has been increasing during the plan periods. The growth and pattern of public expenditure in Gujarat based on empirical evidences reveal that expenditure both development and non-development on revenue and capital accounts has witnessed a phenomenal rise during the plan period of 1986-87 to 2005-06, on account of the inception of planning in the country with developmental and welfare programmes launched by the democratic government. During the plan period, the growth of expenditure on revenue account has been quite progressive and has covered more than 68 % (in average) of the aggregate expenditure in each year between 1986-87 and 2005-06. It constitutes 76.23% growth of the aggregate expenditure in 1986-87 which increased to 77.10 % in 1987-88, and increased at decreasing trend to 55.28 % in 2005-06. The position of revenue expenditure during the period of 20 years of planned

economic development makes it clear that there has been a steady and fast growth in the volume of the total revenue expenditure at current prices. It became more voluminous particularly after 1986-87. In between 1986-87 and 2005-06, the total revenue expenditure has grown up from Rs. 2469.24 crores to Rs. 25463.13 crores which was 10 times higher, constituting 72.29% growth; while between 1997-98 and 1998-99, it further gathered a more rapid stride in its growth from Rs. 12143.14 crores to Rs. 15606.16 crores, rising more than 2 times, i.e. by 81.05 %. The main reasons of the rapid rise in the volume of the total revenue expenditure during these years were the frequent visits of drought and flood to the state economy.

The development expenditure on revenue account in absolute terms increased more than 8 times during the period from 1986-87 to 2005-06. Total development revenue expenditure was Rs. 1882.53 crores in 1986-87 which rose to Rs. 14677.10 crores in 2005-06. In percentage terms, it witnessed 55.28 % growth in development expenditure in 2005-06 over the period of 1986-87. So far as plan-wise growth of development revenue expenditure is concerned, it indicated a higher increasing trend, having grown from Rs. 1882.53 crores in the Seventh Plan to Rs. 14677.10 crores in the Eleventh Plan. But its percentage allocation in the proportion of development expenditure to the total revenue expenditure was not so imperative. It varies from 76.23 % in the Seventh Plan to 55.28 % in the Eleventh Plan. In this way the percentage growth of development revenue expenditure makes the significant revelations, that, Gujarat has lagged behind despite witnessing rapid expansion of the volume of development expenditure.

Then, a descriptive analysis of existing analysis of economic development and public expenditure in Gujarat State is carried out (**Chapter-IV**) for the study period of 1985-86 to 2005-06. By classifying existing economic development patterns into Per Capita Income, Gross

State Domestic Product, Infrastructural development, Human resource development and financing economic development schemes functioning in Gujarat have revealed imbalances in terms of agricultural development patterns, industrial development patterns, transport infrastructural development, power development, and water supply development. Analysis of economic development in Gujarat State shows that Gujarat economy has been growing faster than the Indian economy right from the Sixth Plan throughout up to Eleventh Plan periods. Besides, its Per Capita Income (per capita NSDP) and the Gross State Domestic Product (GSDP) have been substantially increasing rapidly during the Seventh, Eighth, Ninth and Tenth Plan periods respectively. It was observed that the enterprising population of Gujarat, supported by its progressive leadership has brought the state in the forefront of development in the country. The Gujarat state has not only acquired and maintained its fourth rank in per capita NSDP but it has also taken quantum jump in the post liberalization period by attracting the highest industrial investment , particularly in large and medium industry, and experienced the highest growth in per capita NSDP during this Plan period. In the process the economy of Gujarat achieved a highly diversified economic structure. It was found that the share of its Primary, Secondary and Tertiary sectors has been reported to be increasing respectively of the total GSDP in the Tenth plan period at current (Eighth plan) prices. It was also observed that the share of these sectors in the base year of Eighth Plan has been reported to be increasing percentage-wise respectively. It was also found that the process of this economic diversification however does not seem to be sustainable as the primary sector, and particularly agriculture has lagged far behind distorting the agriculture-industry linkages. Along with agricultural near stagnation, environment has also experienced severe degradation, both of which have created constraints to the sustainability of economic growth in the state. The limited achievements of the state

in the field of employment and poverty, as well as in human development are closely related to the macro development path. That is, these developments are not independent of each other, but are the consequences of the dynamics of development of the Gujarat State economy.

Whereas the price trend of the average annual Consumer Price Index (CPI-IW) and the average Consumer Price Index (CPI- IW) for the districts of Ahmadabad, Surat, Rajkot, Bhavnagar and Baroda Centre in Gujarat State has been recorded well during the tenth plan period respectively. While, the other remaining districts such as Anand, Kutch, Jamnagar, Bharuch, Amreli, Surendnagar and Dangs are lagging behind in terms of price trend. Targeted Public Distribution System has been introduced by the Government of India during the Ninth plan period effective from 1st June 1997, implemented by the State Government of Gujarat from July 2001. Since then it was found that this scheme has not yet fully managed the distribution of goods to respective parts more especially the poorest of poor families among the Below Poverty Line(BPL) of Antyodaya Anna Yojana through Tenth and Eleventh plan periods respectively

On the other hand, an empirical economic analysis of public expenditure in relation to economic development of Gujarat State is carried out (**chapter-VI**) which considered the most important factors viz, , Per Capita Income, Gross State Domestic Product, Education, Sports, Art and Culture Expenditure, General Economic Services Expenditure, Infrastructure Expenditure, Health Family Welfare Expenditure, Agriculture and Allied Activities Expenditure, and Employment Labour Welfare Expenditure, Industries and Minerals Expenditure variables during the study years of 1985-86 to 2005-06. This was carried out with the help of Computer Software Application of E-Views Statistical Package (E-VIEWS), calculated for Gujarat State's

economic development analysis. The natural double-logarithmic regression results arrived at in the case of public expenditure model- I Indicates that the year-wise number of Education, Sports, Art and Culture Expenditure, General Economic Services Expenditure, Infrastructure Expenditure, Health Family Welfare Expenditure, Agriculture and Allied Activities Expenditure, and Employment Labour Welfare Expenditure in Gujarat State are significant and they have positive influence on the changes in the determination of Gross State Domestic Product year-wise / plan-wise in the model which considered one independent variable after another separately. These results support our hypotheses in chapter-II. However, year-wise number of Industries and Minerals Expenditure is lagging behind. In this case, one could notice a variation in determining the rate of Gross State Domestic Product with respect to various development expenditure patterns in Gujarat State during the study years 1985-86 to 2005-06. However, the natural double-logarithmic regression model having gross state domestic product as dependent variable with varying set of the independent variables have revealed the existence of multi-collinearity among the independent variables which have distorted the result of regression analysis. We have further resorted to a step-wise regression method where a single independent variable is inducted at a time against the dependent variable of public expenditure on the basis of which it is found that when more independent variables are included together jointly in the regression analysis, General Economic Services Expenditure, Infrastructure Expenditure, Employment Labour Welfare Expenditure and Education, Sports, Art and Culture Expenditure have meaningful relationship and influence in determining the rate of Gross State Domestic Product in Gujarat State's economic development (Model-III). The modelling phases were sound and the reporting reflect the approaches then current in Wagner's law growth to growth and Keynes General Theory in North American studies. The empirical

indicators presented here can be used as indicators of areas of State I weakness or strength in economic development.

We have found out that increase in the percentage of development expenditure on social services (39.44%) was greater than that in the case of expenditure on economic services (36.80%). The most remarkable observation is that the percentage growth of economic services to the total development expenditure (42.81%) was higher in comparison to social services (33.22%) in the Tenth Five Year Plan, which took a reverse turn in the Eleventh Five Year Plan.

An examination of the constituent heads of expenditure in the Table 3.3.1, Education (in social services group) recorded the highest percentage increase (22.34%) in the Eighth Plan over the Seventh plan, whereas Irrigation and Flood control (in the economic services group) occupied the second position with 16.31 % increase and Energy (in the economic services group) the third position with 15.63 % increase during the Tenth plan period. Agriculture (in the economic services group) the fourth position with 7.53 % increase during the Seventh plan period This finding clearly shows that the State Government Provided a very high priority to the expansion of academic facilities in the State; on social services head and the achievements of Energy, Agricultural and Irrigation and Flood control projects and rural development on economic services front.

As regards the magnitude of expenditure, Education accounted for the largest proportion (22.34 %) of development expenditure throughout the Ninth plan period under study. Next to Education, Energy Development recorded the highest proportion (15.63 %) of the total development expenditure. Agricultural Development recorded the moderate proportion (7.53%) of the total development expenditure. This may be one reason for the poor agricultural development in Gujarat and growing poverty in the rural areas.

The declining percentage of expenditure on industrial advancement creates impression that the Government of Gujarat is not sincere and serious to make Gujarat industrially sound and developed despite being holder of immense reserve of natural resources. As regards civil works, much progress has been made, since Independence. Still a lot remains to be done, to bring the advantages of the schemes of development to the rural folk. In this way, it appears that the Government of Gujarat has been giving greater attention to the development of social services in the state, rather than, economic services.

During the period of planned economic development, the non-development revenue expenditure witnessed an absolute increase of Rs. 11277.98 crores, showing a gradual increase of 44.25 % in the volume of non-development expenditure in 2005-06 over the period of 1986-87. The most noticeable trend of non-development revenue expenditure is that it has increased rapidly in Gujarat both in absolute and relative terms but its percentage to total revenue expenditure has declined slightly. Among the various broad heads of non-development expenditure in Gujarat, the highest increase was recorded in the case of expenditure on debt service which shot up from Rs. 243.99 crores in the year 1986-87 to Rs. 6465.42 crores in 2005-06, closely followed by the item of administrative services then pension. Capital expenditure behaved rather differently. . As a matter of fact, the growth of expenditure outside the revenue account has gained unusual prominence since the launching of economic planning in India. During the plan period, the total capital outlay has increased more than 17 times, and out of this total capital disbursement, expenditure has been more than 98 % on development services and only less than 2 percent has been on non-development heads. The most important finding of capital outlay has been that the growth pattern of non-development expenditure appears to be erratic and irregular. No significant growth in

the pattern has taken place in all these years (1986-87 to 2005-06) and it did not add any contribution of the growth of non-development expenditure. Only in the Seventh and Eighth Plan periods marginal growth of non-development expenditure can be seen on account of internal debt of the State Government and loans and advances by the central Government and hence overall total of non-developmental expenditure in the same period. Thus, the growth of capital outlay on development and non-development expenditures has tremendously increased to a sizeable volume during the period 1986-87 and 2005-06. Interest payments and repayment of loans by the State to the Centre and other components of total disbursements do not pose any further burden on the financial resources of the State.

In short, Public expenditure, as a model of growth orientation, cannot be effective unless the government strengthens the public distribution system so as to supply the essential commodities at reasonable prices to the poor people so that economic growth does not create social injustice. The effort of the state for the expansion of the social services is partly frustrated by the abnormal rise in prices. To maintain stability in prices, public expenditure has to be incurred on the productive forces of the economy so as to provide more availability of commodities in the competitive market for keeping the prices of essential consumer's goods down. Thus, public expenditure has to be geared not only to accelerate the process of growth but also to maintain economic stability, produce goods that can satisfy the needs of growing economy and the common man, and, promote social justice. Economic development with the help of public expenditure policy or fiscal policy is not merely the concern of the government itself, but, in democratic set up, it is also the concern of the people. People must have moral standard and national character to utilize public funds in best advantageous manner and should remain always cautious to eliminate

wasteful expenditure especially in the light of the poor saving potential in the state.

Analysis of economic development plan-frame of Gujarat State approved by National Development Council (**Chapter-IV**) shows that the Tenth Five Year Plan outlay for the State has been fixed at Rs. 47000 crores, which is 67.86 % higher than the original outlay (Rs. 28000 crores) sanctioned for the Ninth Five Year Plan. The percentage of population in poverty has continued to decline population growth which has decelerated below 20% for the first time in four decades. Literacy has increased from 52% in 1991 to 65% in 2001. The Tenth Five Year Plan aims at building upon gains of the past. 8 % average GSDP growth rate for the period 2002-07. It identifies specific and monitor able targets for a few key indicators of human development. An overview of the Annual Plan 2004-05(**Chapter-IV**) indicates that the Annual plan 2004-05 aimed to carry forward the momentum gained during the Ninth Five year plan. The pace of growth has to be kept up to generate adequate employment, alleviate poverty and to meet the most essential social needs. Attainment of universal elementary education, minimum health care, providing drinking water to every village and reducing population growth rate area the main objectives of the raising Human Development Index. So far as the economic development is concerned, priority was given to the women & Child Development by creating a separate Department in the State. Analysis of *Twenty Point Programme* has revealed that Gujarat has been among the front ranking States in the country in implementation of the Twenty Point Programme. The State Government has set up a sound infrastructure for systematic and effective implementation and monitoring of the programme. In addition to the reviews by the State cabinet and departmental reviews, constant monitoring is done at all levels. As a result of this, the Gujarat State has been ranking the first all over the Country with 100% achievement in implementation of 20 Point

Programme during 1996-97, 1997-98, 1998-99, 1999-2000, 2001-2002, 2002-03 and 2003-2004, while 2000-2001 Gujarat has ranked third with 97% achievement in implementation of 20 Point Programme even in severe earthquake circumstances. *Decentralized District Planning is existing in Gujarat* but not yet fully implemented due to poor planning and management by the authority concerned.

Taking into consideration of the transportation facility development, the analysis has indicated that existing port transport facilities in Bharuch are not yet fully developed, national highway and state highway are well connected and cater for international traffic movement, district main roads and other district roads are existing and they need to be fully developed, village roads are existing and they need to be improved. Railway transport facilities are well connected and they need to be even more efficient to cater for the future developments. Airport transport facility is not existing in Bharuch, therefore, there is need for its development, water transportation facilities along the west coast of Bharuch are not yet fully developed. The analysis in context to chapter IV also indicated that Eastern part of Gujarat State is poorly connected with public transport services and other parts of the region need to be even more efficient.

On the other hand, taking into consideration of the land development, the analysis indicates that total cropped areas in Gujarat State is significantly higher as compared to the total geographical area of the State in the period of 1986-87. The analysis has revealed that agriculture and allied activities have engaged highest percentage of the total workers in the district, the ratio being significantly higher as compared to the State average, the percentage of agricultural and landless labourers is reported to be more than double the State averages, while the percentage-wise of total workers employed in trade and commerce, transportation and communication activities and other

services are significantly lower than the State average percentage-wise. The lower percentage of total workers employed in the industrial sector as compared with the state average percentage-wise suggests the relative backwardness of the district in respect to industrial development. The analysis (chapter – IV) also shows that west coastal areas on the Gulf of cambay of Gujarat State is available for fishing and Narmada river offer excellent scope for the same in which the nationalized banks have been extending road facilities for the development of fisheries in the district. The district is endowed with rich forest which provide a varied forest produce. Mineral resources and development share a significant contribution to the crude oil and associated gases produced per day in the region. Institutions are existing in the internal zones of Baruch region which are yet to be fully developed. Therefore, it is increasing felt that the analysis (chapter-IV) of transportation facility development and land development need to be fully developed for improving future regional efficiency and development.

Infrastructural and human resource developments in Gujarat State are existing and have increased substantially over space and time. These increments have accelerated the tempo of economic development in the state. Financing development schemes such as agriculture, industries and services sectors have had increasing trend since nineties and twenties.

We have also found in our Empirical Economic Analysis that our regression analysis supports our hypothesis as stated in Chapter-II. Our findings are as follows :

1. Public Expenditure has promoted and accelerated the growth of productive investment in the economy and subsequently economic development in Gujarat State.

2. Public Expenditure has promoted and maintained a reasonable measure of economic stability so as to attain and sustain the maximum rate of growth of the economy.
3. Public Expenditure has played important role in growth and development of Agriculture, Industry and Service sectors in Gujarat State.
4. Public Expenditure has played an important role in infrastructural development of Gujarat state, namely, transportation, communication, electrification, banking and insurance.
5. Public Expenditure has contributed to increase the level of education, health, employment and income in the State of Gujarat.

Therefore, in further research, heuristic model could be developed to determine and establish a simultaneous causal relationship of existing and future Per Capita Income /Gross State Domestic Product associated with various development expenditure schemes / patterns over space and time. The model will attempt to solve the two hypothesis simultaneously as stated in chapter II that various development expenditure schemes / patterns in a given state is function of Per Capita Income /Gross State Domestic Product (Keynes Model of expansion of public expenditure to economic growth) and reciprocal proposition that Per Capita Income /Gross State Domestic Product is function of various kinds of development expenditure patterns is also true (Wagner's Law of Economic Growth to growth Public E.). This would be worked out and developed with realistic assumption. Hence, the ability of the model to address practical concern to future economic development should also be considered.

6.2 POLICY RECOMMENDATIONS

From the above observations/ conclusions and findings. We would like to make following policy recommendations for State National Planned Economic Development to follow while toning up fiscal administration of the State, so that; the resources of the State of Gujarat may be put to optimal use:

1. Development schemes like Agricultural, Irrigation, Energy and Industrial Development, require more attention on the part of the Government, to initiate a policy of sound economic development and to ensure the prosperity of the Gujarat State Economy.
2. We suggest that it would be most desirable if large parts of expenditure control is encouraged so that to regulate the flow of fund to productive and more purposeful channels and to discourage unproductive expenditure and extravagance to achieve faster growth. Instruments of executive control like administrative control, legislative or parliament control, audit control etc. have been evolved both by the Central and the State Governments and its transparency should be encouraged to prevail. The control of public expenditure is increasing. Broadly, there are two alternative methods in use, first one is pre-audit and secondly the self-accounting system. By making a sharp distinction between the two, Mrs. Hicks has emphasised that between the self-accounting systems is obviously much more flexible than the pre-audit system". In a country like India and state like Gujarat this aspect must be taken into account.
3. In recent years Government has shifted its" emphasis from expenditure on development schemes to non-development activities. Government has resorted to tax base, and effort is directed to tax compliance. On expenditure side Government has

tried to reduce non-plan expenditure by curtailing subsidies and reducing repayment of interest through economizing debt raising activities. Actually, more efforts are needed on fiscal front and many activities are out of tax net. Agricultural sector is totally outside the purview of tax net and the burden of subsidies is very high. Public expenditure policy should be based on continuous study of economic trends and rates of economic growth in different sectors of the State. Resources of the State should be spent preferably where they contribute most to the State Domestic Product and lead to narrow down the regional imbalances.

4. Our past experience of 1986's and 2005's has shown that unplanned growth of economy during Eighth, Ninth, Annual, Tenth and Eleventh plan period has resulted in considerable changes in revenue expenditure and capital expenditure, beyond our capacity to absorb these shocks and it resulted into serious, inflationary pressures and imbalance of National economic development. We would like to suggest that just as there is an annual budgetary exercise, in the same way growth of economy has to be budgeted and planned, considering repercussions on other Crucial Monetary and fiscal policies.
5. Liberalization and globalization of early 1990's have now been accepted in India. Exogenous influence on our public expenditure and economic development system has increased and the task of the planned economic development is going to be much more difficult while designing and conducting appropriate monetary expenditure policy for achieving Macro economic goals. In this connection, we would like to recommend that there is an urgent need in Gujarat State under changing economic scenario to review the role of public expenditure.

6. Unless we move to perfect market mechanism with free choices and pricing policies, growth objectives and stability would remain a far cry.
7. The financial year starts from the 1st April and it ends with the 31st March. This practice does not suit our situation. When the budget is finally passed by the 31st March, allotment for the different heads reaches the work points by the month of June and July. In case of major public works of construction and earth-work-nature preparation of estimates and allotment of work etc. take at least two months and when the deck is cleared for starting work rainy season starts and in this way actual work starts either in the month of December or January. Hardly two months are left to complete the work and to spend the allotment. Every body is aware of the nature of March-loot marked with all sorts of bungling, misuse and misappropriation of fund in a bid to avoid lapsing of the fund and its surrender. If the present financial year of 1st April to 31st March is changed to 1st September to 31 August, there will be more time available for execution of the work and better use of the fund allotted for different work-heads.
8. The Government should avoid, "Community Fraction Expenditure" which stands for the maintenance of law and order in the State caused by the petty slogans affecting a particular community or the other only to show their loyalty to the respective section of the people. But this type of action of the Government takes a form of group clash in the society and the volume of in fructuous expenditure like the maintenance of law and order expenditure is bound to increase, which in the long run, frustrates economic growth. To avoid embezzlement and misappropriation, all the heads of the departments should

inspect annual stock, taking materials and equipments and cash books under their jurisdiction after completion of the records and a report of inspection should be sent to the higher authorities stating the discrepancies, if any, along with advices for the recovery of loss from the individuals concerned. If an officer is generally issuing certificate of correct material stock, and, inspection report without physical verification, he must be dealt with iron hands.

9. The Government should avoid the reliance on over drafts of R.B.I., as far as, possible to meet the financial needs of the State, because it leads to financial indiscipline; and frequent price spiral in the economy disturbs the rate of economic growth.
10. The present system of public works is completely dilatory because the contractors are the parasites on public purse of the society. To avoid the exploitation from this class of the society, the unemployed engineers should be entrusted with the responsibility of public construction, who have the good knowledge of the field. The Practice of unskilled contractors should be immediately dropped.
11. To avoid 'March Loot', the Government should convince the heads of the departments that if carry over is desirable for the purpose allotted to them, it would be done as a routine work in the following budget also, otherwise, rush of purchases at the close of the year must necessarily lead to undesirable consequences.
12. The Government should set up a special cell in the Finance Department to assess the progress of works for which public funds were allotted to the various departments. Those executive

officers who are found in laxity must be punished severely to cite their case as a example for others.

13. It is generally found that the publication of P.A.C. reports is not in time and hence its recommendations lose much of their validity and the follow-up action by the Government is also delayed which frustrates the sincerity of the honest officers. So, the reports of the Committee should be published in time.
14. The borrowing pattern of the Government of Gujarat would need a radical change. Every effort should be made to make capital expenditure productive. More over, the size and composition of the capital expenditure of the State should be determined with much greater attention.
15. The budget is usually prepared by the administrators i.e. bureaucrats and it does not pass through financial experts and economists who may provide their valuable, mature and pragmatic suggestions for such an important instrument which shape the economy. For this it is recommended that a Budget Preparation Committee must be constituted.

The adoption of this measures may lead to a rational programming of public expenditure and its optimum utilization for developing the state economy to the desired objectives of creating an egalatirian society with distributive justice.